

**Revisions to the
As of March 2021, Accounting Practices and Procedures Manual**

On **August 26, 2021**, the Statutory Accounting Principles (E) Working Group adopted the following revisions to the *As of March 2021 Accounting Practices and Procedures Manual*. Documents associated with these revisions are linked to the reference numbers in bold text below.

Ref #	SSAP/ Appendix	Title	Summary
2021-04	SSAP No. 48 SSAP No. 97	Valuation of Foreign Insurance SCAs <i>Nonsubstantive</i> Effective Immediately (August 26, 2021)	Revisions in SSAP No. 48 clarify that the equity method valuation referenced in SSAP No. 97 can result in a negative equity valuation regardless of if the investment is supported by an audit. Revisions in SSAP No. 97 direct that when applying the “limited statutory accounting adjustments” (SSAP No. 97, paragraph 9) to foreign insurance SCAs (SSAP No. 97, paragraph 8.b.iv. entities), the resultant equity value shall stop at zero (and thus not be subject to negative equity valuations) in cases where the foreign insurance subsidiary is not providing services to, or holding assets on behalf of, U.S. insurers.
2021-10	SSAP No. 32R	Clarification of “Effective Call Price” <i>Nonsubstantive</i> Effective Immediately (August 26, 2021)	Revisions clarify that the “effective call price” valuation limitation, for all instruments within scope of the standard, shall only apply if the call is currently exercisable by the issuer or if the issuer has announced that the instrument will be redeemed/called.

[https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2021/9. august 26/adoptions 08.26.2021 toc.docx](https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national%20meetings/a.%20national%20meeting%20materials/2021/9.%20august%2026/adoptions%2008.26.2021%20toc.docx)

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
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Issue: SSAP No. 97 – Valuation of Foreign Insurance SCAs

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue:

In March 2020, agenda item 2018-26 – SCA Loss Tracking – Accounting Guidance adopted guidance in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* to state that reported equity method losses of an investment in a subsidiary controlled or affiliated entity (SCA) would not create a negative value in a SCA investment, thus equity method losses would stop at zero. However, the agenda item also clarified that to the extent there was a financial guarantee or commitment, it would require appropriate recognition under *SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets*.

In November 2020, the Working Group adopted agenda item 2020-18 - SSAP No. 97 Update and removed a lingering, superseded reference regarding negative equity method loss valuations.

However guidance in SSAP No. 97 also requires specific adjustments to 8.b.ii (insurance related SCA) and 8.b.iv (foreign insurance SCA) entities. These long-standing adjustments require the non-admission of certain assets to achieve a limited statutory basis of accounting. The adjustments have typically been viewed as necessary in order to prevent assets being held by SCA receiving more favorable treatment than had the assets been held directly by the insurer. (e.g., requiring the nonadmittance of certain assets per *SSAP No. 20—Nonadmitted Assets*). Per SSAP No. 97, an equity method of accounting for 8.b.ii and 8.b.iv entities would be a beginning point which would then be adjusted by the provisions of SSAP No. 97, paragraph 9 (see “authoritative literature section”). It is important to note the outcome of these adjustments can result in a negative equity valuation of the investment. Again, this is so assets held by an SCA aren’t reported at a higher value than had they been held directly by the insurer.

During the discussion of agenda item 2020-18, industry comments requested consideration of whether 8.b.iv entities should be subject to the provisions of SSAP No. 97, specifically that paragraph 9 adjustments may result in a negative equity valuation. While stating many positions, industry’s primary response that foreign insurance operations are subject to foreign jurisdiction and should be allowed to stand independently of a domestic insurer – thus in the absence of a guarantee or commitment, equity valuation should not go negative and thus stop at zero. Comments were received from industry noted that the circumstances that would cause a foreign insurance reporting entity to record negative equity is not prevalent, however indicated the potential to arise in the future.

At the direction of the NAIC staff have drafted this agenda item to determine if further edits to SSAP No. 97 are required, specifically if the required statutory adjustments to 8.b.iv entities should no longer be able to result in a negative equity valuation.

One note, NAIC staff reviewed all SCA filings for the last 3 years, noting that less than 7% of all SCA filings were 8.b.iv entities. It was further noted that there was not a single instance of an 8.b.iv in a negative equity situation.

