Welcome!

MCM Insurance Summit

November 13, 2020

Agenda

- 9 - 10 AM – Global Economic and Risk Outlook
  - Michael Weidokal of International Strategic Analysis
- 10 - 10:05 AM – Break
- 10:05 - 10:55 AM - Tax and Insurance Audit/Accounting Updates
  - Rick Woods, Todd Rosenbaum, Charlie LeBoeuf, and Ryan Blaney
- 10:55 - 11 AM – Break
- 11 - Noon – Ethical Concepts
  - Dr. Keith Richardson and Robin Raypole

2020 Post Election Federal Tax Update

November 13, 2020

Presenter

Rick Woods

CPA

Partner

Items To Cover

- 2020 Key Legislation
  - FFCRA
  - CARES Act
- 2020 Key IRS/Treasury Developments
- Where Do We Go From Here?

Families First Coronavirus Response Act (“FFCRA”)

Paid Leave

- Employers with fewer than 500 employees (mandatory)
- Paid sick leave to employees forced to stay home due to:
  - Quarantining or to care for a family member ("qualified paid sick leave")
  - Care for child if school or place of care is closed ("qualified family leave")
- Employer compensated through a refundable credit against the employer share of payroll tax

CARES Act Tax Provisions

Deferral of Employer Payroll Tax Payments

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- Employers and self-employed individuals can defer payment of the 6.2% employer share of Social Security taxes on employee wages otherwise required to be remitted after the date of the enactment.
- Half of the deferred amount would be required to be paid by the end of 2021 and the rest by the end of 2022.

Deferral of Employer Payroll Tax Payments

- *Important Note!*
- Cash basis taxpayers – <u>any amount not remitted by 12/31/20 is not deductible on 2020 returns</u>
- Accrual basis taxpayers (recurring item exception for economic performance) – <u>any amount not remitted by 9/15/21 is not deductible on 2020 returns</u>
- *Tax Planning Tip - consider whether you want to accelerate payment to pull deduction back into 2020*

Revive & Enhance Net Operating Loss Carryback Refund Claims

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- The provision in the bill would remove the NOL limitations in the TCJA (which limited the deduction to 80% of taxable income and repealed carryback provisions).
- It will restore and enhance NOL carrybacks so that a loss from 2018, 2019, or 2020 can be carried back five years to obtain a refund of taxes paid in those years, and temporarily removing the taxable income limitation to allow an NOL to fully offset income.

Elimination of Loss Limitations

+ A provision in the bill modifies the limitations on business losses applicable to pass-through businesses and sole proprietors, so they can also benefit from the NOL carryback rules above.

Acceleration of Refunds for AMT Credit Carryovers

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+ The TCJA eliminated the corporate alternative minimum tax but allowed corporations to claim a refundable credit of any unused portion through 2021.
+ The bill accelerates the year for which a fully refundable credit can be claimed from 2021 to 2019, and allows corporations to elect to claim the fully refundable credit in 2018.

Increasing Deductions for Business Interest Expense

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- The business interest limitation under IRC Section 163(j), currently set at 30% of adjusted taxable income, would be set at 50% for 2019 and 2020 for corporations (including S corporations) and individuals.
- For partnerships the increase to 50% of adjusted taxable income is delayed until taxable years beginning in 2020. A partner receiving an allocation of suspended interest in 2019 is permitted to deduct half of such interest in 2020, with remaining subject to previous carryover regime.

QIP Technical Correction

- The bill addressed the so-called "retail glitch" to clarify that Qualified Improvement Property ("QIP") is 15 year property under MACRS and eligible for 100% bonus depreciation
- QIP is defined as any improvement to an interior portion of a building which is nonresidential real property if the improvement is place in service after the date the building was first placed in service by the taxpayer and is not an enlargement of the building, an elevator or escalator, or part of the internal structure framework of the building

Employee Retention Credit

- Subject to certain eligibility requirements and limitations, a one-year only credit is allowed against the employer's 6.2% share of Social Security payroll taxes for any business that is forced to suspend or close its operations due to COVID-19, but that continues to pay its employees during the shut-down.
- The credit, which can be claimed on a quarterly basis, is equal to 50% of qualified wages paid but is capped at $10,000 in aggregate per employee for all quarters.
- The credit applies to wages paid after March 12, 2020 and before January 1, 2021. This credit is very similar to the paid leave credits granted to employers under the Families First Coronavirus Response Act, but significantly neither the employee nor the employer have to be directly impacted by infection.

2020 Recovery Rebates for Individuals

- The act provides direct payments of up to $1,200 for individuals and $2,400 for married couples, along with an extra $500 per child.
- Assistance would start to phase out for individuals earning more than $75,000 and for couples with more than $150,000 in income (complete phase-out at $99,000 single and $198,000 for couples).
- In order to be eligible for the rebate, the individual must not be: 1) a nonresident alien, 2) able to be claimed as a dependent on another's tax return, 3) an estate or trust, and 4) must have included a SSN for both the taxpayer, the taxpayer's spouse, and eligible children.

