## NAIC 2024 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 2024 statutory basis financial statements and other significant NAIC activities.

### Statutory Accounting Updates

| Ref # | SSAP No | Title | Revision Description | Effective |
|---|---|---|---|---|
| 2023-29 | Annual Statement Instructions | IMR/AVR Preferred Stock | No change to statutory accounting. Recommends changes to the Annual Statement Instructions to clarify that realized gains and losses on perpetual preferred stock and mandatory convertible preferred stock should follow the same concepts that exist for common stock in reporting through the asset valuation reserve (AVR). The proposed instruction changes will be considered by the Blanks Working Group for year-end 2024. | N/A |
| 2023-15 | Annual Statement Instructions | IMR and AVR Specific Allocations | Revises guidance in the Annual Statement instructions for the allocation of IMR and AVR for mortgage loans with valuation allowances and debt securities with known credit events. | 01.01.24 |
| 2023-30 | 97 | Admissibility Requirements of Investments in Downstream Holding Companies | Clarifies the language in SSAP No. 97 – *Investments in Subsidiary, Controlled and Affiliated Entities*, paragraph 24, regarding audited GAAP financial statements and admissibility for downstream non-insurance holding companies to align more closely with existing language in paragraphs 26 and 27 describing the look-through methodology. | 03.16.24 |

| Ref # | SSAP No | Title | Revision Description | Effective |
|---|---|---|---|---|
| 2024-13 | 107 | Update SSAP No. 107 Disclosures | Removes the transitional reinsurance program and risk corridor disclosure requirements and illustrations (Exhibit B) from SSAP No. 107 - *Risk-Sharing Provisions of the Affordable Care Act* as both programs have expired. | 05.15.24 |
| 2022-12 | 25, 63, INT 03-02 | Review of INT 03-02: Modification to an Existing Intercompany Pooling Arrangement | Transfers of assets and liabilities between affiliates in connection with modifying an intercompany pooling agreement should be valued at statutory book value for assets and statutory value for liabilities. When assets are transferred, disclose the statement value and fair value of assets received or transferred.<br><br>Nullifies INT 03-02 – *Modification to an Existing Intercompany Pooling Arrangement*. | 08.13.24 |

| Ref # | SSAP No | Title | Revision Description | Effective |
|---|---|---|---|---|
| 2023-26 | 15, 86 | ASU 2023-06, Disclosure Improvements | Adopts ASU – 2023-06, *Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*, with modification to defer consideration of disclosures related to repurchase and reverse repurchase agreements.<br><br>New disclosures for unused commitments and lines of credit, disaggregated by short-term and long-term: the amount and term of unused commitments for financing arrangements, the amount and terms of unused lines of credit for financing arrangements, and the amount of the line of credit that supports commercial paper borrowings or similar arrangements.<br><br>New disclosure for derivatives includes the accounting policy for where cash flows associated with derivative instruments are presented in the statement of cash flow. | 08.13.24 |
| 2024-02 | 19, 73 | ASU 2023-01, Leases (Topic 842), Common Control Arrangements | Adopts the leasehold improvement amortization guidance included in ASU 2023-01, *Leases (Topic 842), Common Control Arrangements*, for leases between entities under common control, with modification to reject the practical expedient for private companies and not-for-profit entities. | 08.13.24 |
| 2024-03 | 20,<br>INT 21-01 | ASU 2023-08, Accounting for and Disclosure of Crypto Assets | Adopts the definition of crypto assets from ASU 2023-08, *Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60), Accounting For and Disclosure of Crypto Assets*, with modification for statutory accounting that directly-held crypto assets are nonadmitted assets.<br><br>Nullifies INT 21-01 - *Accounting for Cryptocurrencies*. | 08.13.24 |

| Ref # | SSAP No | Title | Revision Description | Effective |
|---|---|---|---|---|
| 2024-14EP | Various | Editorial Revisions | Removes the "Revised" and "R" identifiers from SSAP titles and references within the accounting practices and procedures manual. | 08.13.24 |
| 2024-11 | 101 | ASU 2023-09, Improvements to Income Tax Disclosures | Rejects ASU 2023-09, *Income Taxes (Topic 740) - Improvements to Income Tax Disclosures* as not applicable for statutory accounting. Eliminates disclosure for the cumulative amount of each type of temporary difference (para 23.b.) from SSAP No. 101 - *Income Taxes* as not relevant due to changes made to the federal tax code. | 11.17.24 |
| 2024-17 | 108 | Clearly Defined Hedging Strategy | Revises SSAP No. 108 - *Derivatives Hedging Variable Annuity Guarantees* to reflect the definition of a clearly defined hedging strategy (CDHS) from VM-01, previously adopted by the Life Actuarial Task Force. | 11.17.24 |
| 2023-28 | 21 | Collateral Loan Reporting | Entities are required to report collateral loans on Schedule BA, disaggregated by type of collateral that secures the loan. Adds new disclosure of total collateral loans by collateral type, and whether the collateral loan is admitted or nonadmitted. | 12.31.24 |

## Rejected GAAP ASUs

The following [FASB ASU](#)s were rejected by the SAPWG during 2024:

- ASU 2023-03 – *Presentation of Financial Statements (Topic 205), Income Statement—Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities from Equity (Topic 480), Equity (Topic 505), and Compensation—Stock Compensation (Topic 718) Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022 EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280 – General Revision of Regulation S-X: Income or Loss Applicable to Common Stock*
- ASU 2023-04 – *Liabilities (Topic 405) – Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121*
- ASU 2023-09 - *Income Taxes (Topic 740) - Improvements to Income Tax Disclosures*
- ASU 2024-02 - *Codification Improvements - Amendments to Remove References to the Concepts Statements*

## Significant Accounting Changes Effective in 2025

### Principles-Based Bond Project

In March 2024, the SAPWG finalized accounting revisions to the Statements of Statutory Accounting Principles (SSAPs) for the years long principles-based bond definition (PBBD) project, resulting in a comprehensive rewrite of SSAP No. 26, *Bonds* and SSAP No. 43, *Asset-Backed Securities,* using an approach based on a few core principles. Non-bond debt securities will follow guidance in SSAP No. 21, *Other Admitted Assets*.