Existing Authoritative Literature:

Paragraph 9 of SSAP No. 97 details the modifications that are necessary to adjust audited U.S. Generally Accepted Accounting Principle (GAAP) financial statements to a limited statutory basis of accounting. These

long-standing adjustments ensure that assets held by an SCA are not accounted for in a more favorable manner than had the assets been held directly by the insurer.

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

9. The limited statutory basis of accounting for investments in noninsurance SCA entities, subject to paragraph 8.b.ii. and foreign insurance SCA entities, subject to paragraph 8.b.iv., shall be adjusted for the following:

- a. Nonadmit assets pursuant to the following statutory accounting principles as promulgated by the NAIC in the *Accounting Practices and Procedures Manual*;
 - i. *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers*
 - ii. *SSAP No. 16R—Electronic Data Processing Equipment and Software*
 - iii. *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*
 - iv. *SSAP No. 20—Nonadmitted Assets*
 - v. *SSAP No. 21R—Other Admitted Assets* (e.g., collateral loans secured by assets that do not qualify as investments are nonadmitted under SAP)
 - vi. *SSAP No. 29—Prepaid Expenses*
 - vii. *SSAP No. 105R—Working Capital Finance Investments*
- b. Expense costs that are capitalized in accordance with GAAP but are expensed pursuant to statutory accounting as promulgated by the NAIC in the *Accounting Practices and Procedures Manual* (e.g., deferred policy acquisition costs, preoperating, development and research costs, etc.);
- c. Adjust depreciation for certain assets in accordance with the following statutory accounting principles:
 - i. *SSAP No. 16R—Electronic Data Processing Equipment and Software*
 - ii. *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*
 - iii. *SSAP No. 68—Business Combinations and Goodwill*
- d. Nonadmit the amount of goodwill of the SCA in excess of 10% of the audited U.S. GAAP equity of the SCA's last audited financial statements.
- e. Nonadmit amount of the net deferred tax assets (DTAs) of the SCA in excess of 10% of the audited U.S. GAAP equity of the SCA's last audited financial statements.
- f. Nonadmit any surplus notes held by the SCA issued by the reporting entity.
- g. Adjust the U.S. GAAP annuity account value reserves of a foreign insurance SCA, with respect to the business it wrote directly, using the commissioners' annuity reserve valuation method (CARVM) as defined in paragraphs 14 and 15 of Appendix A-820 (including the reserving provisions in the various Actuarial Guidelines which support CARVM). The valuation interest rate and mortality tables to be used in applying CARVM should be that prescribed by the foreign insurance SCA's country of domicile. If the Foreign SCA's country of domicile does not prescribe the necessary tables and/or rates, no reserve adjustment shall be made.

Note that the outcome of these adjustments, can result in a negative equity valuation of the investment.

SSAP No. 97, Exhibit C:

7. Q – Is it possible for an SCA investment valued using an equity method to be reported as a negative value?

7.1 A – Yes, the equity method noninsurance SCA could have a negative equity. For example, SSAP No. 97, paragraph 8.b.ii., relating to noninsurance SCA entities, may require some assets to be reported as a negative value (nonadmitted) in paragraph 9. In this example, a paragraph 8.b.ii. SCA subsidiary that is only holding furniture, which is nonadmitted, would be reflected with negative equity to the extent the value of the nonadmitted asset(s) exceed(s) reported equity. It should be noted that although SSAP No. 97, paragraph 13.e., discusses some situations in which the equity method should be discontinued, this does not apply to SCA entities, which meet the requirements of paragraph 8.b.ii. In addition, SSAP No. 97, paragraph 13.e., lists some situations where the equity method for 8.b.ii and 8.b.iv entities would result in a valuation that is less than zero.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): Agenda items 2018-26 – SCA Loss Tracking – Accounting Guidance and 2020-18 – SSAP No. 97 Update were previously adopted. Agenda item 2018-26 resulted in revisions to *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* stating that equity losses of an SCA would not go negative (thus stopping at zero), however the guaranteed liabilities would be reported to the extent there is a financial guarantee or commitment. Agenda item 2020-18 resulted in revisions with clarifying edits to Exhibit C, question 7, in SSAP No. 97, as well as removed a superseded statement that guarantees or commitments from the insurance reporting entity to the SCA could result in a negative equity valuation of the SCA.