Penalty Free Early Withdrawals from Retirement Accounts

- The bill provides special use for use of retirement funds
  - Early withdrawal penalties waived on coronavirus related distributions to $100k
  - Taxation of distributions to be spread over three years
  - Allow individuals to return distributions to the retirement account over three years, with such redeposits not subject to annual contribution limits.
  - A coronavirus-related distribution is a distribution during the 2020 calendar year to a individual: (1) who is diagnosed with COVID-19, (2) whose spouse or dependent is diagnosed with COVID-19, or (3) who experiences adverse financial consequences as a result of being quarantined, furloughed, laid off, having work hours reduced, being unable to work due to lack of child care due to COVID-19, closing or reducing hours of a business owned or operated by the individual due to COVID-19, or other factors as determined by the Treasury Secretary.

Increased Deductions for Charitable Contributions

- A provision in the bill increases the limitations on deductions for charitable contributions by individuals who itemize, as well as corporations. For individuals, the 50-percent of adjusted gross income limitation is suspended for 2020. For corporations, the 10-percent limitation is increased to 25 percent of taxable income for the 2020 tax year. This provision also increases the limitation on deductions for contributions of food inventory from 15 percent to 25 percent for the 2020 tax year.
- The bill would provide an above-the-line deduction of up to $300 for charitable contributions made in cash during 2020 for taxpayers that do not itemize deductions. Existing income limits would not apply to the new deduction. The new deduction would not be available for contributions to a donor-advised fund.

IRS & Treasury Developments

Tax Filing Deadlines Postponed

+ On March 20 IRS issued Notice 2020-18
+ Tax return filing and payment deadline postponed April 15th filing deadline to July 15th
+ Automatic (no extension required to be filed)
+ Includes first & second quarter estimated taxes (due 4/15 & 6/15)
+ No interest or penalties due on any unpaid tax
+ Most states and localities followed suit

PPP Loan Forgiveness Tax Issues

- CARES Act provided forgiveness income is not taxable income
- IRS Notice 2020-32 provides that no deduction will be allowed for expenses paid with PPP loan proceeds (not what Congress intended)
- Congress could act to restore to deduction through legislation but to date this has not occurred
- Timing dilemma – expenses paid in 2020, but in many taxpayers haven't yet applied for forgiveness and don't anticipate having their application approved by their bank and SBA until 2021
- In this situation, can you still deduct expenses in 2020 (and presumably recognize income under tax benefit rule in 2021)?
- Expect IRS to address this issue soon, but until then tax planning is difficult!

Employee Payroll Tax Deferral Order

- Withholding and payment of the 6.2% employee share of FICA would be deferred on wages paid between September 1, 2020 and December 31, 2020
- The order only applies to employees with bi-weekly pre-tax income of less than $4,000 ($104k annually)
- Implementation by the employer has been assumed to be optional
- ***The order provides a short term deferral only and these taxes still have to be collected and paid over a four month period (January through April 2021)***

Final and Proposed Regulations Issued Section 163(j) Business Interest Limitation

- After issuing proposed regulations in December 2018, the IRS in late July 2020 published final regulations, as well as new proposed regulations that address other technical matters previously covered
- The final regulations generally adopt rules from the proposed regulations with some modifications
- One significant change applies to taxpayers with inventory that are subject to Section 263A capitalization requirements
- Reversing an unpopular provision in the proposed regulations, the final regulations allow taxpayers to add back to tentative taxable income any depreciation or amortization that is capitalized into inventory under Section 263A (this is good news!!!)

Captive tax update

- For the first time in 2020, Section 831(b) Micro-captives were not included on the IRS "Dirty Dozen" list
- Regardless there is no question challenging "abusive micro-captive transactions" remains a high priority for the IRS
- Notice 2016-66 disclosure requirements remain in effect
- The IRS announced the formation of 12 new examination teams focused on captive audits
- "Soft warning letters" were sent to thousands of captive owners in March suggesting that if the captive isn't planning to shut down an audit is inevitable

Where Do We Go From Here?

President-Elect Biden Tax Proposals

- Increase the corporate tax rate from 21% to 28%
- Minimum tax on corporations with book profits of >$100M
- Increase top rate individual rate back to 39.6%
- Phase out QBI deduction for incomes above $400k
- Increase top marginal rate on capital gains to 39.6% for taxpayers earning more than $1M annually
- Eliminate stepped up basis for heirs
- Restore limitation on itemized deductions for higher incomes
- Eliminating the wage cap on FICA tax for taxpayers with incomes above $400k

President-Elect Biden Tax Proposals

- Prospects for passage?
- Potential “blue wave” did not happen
- Current tax planning assumptions for 2021
  - General assumption is that no comprehensive tax changes end up being passed in 2021 (divided government scenario)
  - Continue to watch GA senate races and impact on GOP Senate majority

Status of "CARES 2" Legislation

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- House passed the HEROES Act in May 2020
- Senate HEALS Act framework released in late July 2020
  - Included various tax-related provisions including additional 2020 recovery rebates for individuals, enhanced hiring and retention payroll tax credits, expansion of the work opportunity credit, and a safe and healthy workplace tax credit
- Republican and Democratic leaders spent months negotiating but ultimately were unable to reach a compromise prior to the election
- No deal appears likely during the lame duck session
- Post election, assuming we continue to have divided government (Senate retains GOP majority), any stimulus plan that passes is assumed to be more limited

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Insurance Accounting and Auditing Update

MCM Insurance Summit

Todd Rosenbaum, Charlie LeBoeuf, and Ryan Blaney
MCM CPAs & Advisors

Agenda

- Current Events
- Premium Refunds
- PPP Loans for Insurance Companies
- GAAP/STAT Updates