The changes:

- Define a bond as a security representing a creditor relationship, with a fixed payment schedule, and which is either an issuer credit obligation or an asset-backed security,
- Clarify reporting on Schedule D Part 1 (Schedule D-1), with separate sections for issuer credit obligations and asset-backed securities and revised categories, and
- Require debt securities that do not meet the bond definition to transition to reporting on Schedule BA in accordance with SSAP No. 21, *Other Admitted Assets*.

While it is possible some insurers will have securities that move from Schedule D-1 to Schedule BA, these transfers are expected to be limited. Most transfers between schedules should be complete before the PBBD project takes effect on January 1, 2025, as a result of recent NAIC adoptions addressing the scope of the standard.

Three primary principles drive bond reporting:

1. Reflects a creditor relationship in substance,
2. There is a substantive credit enhancement, and
3. For non-financial asset-backed securities, there are meaningful cash flows.

The revisions also incorporate a new measurement method, effective yield with a cap, for all residual interests in SSAP No. 21 as well as a practical expedient to allow the cost recovery measurement method. Early adoption is permitted only for the residual guidance.

On December 17, 2024, the SAPWG adopted an editorial revision to the disclosure requirements related to the PBBD project. The disclosure for the book/adjusted carrying values, fair value, excess of book/adjusted carrying value over fair value (or vice versa) for each bond or asset receiving bond treatment is required to be disaggregated at the level of the categories (issuer credit obligation or asset-backed security), and sub-categories (as depicted in Schedule D of the annual statement). The result is an expansion of level of detail required for this disclosure. The revision was adopted effective 01.01.25.

The PBBD guidance is effective 01.01.25, to allow insurance companies time to perform the requisite analyses on their portfolios. Visit Johnson Lambert's comprehensive white paper on the PBBD project.

## Additional Committee Discussions

**Cybersecurity (H) Work Group**

The Cybersecurity Working Group heard a presentation on *Surviving the Firestorm of a Cyber Incident* focusing on the state of cyber, ransomware key considerations and incident response plan best practices. The current cyber threat landscape and trends include ransomware, business email compromise, mid-game hunting (cybersecurity attacks on mid-size companies, specifically), intermittent encryption, phishing, stolen credentials, unpatched software, and underreporting of cyber incidents to regulators and authorities.

Best practices for incident response planning include: involving key stakeholders, establishing clear escalation paths, making informed decisions, understanding the business impact, establishing processes for both internal and external communications, understanding third party relationships, technology support for investigation purposes, and ongoing enhancements to the incident response policy in response to embracing new technologies, increasing sophistication of attacks and the evolving regulatory landscape.

The working group is exploring creating a confidential cybersecurity event repository and portal for regulators. Interested parties were supportive of a uniform notification method for regulators, but voiced concerns about portal security and data confidentiality.

**Innovation, Cybersecurity, and Technology (H) Committee**

The Innovation, Cybersecurity and Technology Committee adopted its 2025 charges, which relate to providing forums and resources related to emerging issues in innovation, cybersecurity, data privacy and uses of technology in insurance and coordinating the development of regulatory guidance and examination standards around these areas. Johnson Lambert will continue to monitor the activity of this active Committee.

The Committee also heard a presentation from FireBreak Risk, a catastrophe modeler, technology and risk mitigation company, on the use case for artificial intelligence (AI) to mitigate wildfire risk. AI is used to identify combustible objects (wooden fences, decks, shrubbery, etc.) and other characteristics of properties that, if addressed, could significantly reduce the probability of losing a property due to wildfire. This process is called fire-hardening and insurance companies can use this mitigation data to make better informed underwriting decisions. This use case offers a compelling illustration of the future of homeowners insurance, where premiums can be more accurately aligned with risks in less time.

**Catastrophe (C) Working Group and NAIC/FEMA (C) Advisory Group**

The Catastrophe Working Group is charged with recommending measures to improve the accessibility and affordability of catastrophe insurance and reinsurance protection against catastrophic risks including terrorism, war, and natural disasters. It establishes a platform for stakeholders (insurers, regulators, consumers and businesses) to discuss challenges and collaborate on solutions. The Joint meeting with the NAIC/FEMA Advisory Group centered on natural disasters, with a focus on flooding.

Central themes covered included calling for government reform of the National Flood Insurance Program (NFIP) to make flood insurance more affordable, and sharing flood mitigation best practices such as incentivizing local governments and individuals to undertake or continue flood mitigation efforts, and educating the public about the risk of flooding and ways to mitigate flood occurrences.

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

**Authors:**

[Lauren Darr], CPA, Partner
[Scott Haynes], CPA, CPCU, AIAF, Principal