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

None

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation:

Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose the intent to move this item to the disposal listing without statutory edits. Per staff's review of SCA Sub 2 filings filed with an 8b(iv) valuation method, there were no noted instances of negative value SCAs, therefore we do not recommend revisions to the existing guidance. This exposure will allow industry to determine if they are aware of any prevalent examples of a negative equity valuation in a foreign insurance SCA (8.b.iv) and provide detailed information to NAIC staff for assessment.

NAIC staff highlights that if such an event (negative equity due to nonadmitted assets) was to actually occur at some point, and the company was to question whether the negative equity in the SCA should be reported, that this should be addressed directly with the state of domicile. With this approach, the domiciliary state would be able to assess the limited statutory edits that were performed, the extent to which assets are held in the SCA that would be nonadmitted if held directly by the insurer, and how the SCA obtained those assets.

**Staff Review Completed by: Fatima Sediqzad - NAIC Staff
February 2021**

Status:

On March 15, 2021, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed the intent to move this agenda item to the disposal listing without statutory edits. Industry is requested submit comments on any prevalent examples of a negative equity valuation in a foreign insurance subsidiary, controlled or affiliated (SCA) investment with detailed information for assessment.

On May 20, 2021, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, as shown below, to indicate that the equity method valuation referenced in *SSAP No. 97* can result in a negative equity valuation and to limit the statutory adjustments in *SSAP No. 97*, paragraph 9. The exposure includes proposed guidance based on comments received, which propose that foreign insurance SCAs shall stop at zero (and thus not be subject to negative equity valuations) when applying paragraph 9 adjustments in cases where the foreign insurance subsidiary is not engaged in providing services to, or holdings assets on behalf of, U.S. insurers.

Exposed Revisions:**SSAP No. 97, paragraph 9**

9. The limited statutory basis of accounting for investments in noninsurance SCA entities, subject to paragraph 8.b.ii. and foreign insurance SCA entities, subject to paragraph 8.b.iv., shall be adjusted for the following:

- a. Nonadmit assets pursuant to the following statutory accounting principles as promulgated by the NAIC in the *Accounting Practices and Procedures Manual*;
 - i. *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers*
 - ii. *SSAP No. 16R—Electronic Data Processing Equipment and Software*
 - iii. *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*
 - iv. *SSAP No. 20—Nonadmitted Assets*
 - v. *SSAP No. 21R—Other Admitted Assets* (e.g., collateral loans secured by assets that do not qualify as investments are nonadmitted under SAP)
 - vi. *SSAP No. 29—Prepaid Expenses*
 - vii. *SSAP No. 105R—Working Capital Finance Investments*
- b. Expense costs that are capitalized in accordance with GAAP but are expensed pursuant to statutory accounting as promulgated by the NAIC in the *Accounting Practices and Procedures Manual* (e.g., deferred policy acquisition costs, preoperating, development and research costs, etc.);
- c. Adjust depreciation for certain assets in accordance with the following statutory accounting principles:
 - i. *SSAP No. 16R—Electronic Data Processing Equipment and Software*
 - ii. *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*
 - iii. *SSAP No. 68—Business Combinations and Goodwill*

- d. Nonadmit the amount of goodwill of the SCA in excess of 10% of the audited U.S. GAAP equity of the SCA's last audited financial statements.
- e. Nonadmit amount of the net deferred tax assets (DTAs) of the SCA in excess of 10% of the audited U.S. GAAP equity of the SCA's last audited financial statements.
- f. Nonadmit any surplus notes held by the SCA issued by the reporting entity.
- g. Adjust the U.S. GAAP annuity account value reserves of a foreign insurance SCA, with respect to the business it wrote directly, using the commissioners' annuity reserve valuation method (CARVM) as defined in paragraphs 14 and 15 of Appendix A-820 (including the reserving provisions in the various Actuarial Guidelines which support CARVM). The valuation interest rate and mortality tables to be used in applying CARVM should be that prescribed by the foreign insurance SCA's country of domicile. If the Foreign SCA's country of domicile does not prescribe the necessary tables and/or rates, no reserve adjustment shall be made.