Current Events Driving Accounting Changes…

Current Events and Trends - Insurance

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- The Economy, DE&I, Geopolitical and Health (COVID, COVID, COVID and more COVID)
  - "Temporary" drop in demand (claim impact for certain industries) - Refunds
  - Healthcare, Workers' Compensation (California example), Auto (driving), Cyber (up)
  - Annuity and life products (generational impacts)
  - Travel industry, hotel industries, Building Materials, Oil and Petroleum, Services
  - Very active hurricane season, natural disasters (fires, earthquakes, other) impact reinsurance market
  - Internet privacy regulations are dramatically changing in the U.S. (California, OH, NY leaders)
  - Liability concerns over COVID (manufacturing and distribution, work environment concerns, D&O considerations)
  - Business interruption (physical damage provisions, virus exclusions, 1,200 cases in process)
  - More data analytics being used to correlate and predict – further impacting insurance pricing
- Diversity, Equality an Inclusion Initiatives (DE&I) initiatives
- Cannabis in Insurance (Fed's are working on legislation)
- Self-driving cars of the future
- Cyber coverage – potential for expansion (TRIP/TRIA studying a national program)
- Highly likely there will be significant changes in enforcement and regulations
- Marsh insurance Market index – insurance prices rise for 12 straight quarters, up 20% year over year (record year) (18% for U.S. Market)
  - Impacting retentions, reducing limits, changing policy conditions
- Many companies looking at alternative risk financing options

What does all this mean for us?

- Highly likely there will be significant changes in enforcement and regulations – Regulators are trying to keep up
- Changes in how solvency is reviewed – unforeseen catastrophic modeling
- Marsh insurance Market index – insurance prices (premiums) will continue to rise due to the unknown and potential "shocks"
  - Impacting retentions, reducing limits, changing policy conditions
  - Reinsurance market impacting these costs (global risks and events)
  - Insurers adjusting to new environments
  - Tech changes and socializing insurance
- Many companies looking at alternative risk financing options to combat rising prices – taking on more risks.

Premium Refunds

Premium Refunds by Insurers

- Claim activity seen by insurers during Q2 2020: big driver for this new temporary guidance:
  - Regulator mandated refunds for certain coverages
  - Insurer-led premium refunds or policy holder dividends

- Interpretation 20-08 issued covering accounting and disclosures for premium refunds, rate reductions and dividends to policyholders
  - Became effective for 2020 Q2 filings and are effective through January 1, 2021

STAT Accounting for Refunds - Required

- Refunds required under policy terms
  - Premium income that changes as level of exposures or level of losses change
- No changes to the way these amounts are reported, covered in:
  - SSAP No. 53 Property and Casualty Contracts
  - SSAP No. 54R, Individual and Group Accident and Health Contracts
  - SSAP No. 66, Retrospectively Rated Contracts

STAT Accounting for Refunds - Discretionary

- Refunds not required under policy terms (stock companies):
  - Discretionary payments in the form of a premium refund may be accounted for as either:
    - Refunded premium, and reported as an offset to premium income, or
    - A limited-time exception payment, and reported as an other underwriting expense, when the following criteria are met:
      - P&C insurer
      - Filed policy endorsements or rate filings prior to June 15, 2020
      - Disclosed intent to report the refund as an other underwriting expense

Permitted Practice

- Insurers that did not meet the limited-time exception requirements may request a permitted practice from state of domicile to report refunds as an other underwriting expense
  - Include the disclosure by financial statement line, of state permitted practice compared with NAIC prescribed practice

Rate Reductions

- Rate reductions on in-force policies should be immediately reflected as an offset to premiums
- Rate reductions on renewal policies should be recognized in premium rate charged at renewal
  - Do not recognize until the renewal goes into effect
- Subject to additional disclosures in 2020

Policy Dividends

- Mutual insurance companies and other non-stock entity types that allow policyholders to participate in profits
  - No changes to the way dividends are reported
  - SSAP No. 65, Property and Casualty Contracts
  - Subject to additional disclosures in 2020

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PPP Loans for Insurance Companies

Paycheck Protection Program (PPP) Loans Overview

- AICPA four models to account for PPP loans:
  - FASB ASC 470. Debt
  - FASB ASC 958-605, Not-for-Profit-Entities: Revenue Recognition
  - FASB ASC 450-30, Contingencies: Gain Contingency Model
  - International Accounting Standards (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance

- Most organizations will account for PPP loans as either debt or under the NFP standard as a contribution/government grant

FASB ASC 470. Debt Accounting

- Debt:
  - Follows the legal form of PPP loan issuance
  - Report as debt liability within the Balance Sheet
  - Reporting in the Statement of Cash Flows:
    - Amount borrows is shown as cash inflow and any payments as cash outflows from financing activities

- Derecognition of liability when the obligor is legally released
  - Amounts that are forgiven (including accrued but unpaid interest) recognized in the income statement as a gain when debt is extinguished
  - Extinguishment dose not occur until notification of legal release is made by the SBA, not the bank
  - Reporting in Statement of Cash Flows:
    - Amounts of principal forgiven are shown as noncash financing activities, and interest is forgiven is shown as a reconciling item between net income and cash from operations

Statutory Accounting

- NFP ASC 958 and revenue recognition is non-applicable GAAP for statutory accounting
- Debt model is the only available option for Statutory reporting entities
  - SSAP 15, Debt should be followed

