

NAIC 2022 Highlights – Year in Review

Johnson Lambert LLP is dedicated to keeping you informed of changes adopted by the NAIC within the Statutory Accounting Principles (E) Working Group that will impact your 2022 statutory basis financial statements and other significant NAIC activities related to group capital calculations, reinsurance and emerging group solvency issues.

Statutory Accounting Updates

Ref #	SSAP No	Title	Revision Description	Effective
2021-14	Appendix F	Policy Statement Terminology Change– Substantive and Nonsubstantive	Terminology change to address types of statutory accounting changes on a prospective basis: <ul style="list-style-type: none"> • Substantive replaced with “new SAP concept” • Nonsubstantive replaced with “SAP clarification” 	01.01.22
2021-22	97	Schedule D-6-1, Supplemental Reporting	Accepts Blanks Working Group (BWG) proposal 2022-02BWG to add supplemental data capture elements in <i>Schedule D – Part 6 – Section 1: Valuation of Shares of Subsidiary, Controlled or Affiliated Entities</i> . No change to statutory accounting.	04.04.22
2021-23	43R	SSAP No. 43R – Financial Modeling – Updated Guidance	Incorporates recent Valuation of Securities Task Force (VOSTF) changes to NAIC designation categories into the summarized financial modeling guidance for residential mortgage-backed securities and commercial mortgage-backed securities. Securities with no expected losses will be assigned an NAIC 1 Designation and a NAIC 1.A. Designation Category.	04.04.22

Ref #	SSAP No	Title	Revision Description	Effective
2021-24	2R	Cryptocurrency General Interrogatory	Accepts BWG proposal 2022-01BWG to add a new general interrogatory regarding the use or acceptance of cryptocurrencies. No change to statutory accounting.	04.04.22
2021-26EP	Various	Editorial Updates (Substantive vs. Nonsubstantive)	Conforming updates to replace the term “substantive” with “New SAP” and “nonsubstantive” with “SAP clarification” in the Preamble, Table of Contents, Summary of Changes and Appendix F to reflect recently adopted guidance from agenda item <i>2021-14: SAP Terminology</i> .	04.04.22
2021-27	72	ASU 2021-04, Issuer’s Accounting for Certain Modifications	Clarifies that a modification of terms, conditions or exchanges of freestanding equity-classified written call options are treated as an exchange of the original instrument for a new instrument.	04.04.22
2021-21	25 & 43R	Related Party Reporting	Clarifies guidance and adds disclosure requirements to identify investments associated with related parties. Accepts BWG proposal 2021-10BWG to add related party reporting codes to investment schedules effective December 31, 2022.	05.24.22
2022-03	97 & 107	Premium Adjustments Allocated to Jurisdictions	Accepts BWG proposal 2022-10BWG to clarify the reporting of premium adjustments contained in the instructions for Schedule T, the State Page and Accident and Health Policy Experience Exhibit.	05.24.22
2022-08 INT 22-01	43R	INT 22-01T: Freddie Mac When Issued K-Deal (WI Trust) Certificates	Temporary accounting guidance that clarifies investments in the “When Issued K-Deal” (WI) Program are in scope of SSAP No. 43R – <i>Loan Backed and Structured Securities</i> from the date of initial acquisition.	05.24.22

Ref #	SSAP No	Title	Revision Description	Effective
2022-01 IP 166	Preamble & 4	Conceptual Framework - Updates	Updates the definition of an asset in the SAP Preamble to align with <i>FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting - Chapter 4, Elements of Financial Statements</i> .	08.10.22
2022-02	48	SSAP No 48 - Alternative Valuation of Minority Ownership Interests	Clarifies that the audit of an investment in a joint venture, partnership or limited liability company that uses the audited U.S. tax basis equity valuation method must occur at the investee level.	08.10.22
2022-04	24	ASU 2021-10, Government Assistance	Incorporates selected disclosures from ASU 2021-10, <i>Government Assistance, Disclosures by Business Entities about Government Assistance</i> regarding terms and provisions of assistance received into the required disclosures for unusual and/or infrequent items.	08.10.22
2022-06	104R	ASU 2021-07, Compensation - Stock Compensation	Revisions adopt the practical expedient from ASU 2021-07, <i>Compensation - Stock Compensation, Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards</i> , for the current share price input. Reporting entities may use a reasonable application of a reasonable valuation method to estimate the current share price, a required component of option pricing models that are used to determine the fair value of share-based awards.	08.10.22