Note that the outcome of these adjustments can result in a negative equity valuation of the investment [for all paragraph 8.b.ii. entities. For a paragraph 8.b.iv. entity, the application of these adjustments will stop at zero, and will not result in negative equity valuation unless the paragraph 8.b.iv. entity provides services to the reporting entity or its affiliates or holds assets on behalf of the reporting entity. If such services, including reinsurance transactions, are occurring, the adjustments required in this paragraph can result in a negative equity valuation. \(See additional equity method application guidance in paragraph 13.e. regarding guarantees and financial support.\)](#)

SSAP No. 48, paragraph 6

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*, paragraphs 8.b.i. through 8.b.iv. [\(The equity method calculation may result with a negative valuation of the investment; therefore, the SSAP No. 97 equity method calculation shall occur regardless of whether the investment is supported by an audit and the reporting entity will nonadmit the investment.\)](#) A reporting entity whose shares of losses in a SSAP No. 48 entity exceeds its investment in the SSAP No. 48 entity shall disclose the information required by SSAP No. 97, paragraph 35.a.

On August 26, 2021, the Statutory Accounting Principles (E) Working Group adopted, as final, exposed revisions to *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, as illustrated above. The revisions in SSAP No. 48 direct that the equity method valuation referenced in SSAP No. 97 can result in a negative equity valuation regardless of if the investment is supported by an audit. The revisions in SSAP No. 97 direct that when applying the “limited statutory accounting adjustments” (SSAP No. 97, paragraph 9) to foreign insurance SCAs (SSAP No. 97, paragraph 8.b.iv. entities), the resultant equity value shall stop at zero (and thus not be subject to negative equity valuations) in cases where the foreign insurance subsidiary is not providing services to, or holding assets on behalf of, U.S. insurers.

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: SSAP No. 32R – Clarification of “Effective Call Price”

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: For a brief historical context, in July 2020, the Working Group adopted *Issue Paper No. 164—Preferred Stock* and substantively revised *SSAP No. 32R—Preferred Stock*. The substantively revised SSAP No. 32R was effective January 1, 2021, however in October 2020, agenda item 2020-31, permitted early application of the newly revised standard.

NAIC staff have received implementation questions regarding the application of a valuation ceiling for certain callable instruments in scope of SSAP No. 32R. The valuation ceiling requires that perpetual preferred, mandatory convertible preferred stock as well as publicly traded preferred stock warrants be reported at fair value, with a valuation ceiling that is **not to exceed any currently effective call price**. Questions on both the application and interpretation of this limitation have been brought to NAIC staff, accordingly this agenda item has been drafted to propose a clarification of this valuation ceiling.

Callable preferred stock is a type of preferred stock in which the issuer has the right to call or redeem at a pre-set price on or after a pre-defined calendar date. The call redemption terms such as price, premium and other applicable characteristics are specified in the instrument’s prospectus. It is important to note that callable preferred stock generally have a five-year lock out period in which the issuer cannot call the preferred stock. Additionally, prior to redemption (call), the issuer must send notice to the shareholders, detailing the date and conditions of the redemption.

NAIC staff recommend that an appropriate interpretation for the application of the valuation ceiling is that the limitation should only apply in situations where the call is currently exercisable by the issuer, or the issuer has provided notice of its intent to call the preferred stock. If the valuation ceiling were to apply earlier (in advance of the call date), in situations where preferred stock is purchased in advance of its available call date, a reporting entity would be required to artificially limit the preferred stock’s value, despite being able to liquidate it on the open market for fair value. This limitation could apply for years as calls are typically not available to the issuer for a period of at least 5 years post issuance.

For example, if perpetual preferred stock were purchased at \$140 (its current fair value), but the preferred stock had a call available to the issuer at \$120 in 5 years, a reporting entity would be required to report a day 1 unrealized loss for \$20. To require the recognition of an unrealized loss in these situations does not appear to appropriately reflect the economics of the equity investment, especially when the instrument can be sold at its current fair value without incurring a loss. It is important to note that market conditions will likely influence the market value of the preferred stock as a call date nears – gradually decreasing any excess of fair value over the call price by the time the security is callable by the issuer. NAIC staff support maintaining a (clarified) valuation limitation to protect against unlikely scenarios where a callable security’s fair value increases but will be called at a lower price.