Other PPP Loan Considerations

- Management should retain:
  - The basis for certifying the need for the loan (consider legal analysis)
  - Support for the qualifying expenses to request forgiveness
  - The accounting policies related to the loan

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GAAP/STAT Updates

GAAP/STAT Updates

- Financial Instruments ASUs 2016-13, 2019-11 & 2020-03
- ASUs 2018-12 & 2020-11 Accounting for Long-Duration Insurance Contracts
- ASC 842 Leases
- SSAP No. 26 R Assessment of OTTI Based on Original Contract Terms

ASU 2016-13 Financial Instruments

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- Requires financial assets not accounted for at fair value through net income to be presented at the net amount expected to be collected (CECL model)
- Allowance for credit losses is a contra-asset valuation acct.
- Main Impacts for Insurance:
  - Reinsurance recoverables
  - Mortgage loans
  - AFS debt securities (specific rules for impairment write downs)
  - HTM investments (CECL model)

ASU 2019-11 Improvements to ASU 2016-13 Financial Instruments

- 5 Narrow improvements to ASU 2016-13 related to the following:
  - Purchased assets w/ credit deterioration (allows "negative valuation allowances")
  - Troubled debt restructurings
  - Accrued interest receivables
  - Financial assets secured by collateral – clarifies expected credit loss amount can be diff. between amortized cost basis of asset and FV of collateral asset securing

ASU 2020-03 Improvements to ASU 2016-13 Financial Instruments

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- Provisions:
  - 1. Fair Value Option Disclosures
  - 2. Applicability of Portfolio Exception in Topic 820 to Nonfinancial Items
  - 3. Disclosures for Depository and Lending Institutions (aligns Topics 320 & 942)
  - 4. Cross-Reference to Line-of-Credit or Revolving-Debt Arrangements Guidance
  - 5. Cross-Reference to Net Asset Value Practical Expedient
  - 6. Interaction of Topic 842 Leases and Topic 326
  - 7. Interaction of Topic 326 and Subtopic 860-20

ASU 2016-13 and ASU 2020-03 Implementation

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+ Provisions 1-5 are effective immediately in 2020
+ Provisions 6 and 7 should be adopted by public entities during 2020. All other entities should adopt during 2023 but early adoption is permitted
+ Financial Instruments guidance now effective for nonpublic entities for years beg. After 12/15/2022 (2023 calendar years)

ASU 2018-12 Long-duration Insurance Contracts

- Objectives:
  - Improve the timeliness of recognizing changes in the liability for future policy benefits and modify the rate used to discount future cash flows
  - Simplify and improve the accounting for certain market-based options or guarantees associated with deposit (or account balance) contracts
  - Simplify amortization of deferred acquisition costs
  - Improve the effectiveness of the required disclosures
- Relevancy for all insurance/reinsurance companies that issue long duration contracts:
  - Life Insurance
  - Long-term Care
  - Disability
  - Annuity

ASU 2018-12
Summary of Key Changes

- Cash flow assumptions must be reviewed and updated at least annually and net impact recognized through net income
- Update discount rate assumption at each reporting date – impact recognized through OCI (eliminates provision for risk of adverse deviation and PDR)
- Measurement of market risk benefits at FV with changes recognized in OCI
- Amortization of deferred acquisition costs – constant level basis over expected term of contracts and not subject to impairment test
- Enhanced disclosure requirements need to include additional information
  - Inputs/judgments/assumptions used and impact of changes
  - Disaggregated rollforwards of significant F/S balances (policy benefit liability, DAC, market risk benefits, etc)

ASU 2018-12 Implementation

- ASU 2020-11 permits delay of effective date for Public entities to years beg. After 12/15/2022 (calendar year 2023)
  - All others delay effective date to years beg. After 12/15/2024 (2025 calendar years) have an additional year to adopt, early adoption is permitted
- Early adoption transition relief
  - If early adopting, adopt at beginning of only 1 prior year presented
  - If not early adopting, follow general rule (earliest period presented)

ASC 842 Leases

+ ASU 2016-02 (Topic 842) issued February 2016
+ Effective Date (Private and NFP effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.) (COVID-19 Impact)
+ Lessee right of use model – recognize ROU asset and lease liability at inception for **all leases**
+ Lessor accounting largely unchanged
+ SSAP No. 22R; Revisions incorporate guidance from ASU 2016-02, Leases, but rejects the ASU 2016-02 with retention of the operating lease concept