Ref #	SSAP No	Title	Revision Description	Effective
INT 22-02	9 & 101	Third Quarter 2022 through First Quarter 2023 Reporting of the Inflation Reduction Act (IRA) – Corporate Alternative Minimum Tax	Temporary accounting relief permitting an insurance company to omit the impacts of the IRA in the third quarter 2022 through the first quarter 2023 financial statements on the basis that the impacts cannot be reasonably determined. Additional disclosures apply. The interpretation does not require amended financial statements for subsequently amended estimates related to the IRA. The interpretation expires on 06.15.23.	09.30.22
2022-13	25 & 97	Related Parties – Footnote Updates	Adds foreign open-ended investment funds to the list of funds in which ownership percentages are not deemed to reflect control unless the entity actually controls the funds with the power to direct or cause the direction of management of the underlying company.	12.13.22
2021-25	19 & 73	Leasehold Improvements After Lease Termination	Clarifies that all unamortized leasehold improvement balances shall be immediately expensed at the termination of a lease, except for limited circumstances. Consistency edits were made to SSAP No. 19, paragraph 9.	12.13.22
2021-15	43R	SSAP No 43R – Residual Tranches	Clarifies reporting of residual tranches at the lower of amortized cost or fair value on Schedule BA – <i>Other Long-Term Investments</i> .	12.31.22

Ref #	SSAP No	Title	Revision Description	Effective
2021-20	86	Effective Derivatives – ASU 2017-12	<p>Incorporates guidance on hedge effectiveness from ASU 2017-12, <i>Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities</i> into statutory accounting distinguishing that the determination of whether a hedging instrument qualifies as an effective hedge shall converge with GAAP, while the measurement methods for hedges will continue to follow statutory specific provisions. Revisions also include accounting and reporting for excluded components.</p> <p>Early adoption is permitted.</p>	01.01.23
2022-09	86	ASU 2022-01: Fair Value Hedging – Portfolio Layer Method	<p>Incorporates the following GAAP guidance into statutory accounting:</p> <ul style="list-style-type: none"> ASU 2017-12, <i>Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities</i> which includes the guidance on partial-term hedges, modified to include hedged assets (not liabilities), ASU 2022-01, <i>Fair Value Hedging – Portfolio Layer Method</i> which allows multiple hedged layers of a single closed portfolio. <p>Early adoption is permitted.</p>	01.01.23

Rejected ASUs

The following [FASB ASUs](#) were rejected by the SAPWG during 2022:

- ASU 2021-03, *Intangibles – Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*
- ASU 2021-04, *Earnings Per Share (Topic 260), Debt – Modifications and Extinguishments (Subtopic 470-50), Compensation – Stock Compensation (Topic 718), and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40): Issuer’s Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options*
- ASU 2021-05, *Leases (Topic 842): Lessors – Certain Leases with Variable Lease Payments*
- ASU 2021-06, *Presentation of Financial Statements (Topic 205), Financial Services – Depository and Lending (Topic 942), and Financial Services – Investment Companies (Topic 946): Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants (SEC update)*
- ASU 2021-08, *Business Combinations (Topic 805) – Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*
- ASU 2021-09, *Leases (Topic 842) – Discount Rate for Lessees That are Not Public Business Entities*
- ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326) – Troubled Debt Restructurings and Vintage Disclosures*

Group Capital Calculation (E) Working Group

As of December 6, 2022, 24 jurisdictions have adopted the 2020 revisions to the Insurance Holding Company System Regulatory Act ([#440](#)) and as of November 27, 2022, 12 jurisdictions have adopted the Insurance Holding Company System Model Regulation with Reporting Forms and Instructions ([#450](#)). These Model Laws include a group capital calculation (GCC) for use in solvency monitoring activities. The GCC is intended to provide additional analytical information to the Lead State for use in assessing an insurance group’s financial risk profile and capital adequacy to complement the current holding company analysis. It includes information on potential risks to policyholders coming from outside the insurance companies, as well as the location and sources of capital within the group. Insurance companies with an international presence may be subject to the European Union’s Solvency II calculation if they are not subject to the GCC in 2022.