Existing Authoritative Literature: The “currently effective call price” valuation ceiling is referenced in numerous sections within *SSAP No. 32R—Preferred Stock* and is applicable to both perpetual and mandatory convertible preferred stock as well as publicly traded preferred stock warrants. For emphasis, relevant guidance has been bolded below.

Balance Sheet Amount

11. Preferred stock shall be valued based on (a) the underlying characteristics (redeemable, perpetual or mandatory convertible), (b) the quality rating expressed as an NAIC designation, and (c) whether an asset valuation reserve (AVR) is maintained by the reporting entity:

- a. For reporting entities that do not maintain an AVR:
 - i. Highest-quality or high-quality redeemable preferred stocks (NAIC designations 1 and 2), which have characteristics of debt securities, shall be valued at cost or amortized cost. All other redeemable preferred stocks (NAIC designations 3 to 6) shall be reported at the lower of cost, amortized cost, or fair value.
 - ii. Perpetual preferred stock and publicly traded preferred stock warrants shall be reported at fair value, **not to exceed any currently effective call price**.
 - iii. Mandatory convertible preferred stocks (regardless if the preferred stock is redeemable or perpetual) shall be reported at fair value, **not to exceed any currently effective call price**, in the periods prior to conversion. Upon conversion to common stock, these securities shall be in scope of SSAP No. 30R.
 - iv. For preferred stocks reported at fair value, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus)
- b. For reporting entities that maintain an AVR:
 - i. Highest-quality, high-quality or medium quality redeemable preferred stocks (NAIC designations 1 to 3) shall be valued at amortized cost. All other redeemable preferred stocks (NAIC designations 4 to 6) shall be reported at the lower of amortized cost or fair value.
 - ii. Perpetual preferred stock and publicly preferred stock warrants shall be valued at fair value, **not to exceed any currently effective call price**.
 - iii. Mandatory convertible preferred stocks (regardless if the preferred stock is redeemable or perpetual) shall be reported at fair value, **not to exceed any currently effective call price**, in the periods prior to conversion. Upon conversion to common stock, these securities shall be in scope of SSAP No. 30R.
 - iv. For preferred stocks reported at fair value, the accounting for unrealized gains and losses shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

Impairment of Redeemable Preferred Stock

12. An other-than-temporary impairment shall be considered to have occurred if it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of the preferred stock in effect at the date of acquisition. An assessment of other-than-temporary impairment shall occur whenever mandatory redemption rights or sinking fund requirements do not occur. A decline in fair value which is other-than-temporary includes situations where the reporting entity has made a decision to sell the preferred stock prior to its maturity at an amount below its carrying value (i.e., amortized cost). If it is determined that a decline in the fair value of a redeemable preferred stock is other-than-temporary, an impairment loss shall be recognized as a realized loss equal to the entire difference between the redeemable preferred stock's carrying value and its fair value, **not to exceed any currently effective call price**, at the balance sheet date of the reporting period for which the assessment is made. The measurement of the impairment loss shall not include partial recoveries of fair value subsequent to the balance sheet date. For reporting entities required to maintain an AVR, realized losses shall be accounted for in accordance with SSAP No. 7.

13. In periods subsequent to the recognition of other-than-temporary impairment loss for a redeemable preferred stock, the reporting entity shall account for the other-than-temporarily impaired preferred stock as if the preferred stock had been purchased on the measurement date of the other-than-temporary impairment. The fair value of the redeemable preferred stock on the other-than-temporary impairment measurement date shall become the new cost basis of the redeemable preferred stock and the new cost basis shall not be adjusted for subsequent recoveries in fair value. The discount or reduced premium recorded for the preferred stock, based on the new cost basis, shall be amortized over the remaining life of the preferred stock in the prospective manner based on the amount and timing of future estimated cash flows. The preferred stock shall continue to be subject to impairment analysis for each subsequent reporting period. Future declines in fair value which are determined to be other-than-temporary shall be recorded as realized losses.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): Previous activity was summarized above, in the “Description of Issue” section.