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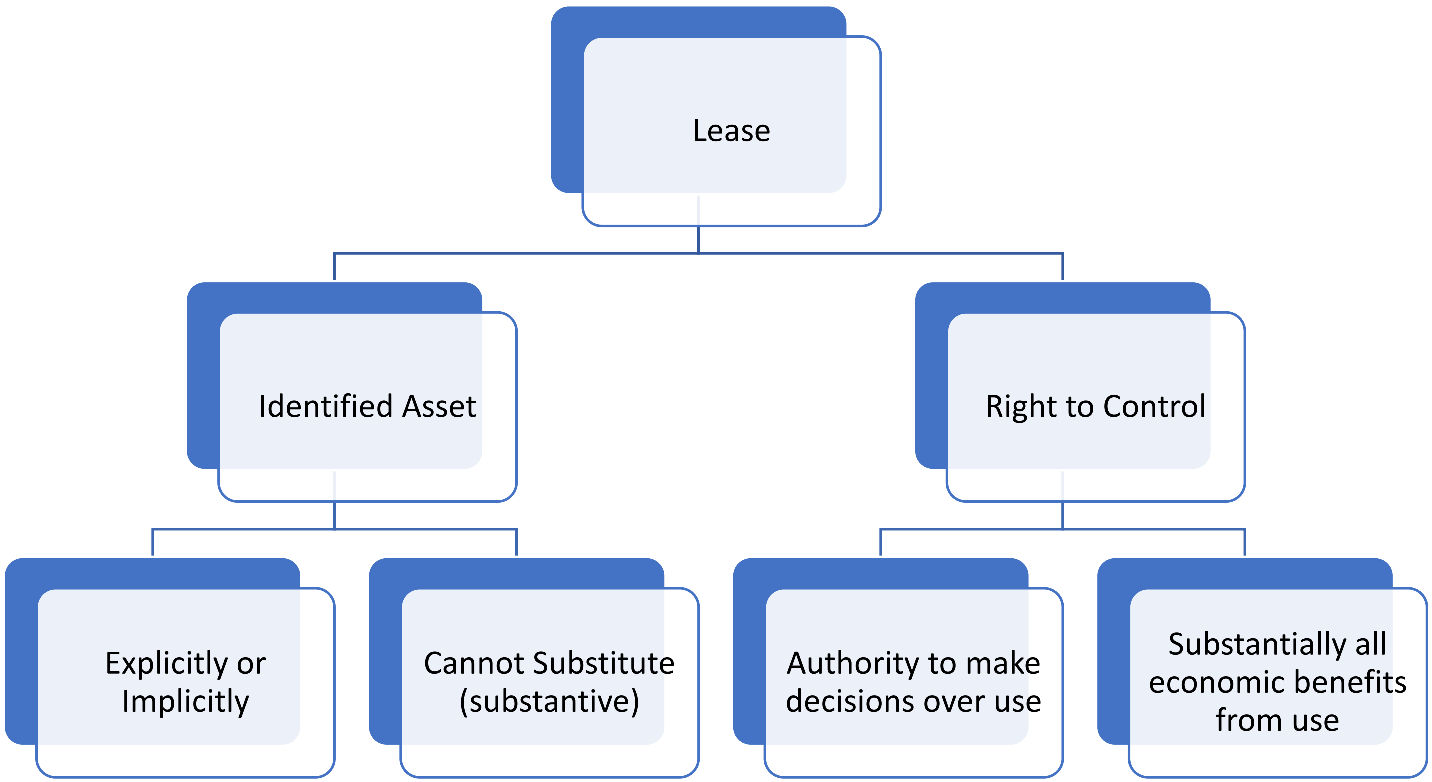
Identifying a Lease



Note: **<u>Must have both</u>** an identified asset **<u>and</u>** right to control

Classification

- Classify all leases as finance or operating leases
  - Finance lease – transfers substantially all risks & reward associated with ownership (meets one of the 5 criteria below)
  - Operating lease – all other leases that do not meet criteria for finance leases

- Five criteria
  - Transfer of ownership of asset at end of the lease term
  - Option to purchase that is reasonably certain (not just bargain purchase option now)
  - Lease term for "major part" of economic life (i.e. 75% of useful life)
  - Present value of minimum lease payments exceeds "substantially all" of the fair value (i.e. 90% of FV)
  - Underlying asset is of such specialized nature that no alternative use to lessor at the end of lease

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Comparison of Lessee Accounting Models

Finance Lease

Balance Sheet

Right of Use (ROU) Asset*
Lease Liability

Income Statement

Interest Expense (on lease liability)
Amortization Expense (on ROU asset)

Cash Flow

Cash paid for principal payments (financing activities) & interest payments (operating activities)

*Periodically reduced by straight-line amortization

Operating Lease

Balance Sheet

Right of Use (ROU) Asset**
Lease Liability

Income Statement

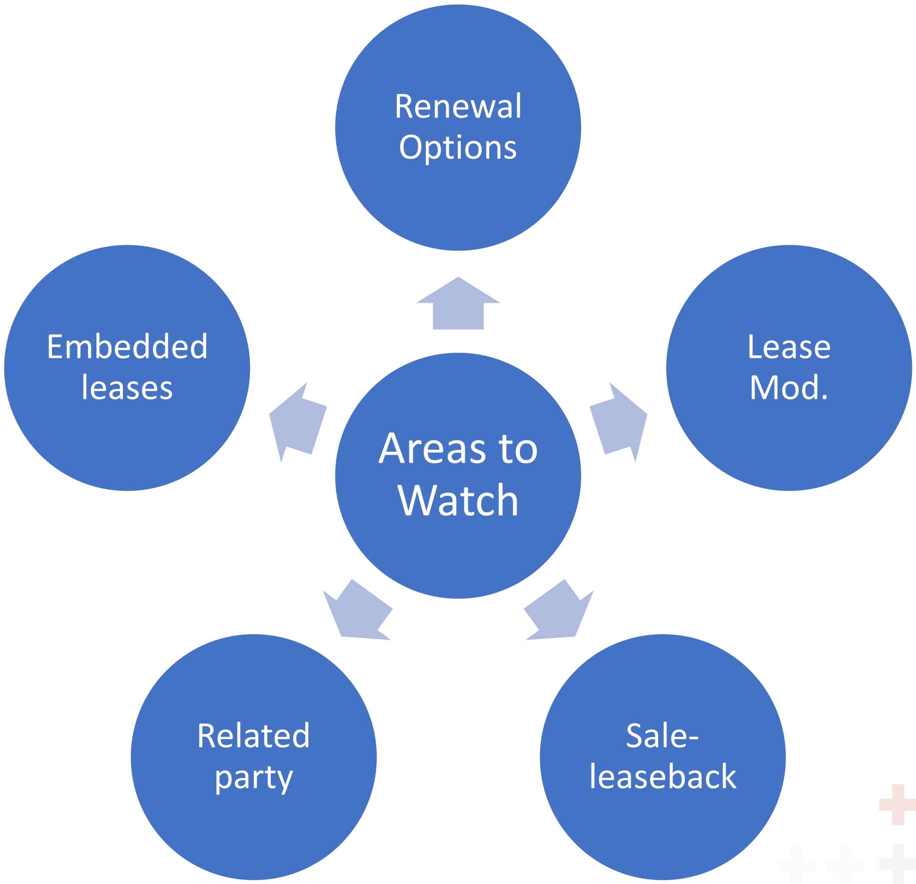
Lease/Rent Expense (straight-line)

