Statutory Reporting & Accounting Update

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forvis mazars

Agenda

2024 Statement Reporting/Accounting

2024 Risk-Based Capital (RBC)

Statutory Accounting

Valuation of Securities Task Force (VOSTF)

Bond Project Update

2024
Reporting/Accounting

All Statement Types

- Notes to Financials #5S - Investments
  - Disclosure for aggregate collateral loans by qualifying investment collateral
    - From revisions to *SSAP No. 21R*
  - In 2025, circled items will change to Issuer Credit Obligations & Asset-Backed Securities, respectively.

T. Aggregate Collateral Loans by Qualifying Investment Collateral

Collateral Type	Aggregate Collateral Loan	Admitted	Nonadmitted
(1) Cash, Cash Equivalent & ST Investments			
a. Affiliated	....	....	....
b. Unaffiliated	....	....	....
(2) Bonds			
a. Affiliated	....	....	....
b. Unaffiliated	....	....	....
(3) Loan-Backed and Structured Securities			
a. Affiliated	....	....	....
b. Unaffiliated	....	....	....
(4) Preferred Stocks			
a. Affiliated	....	....	....
b. Unaffiliated	....	....	....
(5) Common Stocks			
a. Affiliated	....	....	....
b. Unaffiliated	....	....	....
(6) Real Estate			
a. Affiliated	....	....	....
b. Unaffiliated	....	....	....
(7) Mortgage Loans			
a. Affiliated	....	....	....
b. Unaffiliated	....	....	....
(8) Joint Ventures, Partnerships, LLC			
a. Affiliated	....	....	....
b. Unaffiliated	....	....	....
(9) Other Qualifying Investments			
a. Affiliated	....	....	....
b. Unaffiliated	....	....	....
(10) Collateral Does not Qualify as an Investment			
a. Affiliated	....	....	....
b. Unaffiliated	....	....	....
(11) Total	....	....	....

All Statement Types

- Notes to Financials #24E (L,H), #24F (PC) – Reinsurance
  - Removal of disclosure for transitional reinsurance program & risk corridors program of ACA
    - *Revisions to SSAP No. 107*
- Removal from Supplemental Health Care Exhibit was overlooked
  - Being corrected for 2025

All Statement Types

- General Interrogatories – Part 1 (#29.05 in annual; #17.5 in quarterly)
  - Listing of investment managers to include sub-advisors
    - Internal & external; affiliated or unaffiliated

All Statements

- General Interrogatories – Part 1 – #35
  - Certification for self-designated PLGI private letter rating (PLR) securities
    - Elements to be considered for certification
      - In compliance with IAO's *Purposes and Procedures Manual* for PLR securities
      - Issued prior to Jan 1, 2018 & exempt from PLR filing requirements
      - OR, issued from Jan 1, 2018, to Dec 31, 2021, subject to confidentiality executed prior to Jan 1, 2022, and still in place
        - Cannot provide SVO with PLR rationale report
      - Where PLR exists, must be dated during financial statement year
      - Holding appropriate capital corresponding with NAIC Designation & NAIC Designation Category requirements
      - For PLR securities issued on or after Jan 1, 2022, reporting entity not permitted to share PLR or PLR rationale report with SVO

All Statement Types

- Stocks vs. residual interests
  - Investments in form of preferred or common stock, but are in substance residual interest or residual tranche, reported in Schedule BA
    - Residual reporting lines
    - Resulted from 2023 revisions to *SSAP Nos. 30R & 32R*

All Statement Types

- *SSAP No. 97 – Investments in Subsidiary, Controlled and Affiliated Entities*
  - Revises language of paragraph 24 to be consistent with other requirements within the SSAP

24. If the downstream noninsurance holding company does not meet the requirements of paragraph 26, audited GAAP financial statements, as described in paragraph 23, are required~~. for the downstream noninsurance holding company and its SCA and non-SCA investments~~ in order for the investment in the downstream noninsurance holding company to be classified as an admitted asset.

All Statement Types

- *SSAP No. 21* – Other Admitted Assets
  - Accounting guidance (measurement method) for all residual interests regardless of legal form
    - Effective yield with a cap method preferred
    - Cost recovery method can be used as practical expedient
      - Has limitations
    - Can be early adopted for 2024; otherwise, effective January 1, 2025

All Statement Types

- *SSAP No. 21 – Other Admitted Assets*
  - Requires nonadmitting of collateral loan when:
    - Fair value of collateral is not sufficient to cover collateral loan
      - Nonadmit amount not covered by fair value
    - Collateral securing loan is not a qualifying investment
      - Collateral must be an admitted asset
      - Collateral in form of joint ventures, partnerships, LLCs, or SCAs must be supported by an audit (per *SSAP No. 48*)

All Statement Types

- Directly owned crypto assets are nonadmitted (*SSAP No. 20*)
  - Previous guidance only indicated directly owned cryptocurrencies were nonadmitted
  - Does NOT delete or modify General Interrogatory disclosure
- Also nullifies *INT 21-01: Accounting for Cryptocurrencies*