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

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to *SSAP No. 32R—Preferred Stock* clarifying that for the “effective call price” valuation ceiling to occur that 1) the call be currently exercisable by the issuer, or 2) the issuer of the security has announced that the instruments will be redeemed/called.

Proposed edits to SSAP No. 32R:

Balance Sheet Amount

11. Preferred stock shall be valued based on (a) the underlying characteristics (redeemable, perpetual or mandatory convertible), (b) the quality rating expressed as an NAIC designation, and (c) whether an asset valuation reserve (AVR) is maintained by the reporting entity [New Footnote \(FN\)](#):

- a. For reporting entities that do not maintain an AVR:
 - i. Highest-quality or high-quality redeemable preferred stocks (NAIC designations 1 and 2), which have characteristics of debt securities, shall be valued at cost or amortized cost. All other redeemable preferred stocks (NAIC designations 3 to 6) shall be reported at the lower of cost, amortized cost, or fair value.
 - ii. Perpetual preferred stock and publicly traded preferred stock warrants shall be reported at fair value, not to exceed any currently effective call price.
 - iii. Mandatory convertible preferred stocks (regardless if the preferred stock is redeemable or perpetual) shall be reported at fair value, not to exceed any currently effective call price, in the periods prior to conversion. Upon conversion to common stock, these securities shall be in scope of SSAP No. 30R.
 - iv. For preferred stocks reported at fair value, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus)
- b. For reporting entities that maintain an AVR:
 - i. Highest-quality, high-quality or medium quality redeemable preferred stocks (NAIC designations 1 to 3) shall be valued at amortized cost. All other redeemable preferred

stocks (NAIC designations 4 to 6) shall be reported at the lower of amortized cost or fair value.

- ii. Perpetual preferred stock and publicly preferred stock warrants shall be valued at fair value, not to exceed any currently effective call price.
- iii. Mandatory convertible preferred stocks (regardless if the preferred stock is redeemable or perpetual) shall be reported at fair value, not to exceed any currently effective call price, in the periods prior to conversion. Upon conversion to common stock, these securities shall be in scope of SSAP No. 30R.
- iv. For preferred stocks reported at fair value, the accounting for unrealized gains and losses shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

Impairment of Redeemable Preferred Stock

12. An other-than-temporary impairment shall be considered to have occurred if it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of the preferred stock in effect at the date of acquisition. An assessment of other-than-temporary impairment shall occur whenever mandatory redemption rights or sinking fund requirements do not occur. A decline in fair value which is other-than-temporary includes situations where the reporting entity has made a decision to sell the preferred stock prior to its maturity at an amount below its carrying value (i.e., amortized cost). If it is determined that a decline in the fair value of a redeemable preferred stock is other-than-temporary, an impairment loss shall be recognized as a realized loss equal to the entire difference between the redeemable preferred stock's carrying value and its fair value, not to exceed any currently effective call price, at the balance sheet date of the reporting period for which the assessment is made. The measurement of the impairment loss shall not include partial recoveries of fair value subsequent to the balance sheet date. For reporting entities required to maintain an AVR, realized losses shall be accounted for in accordance with SSAP No. 7.

New Footnote (FN) – In all situations noted in this statement in which the fair value is limited to the currently effective call price, this limitation only applies when the call is 1) currently exercisable by the issuer, or 2) the issuer has announced that the instruments will be redeemed/called.

Staff Review Completed by: Jim Pinegar, NAIC Staff – June 2021

Status:

On July 20, 2021, in response to an e-vote to expose, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 32R—Preferred Stock* to clarify that the “effective call price” valuation limitation, for all instruments within scope of the standard, shall only apply if the call is currently exercisable by the issuer or if the issuer has announced that the instrument will be redeemed/called.

On August 26, 2021, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to *SSAP No. 32R—Preferred Stock*, as illustrated above, to clarify that the “effective call price” valuation limitation, for all instruments within scope of the standard, shall only apply if the call is currently exercisable by the issuer or if the issuer has announced that the instrument will be redeemed/called.