Cash Flow

Cash paid for lease payments

**Periodically reduced by the difference between straight-line lease expense & interest cost on lease liability, *i.e.*, "plug figure"

Complexities



SSAP No 26R Assessment of OTTI Based on Original Contract Terms

- Objective: Clarify that when a modification to a debt instrument occurs the assessment for other-than-temporary impairment (OTTI) should follow SSAP No 36, Troubled Debt Restructuring and SSAP No 103R, Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, as applicable

- After modification, the OTTI assessment should be based on the modified contractual terms

- Relevant for:
  - P/C
  - Life
  - Health

SSAP 26R Implementation

- On May 20, 2020, the STAT Working Group adopted SSAP 26R as final. The assessment of OTTI shall be based on modified contractual terms of the debt instrument

- Effective December 31, 2020

2020 STAT INT's addressing COVID-19

INT	Expiration	Description
INT 20-02 Extension of 90-day Rule	12/30/20	An optional exception to the normal 90-day admissibility rule for premiums receivable and other amounts due from policyholders related to certain policies and uninsured plan affected by COVID-19. The requirement to perform an impairment analysis on the underlying assets remains in effect
INT 20-03 Troubled Debt Restructuring	Earlier of 12/31/20 or 60 days after the end of the National Emergency	Determines whether a modification to the terms of a mortgage loan or bank loan in response to COVID-19 should be reported as a troubled debt restructuring in accordance with SSAP No. 36 Troubled Debt Restructuring. Consistent with the CARES Act, the temporary relief provided by this interpretation only applies to the term of the loan modification that defers or delays the payment of principal or interest for a loan that was not more than 30 days past die as of 12/31/2019.
INT 20-04 Mortgage Loan Impairment Assessment	12/30/20	Provides limited-time exceptions to defer the performance of impairment assessments for bank loans, mortgage loans and other investments that predominantly hold underlying mortgage loans that are affected by forbearance or modifications granted in response to COVID-19.
INT 20-05 Investment Income Due and Accrued	12/30/20	Provides limited-time exceptions to the requirements in SSAP No.34 Investment Income Due and Accrued, to assess the recorded amount of investment income due and accrued for collectability and admissibility. First exception related to the collectability assessment to be performed for investments in forbearance or modified in response to COVID-19. Second exception allows for the admittance of the recorded amount that is deemed collectible but more than 90 days past due.

2020 STAT INT's addressing COVID-19 (continued)

INT	Expiration	Description
INT 20-06 Participation in the 2020 TALF Program	12/30/20	Establishes the accounting requirements for reporting entities participating in the federal Term Asset-Backed Securities Loan Facility (TALF) program either as a direct borrower or an investor in a direct borrower.
INT 20-07 Troubled Debt Restructuring of Certain Debt Investments	Earlier of 12/31/20 or 60 days after the end of the National Emergency	Provides limited time practical expedients for determining whether a restructuring represents a concession under paragraph 10 of SSAP No. 36. The temporary relief provided by this interpretation clarifies that a modification below 10%, or above 10% but deemed insignificant under SSAP No. 36, would not require further analysis under SSAP No. 103R, Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, to determine whether the modification is substantive and would not require extinguishment with recognition of a new security.
INT 20-08 COVID19 Refunds, Limited-Time Exception, Rate Reductions and Policyholder Dividend	12/30/20	Clarifies accounting requirements for: • Voluntary or jurisdiction-directed premium refunds that are not required under the policy terms are recognized as immediate adjustments to premium • Premium refunds that are required under the policy terms would continue to be accounted for under existing statutory accounting guidance • Rate reductions on in-force business are recognized as immediate adjustments to premium, but date rate reductions on future business for existing/new policyholders would be captured in the premium rate effective upon renewal. • Dividends that are permitted by the applicable jurisdiction are recorded as a liability of the reporting entity when declared by the board of directors • Aggregate amt of all premium refunds, rate reductions and policyholder dividends provided in response to COVID-19 is required to be disclosed as an unusual or infrequent item in Note21A to the annual statement blank. • Temporary relief provided by this interpretation will be automatically nullified on 1/1/21