Lloyds of London

- Several syndicates dropped from NAIC Listing of Companies
  - Lloyds has indicated those syndicates are no longer active and any of their existing business has been transferred to other syndicates
  - NAIC working with Lloyds to try to arrive with reporting
  - Worst case scenario, those syndicates would be reported as authorized reinsurers
    - AND will be subject to collateral requirements to avoid ‘reinsurance penalty’ (provision for reinsurance)
- NAIC to post reporting update early in December

Property/Casualty Statement

- Actuarial Opinion
  - Board of Directors need only be presented with appointed actuary’s qualifications upon appointment (no longer annually)
- Pet Insurance – Reminder
  - Now reported as a separate line of business
  - Format changes to U&I, state page, IEE, & new section ‘U’ added to Schedule P

Property/Casualty Statement

- Schedule P
  - No more 2-year lines of business
  - All lines of business will report 10 years of development

Property/Casualty Statement

- Cybersecurity Insurance Coverage Supplement
  - Removal of identity theft reporting, claims-made & occurrence breakdown, interrogatories regarding tail policies
  - Reformatted
  - Includes primary policies, excess policies, or an endorsement on a policy
  - New reporting format & Part 5 for state reporting

PART 5 – CYBERSECURITY COVERAGE BY STATE

STATE	1 STAND-ALONE	2 PACKAGED	3 EXCESS	4 ENDORSEMENT
Alabama				
Alaska				
Arizona				
Arkansas				
California				
Colorado				
Connecticut				
Delaware				
District of Columbia				
Florida				
Georgia				
Hawaii				
Idaho				
Illinois				
Indiana				
Iowa				
Kansas				
Kentucky				
Louisiana				
Maine				
Maryland				
Massachusetts				
Michigan				
Minnesota				
Mississippi				
Missouri				
Montana				
Nebraska				
Nevada				
New Hampshire				
New Jersey				
New Mexico				
New York				
North Carolina				
North Dakota				
Ohio				
Oklahoma				
Oregon				
Pennsylvania				
Rhode Island				
South Carolina				
South Dakota				
Tennessee				
Texas				
Utah				
Vermont				
Virginia				
Washington				
West Virginia				
Wisconsin				
Wyoming				
American Samoa				
Guam				
Puerto Rico				
U.S. Virgin Islands				
Northern Mariana Islands				
Canada				
Aggregate Other Alien				

Life/Fraternal Statement

- Notes to Financials #21J – Other Items
  - Extensive disclosure for negative IMR in general and separate accounts; now data-captured
    - Many companies did not address this disclosure last year when admitting negative IMR for the first time
  - Addition of section for separate accounts
  - *INT 23-01*

Note #21J – Reporting Net Negative IMR (Life/Fraternal)

- Aggregate negative (disallowed) IMR allocated between general and separate accounts

Total	General Account	Insulated Separate Account	Non-Insulated Separate Account
$	$	$	$

- Negative (disallowed) IMR admitted allocated between general and separate accounts

Total	General Account	Insulated Separate Account	Non-Insulated Separate Account
$	$	$	$

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Note 21J – Net Negative IMR (Life/Fraternal)

- Calculated adjusted capital and surplus

	Total
Prior Period General Account Capital & Surplus	$
From Prior Period SSAP Financials	
Net Positive Goodwill (admitted)	$
EDP Equipment & Operating System Software (admitted)	$
Net DTAs (admitted)	$
Net Negative (disallowed) IMR (admitted)	$
Adjusted Capital & Surplus	$

Note 21J – Net Negative IMR (Life/Fraternal)

- Percentage of adjusted capital & surplus

	Total
Percentage of Total Net Negative (disallowed) IMR Adjusted in General Account or recognized in Separate Account to adjusted capital and surplus	%

Note 21J – Negative IMR (Life/Fraternal)

- Allocated gains/losses to IMR from derivatives

General Account

	Gains	Losses
1. Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Prior Period	$	$ ....
2. Fair Value Derivative Gains & Losses Realized to IMR – Added in Current Period	$	$ ....
3. Fair Value Derivative Gains & Losses Amortized Over Current Period	$	$ ....
4. Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Current Period Total	$	$ ....

Note 21J – Negative IMR (Life/Fraternal)

- Allocated gains/losses to IMR from derivatives

Separate Account - Insulated

		Gains		Losses
1. Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Prior Period	$	....	$	....
2. Fair Value Derivative Gains & Losses Realized to IMR – Added in Current Period	$	....	$	....
3. Fair Value Derivative Gains & Losses Amortized Over Current Period	$	....	$	....
4. Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Current Period Total	$	....	$	....

Separate Account – Non-Insulated

		Gains		Losses
1. Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Prior Period	$	....	$	....
2. Fair Value Derivative Gains & Losses Realized to IMR – Added in Current Period	$	....	$	....
3. Fair Value Derivative Gains & Losses Amortized Over Current Period	$	....	$	....
4. Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Current Period Total	$	....	$	....