The Group Capital Calculation (E) Working Group adopted the [2022 GCC Instructions](#) and [2022 GCC Template](#) which will be used by the above referenced states that have adopted the Model Laws for year-end 2022 filings. The GCC is required to be filed at least once, and in subsequent years, the Lead State insurance commissioner has the discretion to exempt the ultimate controlling person from filing the annual GCC or to allow a limited group capital filing, when certain criteria are met.

In addition, the NAIC advised they are working with other interested jurisdictions, both domestic and international, to develop the Aggregation Method (AM). While influenced by the GCC and calculated in a similar manner, the AM will be more jurisdictionally agnostic, and perhaps simpler, than the GCC. By 2024, the International Association of Insurance Supervisors (IAIS) will assess whether the AM provides comparable outcomes to the consolidated group insurance capital standards (ICS) that it has been developing for use with Internationally Active Insurance Groups (IAIGs). While there are still several unknowns, including how the ICS is intended to be implemented as a Prescribed Capital Requirement and the exact relationship of the AM and the GCC, this provides a path for the AM to be “outcome-equivalent” to the ICS.

Reinsurance (E) Task Force

As of September 1, 2022 (the date these regulations became accreditation standards), all 56 U.S. jurisdictions have adopted the 2019 revisions to the Credit for Reinsurance Model Law ([#785](#)) and the Credit for Reinsurance Model Regulation ([#786](#)). The Model Law and Regulation reduce collateral requirements for certain reinsurers in reciprocal jurisdictions and are necessary to implement the collateral and other provisions of the International Covered Agreements. The Federal Insurance Office (FIO) released its 2022 Federal Preemption Report on September 30, 2022 and reported no preemption measures taken on state insurance regulators. The FIO will continue to monitor the status of state measures as they implement the Model Law and Regulation for consistency with the International Covered Agreements.

The Model Law and Regulation are prospective in nature and they may only be used to reduce collateral after a reporting entity’s state of domicile adopts them. Additionally, reinsurance agreements must be new, amended, or renewed on or after the domiciliary state of the ceding company adopts the Model Law and Regulation.

The Reinsurance Task Force received a status report on the activities of the Mutual Recognition of Jurisdictions (E) Working Group. The Working Group reapproved the status of Bermuda, France, Germany, Ireland, Japan, Switzerland and the United Kingdom as qualified jurisdictions and reapproved Bermuda, Japan and Switzerland as reciprocal jurisdictions for 2023.

The Reinsurance Task Force received a status report on the Reinsurance Financial Analysis (E) Working Group, which is responsible for assisting state regulators with approving certified and reciprocal jurisdiction reinsurers either individually or via the passporting process whereby a state regulator may defer to the Lead State's initial determination. Forty reciprocal jurisdiction reinsurers have been approved for passporting to date and can be found on the [Certified and Reciprocal Jurisdiction Reinsurer](#) website.

Group Solvency Issues (E) Working Group

The Group Solvency Issues (E) Working Group received a referral from the Financial Stability (E) Task Force and its Macroprudential (E) Working Group related to issues associated with private equity ownership of insurers. The referral outlined two issues for consideration:

1. State insurance regulators may not be obtaining transparent pictures of risk due to the structure of certain contractual agreements within the holding company, and
2. The definition of "control" outlined in the Insurance Holding Company System Regulatory Act ([#440](#)) and how that affects regulatory reporting and monitoring activities.

After discussion, the Working Group agreed to form a drafting group to develop a work plan to address these issues.

If you have any questions about this annual update, you can [contact us here](#).

Authors:

[Lauren Darr, Partner](#)

[Rick Nelson, Principal - Director of Regulatory Services](#)

[Scott Haynes, Senior Manager](#)

[Joanne Smith, Senior Manager](#)