2020 STAT Revisions

Section	Reference	Description
SSAP No. 22R	2016-02	Revisions incorporated guidance from ASU 2016-02, Leases, but rejects the ASU 2016-02 with retention of the operating lease concept
Preamble	2019-06	Revisions update references to US GAAP guidance
SSAP No. 2R	2018-18	Revisions clarify that derivative instruments shall not be reported as cash equivalents or short-term investments
SSAP No. 16R	2018-40	Revisions adopt with modification ASU 2018-15. Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract, allowing capitalization of implementation costs from a cloud hosting service contract as nonoperating system software with amortization not to exceed five years. Revisions provide guidance for cloud hosting arrangements that are not service contracts
SSAP No. 21R	2018-04	Revisions clarify that an investment captured in scope of a different SSAP does not become a collateral loan because it is also secured with collateral
SSAP No. 25	2019-03	Revisions clarify the application of this Statement and related party classification when a transaction is in substance a related party transaction
SSAP No. 26R	2018-18	Revisions clarify that structured notes are excluded from this statement and shall be reported as derivatives

2020 STAT Revisions (continued)

Section	Reference	Description
SSAP No. 26R	2018-32	Revisions provided guidance for when bonds are called for consideration less than par, and also clarifies that in instances where consideration received is less than BACV, the entire difference shall be reported through investment income.
SSAP No. 26R	2019-03	Revisions clarify the application of SSAP No. 25-Affiliates and Other Related Parties, when a transaction is with a related party
SSAP No. 26R	2017-07	Revisions direct the initial reported value for a bond received as a property dividend or as a capital contribution
SSAP No. 30R	2018-33	Revisions clarify that assets pledged to a Federal Home Loan Bank on behalf of an affiliate shall be nonadmitted
SSAP No. 30R	2018-34	Revisions explicitly capture foreign open-end fund investments in scope
SSAP No. 32	2019-03	Revisions clarify the application of SSAP No. 25-Affiliates and Other Related Parties, when a transaction is with a related party
SSAP No. 37	2018-22	Revisions exclude “bundled” mortgage loans from the scope of this Statement and clarify requirements for participation agreements

2020 STAT Revisions (continued)

Section	Reference	Description
SSAP No. 43R	2018-03	Revisions require securities with differing NAIC designations by lot to be reported in aggregate at the worst NAIC designation or separately by lot
SSAP No. 43R	2018-18	Revisions clarify mortgage-referenced securities issued from a government sponsored enterprise are captured in scope this Statement
SSAP No. 43R	2019-03	Revisions clarify the application of SSAP No. 25 – Affiliates and Other Related Parties, when a transaction is with a related party and adds concepts to determine whether a structure is a related party investment
SSAP No. 48	2019-03	Revisions clarify the application of SSAP No. 25 – Affiliates and Other Related Parties, when a transaction is with a related party
SSAP No. 50	2019-06	Revisions reject ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts
SSAP No. 51R	2019-06	Revisions reject ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts
SSAP No. 52	2019-06	Revisions reject ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts

2020 STAT Revisions (continued)

Section	Reference	Description
SSAP No. 54R	2019-06	Revisions reject ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts
SSAP No. 55	2018-39	Revisions clarify the reporting of interest on accident and health claims
SSAP No. 55	2019-06	Revisions reject ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts
SSAP No. 56	2019-06	Revisions reject ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts
SSAP No. 61R	2017-28	Revisions provide new disclosures in SSAP No. 61R, with an effective date of 12/31/2020
SSAP No. 62R	2019-11	Revisions clarify the effective date of reinsurance credit guidance adopted in agenda item 2017-28, noting application to the contracts in effect as of 1/1/2019
SSAP No. 62R	2019-15EP	Revisions reflect editorial changes to incorporate formatting updated from Schedule F

2020 STAT Revisions (continued)

Section	Reference	Description
SSAP No. 62R	2019-27EP	Revisions reflect editorial changes for disclosure readability
SSAP No. 62R	2019-44EP	Revisions reflect editorial changes to update references in an illustration and updates to Schedule F reference in a disclosure
SSAP No. 63	2019-15EP	Revisions reflect editorial changes to update the Schedule F reference
SSAP No. 68	2019-12	Revisions clarify that goodwill resulting from the acquisition of a subsidiary, controlled or affiliated (SCA) entity by an insurance reporting entity that is reported on the SCA's financial statements (resulting from the application of pushdown) is subject to the 10% admittance limit based on the acquiring entity's capital and surplus
SSAP No. 68	2019-29	Revisions reject ASU 2019-06, Extended the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities
SSAP No. 71	2019-06	Revisions reject ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts
SSAP No. 72	2019-07	Revisions direct the initial reported value for a bond received as a property dividend or as a capital contribution

2020 STAT Revisions (continued)

Section	Reference	Description
SSAP No. 84	2019-15EP	Revisions reflect editorial changes to delete the paragraph duplicated from SSAP No. 4 – Assets and Nonadmitted Assets
SSAP No. 86	2018-18	Revisions clarify that structured notes are derivates in scope of this Statement
SSAP No. 86	2018-46	Revisions reflect updated benchmark interest rates for hedge accounting permitted under U.S. GAAP
SSAP No. 86	2019-06	Revisions reject ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts
SSAP No. 86	2019-15EP	Revisions reflect editorial changes to eliminate the work “proposed” in adopted guidance
SSAP No. 86	2019-18	Revisions clarify the guidance for derivatives that do not qualify as hedging, income generation or replication transactions
SSAP No. 86	2019-27EP	Revisions reflect editorial changes to refer to SSAP No. 26R – Bonds for the structured note definition
SSAP No. 92	2018-37	Revisions adopt with modification disclosure amendments in ASU 2018-14, Changes to the Disclosure Requirements for Defined Benefit Plans
SSAP No. 95	2018-35	Revisions adopt with modification ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting, and update previously adopted U.S. GAAP guidance

2020 STAT Revisions (continued)

Section	Reference	Description
SSAP No. 72	2018-47EP	Revisions reflected editorial changes to clarify that structures captured within SSAP No. 48 – Joint Ventures, Partnerships and Limited Liability Companies are not subject to the disclosures in this Statement unless specifically required in SSAP No. 48
SSAP No. 97	2019-47EP	Revisions reflect editorial changes to clarify that structures captured within SSAP No.48 – Joint Ventures, Partnerships and Limited Liability Companies are not subject to the disclosures in this Statement unless specifically required in SSAP No. 48
SSAP No. 97	2019-23	Revisions clarify that if an unalleviated going concern is noted in the audited financial statements or audit opinion, the SCA shall be nonadmitted
SSAP No. 97	2019-27EP	Revisions reflected editorial revisions to update suffixes for SVO filings
SSAP No. 97	2019-29	Revisions rejected ASU 2019-06, Extended the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities
SSAP No. 100R	2018-36	Revisions adopt with modification disclosure amendments in ASU 2018-13, Changes to the Disclosure Requirements for Fair Value Measurements
SSAP No. 100R	2019-28	Revisions reject ASU 2019-05, Targeted Transition Relief

2020 STAT Revisions (continued)

Section	Reference	Description
SSAP No. 101	2019-09	Revisions to the Implementation Q&A update examples and guidance in response to the federal Tax Cuts and Jobs Act
SSAP No. 101	2019-10	Revisions to the Implementation Q&A clarify the admittance of deferred tax
SSAP No. 102	2018-37	Revisions adopt with modification disclosure amendments in ASU 2018-14, Changes to the Disclosure Requirements for Defined Benefit Plans
SSAP No. 103R	2019-05	Revisions reduce the disclosure requirements for repurchase and reverse repurchase transitions
SSAP No. 103R	2019-15EP	Revisions reflect editorial changes to update the footnote regarding items excluded from the wash sale disclosure
SSAP No. 103R	2019-22	Revisions clarify that only investments that meet the definition of a wash sale that cross reporting periods are subject to the wash sale disclosure
SSAP No. 104R	2018-35	Revisions adopt with modification ASU 2018-08, Improvements to Nonemployee Share-Based Payment Accounting, eliminating the section for nonemployee awards and including guidance for nonemployee with the guidance for employees

2020 GAAP Updates

Number/Title	Effective Date	Comments
ASU 2020-11 Financial Services-Insurance	Public 12/15/22 Other 12/15/24	Allows the delay adoption of ASU No. 2018 -12 and allows insurance companies to restate only one previous period rather than 2 if they choose to early adopt LDTI.
ASU 2020-10 Codification Improvements	Public 12/15/20 Other 12/15/21	Amendments that improve the consistency of the Codification by including all disclosure guidance in the appropriate disclosure section (Section 50).
ASU 2020-09 Debt Topic 470	12/31/20	Includes amendments to the financial disclosure requirements applicable to registered debt offerings that include credit enhancements, such as subsidiary guarantees.
ASU 2020-08 Receivables – Nonrefundable Fees & Other Costs	Public 12/15/20 Other 12/15/21	Clarifies that an entity should reevaluate whether a callable debt security is within the scope of ASC 310-20-35-33 for each reporting period
ASU 2020-07 Presentation & Disclosures by NFP entities for Contributed Non-financial Assets	6/15/21	Requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets

2020 GAAP Updates (continued)

Number/Title	Effective Date	Comments
ASU 2020-06 Debt with Conversion and Other Options	Public 12/15/21 Other 12/15/23	Simplifies accounting for convertible instruments by removing major separation models required under current U.S. GAAP.
ASU 2020-05 Revenue from Contracts with Customers	Effective Immediately	Permits private companies and NFP orgs that have not yet applied the rev rec standard to do so for annual reporting periods beginning after 12/15/2019 and interim reporting periods within annual reporting periods beginning after 12/15/2020.
ASU 2020-04 Reference Rate Reform	3/12/20	Provides temporary optional guidance to ease the potential burden in accounting for reference rate reform
ASU 2020-02 Financial Instruments – Credit Losses	Upon addition to the FASB Codification	Adds an SEC paragraph pursuant on the issuance of SEC Staff Accounting Bulletin No. 119 on loan losses to the FASB Codification Topic 326.
ASU 2020-01 Investments – Equity Securities	Public 12/15/20 Other 12/15/21	Clarifies that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting.

2020 GAAP Updates (continued)

Number/Title	Effective Date	Comments
ASU 2019-12 Income Taxes	Public 12/15/20 Other 12/15/22	Removes specific exceptions to the general principles in Topic 740 . It eliminates the need for an organization to analyze whether exceptions need to be given
ASU 2019-11 Codification Improvements to Topic 326 Financial Instruments – Credit Losses	Effective after 12/15/19 if already adopted ASU 2016-13 financial instruments	Narrow scope improvements to accounting for "expected recoveries" after a financial asset has been written down. Clarification to reinforce guidance that prohibits negative allowances for AFS debt securities

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