Life/Fraternal Statement

- General Interrogatories – Part 2 – Negative IMR
  - Attestation for admitting negative IMR
    - Yes/No response

Life/Fraternal Statement

- General Interrogatories – Part 2
  - New question providing net amounts at risk to complete C-2 mortality risk in Life/Fraternal RBC

8. Provide the current-year amounts at risk for the following categories.

Individual and Industrial Life	Amount at Risk
8.01 Modified Coinsurance Assumed Reserves	$
8.02 Modified Coinsurance Ceded Reserves	$

Individual and Industrial Life Policies With Pricing Flexibility	Amount at Risk
8.03 Net Amount (Direct + Assumed - Ceded) in Force	$
8.04 Exhibit 5 Life Reserves (Direct + Assumed – Ceded)	$
8.05 Separate Account Exhibit 3 Life Reserves (Direct + Assumed – Ceded)	$
8.06 Net Modified Coinsurance Reserves (Assumed – Ceded)	$
8.07 Life Reserves (8.04 + 8.05 + 8.06)	$
8.08 Life Net Amount at Risk (8.03 – 8.07)	$

Individual and Industrial Term Life Policies Without Pricing Flexibility	Amount at Risk
8.09 Net Amount (Direct + Assumed - Ceded) in Force	$
8.10 Exhibit 5 Life Reserves (Direct + Assumed – Ceded)	$
8.11 Separate Account Exhibit 3 Life Reserves (Direct + Assumed – Ceded)	$
8.12 Net Modified Coinsurance Reserves (Assumed – Ceded)	$
8.13 Life Reserves (8.10 + 8.11 + 8.12)	$
8.14 Life Net Amount at Risk (8.09 – 8.13)	$

Life/Fraternal Statement

Group and Credit Life (Excludes FEGLI/SGLI)	Amount at Risk
8.15 Modified Coinsurance Assumed Reserves	$
8.16 Modified Coinsurance Ceded Reserves	$

Group and Credit Term Life (Excluding FEGLI/SGLI) with Remaining Rate Terms 36 Months and Under	Amount at Risk
8.17 Net Amount (Direct + Assumed - Ceded) in Force	$
8.18 Exhibit 5 Life Reserves (Direct + Assumed – Ceded)	$
8.19 Separate Account Exhibit 3 Life Reserves (Direct + Assumed – Ceded)	$
8.20 Net Modified Coinsurance Reserves (Assumed – Ceded)	$
8.21 Life Reserves (8.18 + 8.19 + 8.20)	$
8.22 Life Net Amount at Risk (8.09 – 8.13)	$

Group and Credit Term Life (Excluding FEGLI/SGLI) with Remaining Rate Terms Over 36 Months	Amount at Risk
8.23 Net Amount (Direct + Assumed - Ceded) in Force	$
8.24 Exhibit 5 Life Reserves (Direct + Assumed – Ceded)	$
8.25 Separate Account Exhibit 3 Life Reserves (Direct + Assumed – Ceded)	$
8.26 Net Modified Coinsurance Reserves (Assumed – Ceded)	$
8.27 Life Reserves (8.24 + 8.25 + 8.26)	$
8.28 Life Net Amount at Risk (8.23 – 8.27)	$

Group and Credit Term Life (Excluding FEGLI/SGLI) with Pricing Flexibility	Amount at Risk
8.29 Net Amount (Direct + Assumed - Ceded) in Force	$
8.30 Exhibit 5 Life Reserves (Direct + Assumed – Ceded)	$
8.31 Separate Account Exhibit 3 Life Reserves (Direct + Assumed – Ceded)	$
8.32 Net Modified Coinsurance Reserves (Assumed – Ceded)	$
8.34 Life Reserves (8.30 + 8.31 + 8.32)	$
8.35 Life Net Amount at Risk (8.29 – 8.33)	$

General Interrogatories Part 2

Life/Fraternal Statement

Reformatted state page adopted in 2023 with some reporting elements delayed until year-end 2024; 2024 is here !!

Life/Fraternal Statement

- IMR Amortization Rate changed for 2024
- Can be found at https://content.naic.org/sites/default/files/inline-files/committees_e_app_blanks_IMR_amortization_2024.pdf
- Went from 5% to 6%

Grouped Amortization Schedules
for the Interest Maintenance Reserve
for 2024 Gains and Losses
Interest Rate = 6.00%

Calendar Years to Maturity
(Residential Mortgages)

Yearend	over 25	21-25	16-20	11-15 (21-30)	6-10 (11-20)	2-5 (3-10)	1 (1-2)	0 (0)
2024	0.7%	1.0%	1.6%	2.6%	5.0%	13.2%	49.3%	100.0%
2025	1.5%	2.2%	3.3%	5.5%	10.5%	27.6%	50.7%	0.0%
2026	1.6%	2.3%	3.5%	5.8%	11.1%	25.3%	0.0%	0.0%
2027	1.6%	2.5%	3.8%	6.1%	11.8%	18.5%	0.0%	0.0%
2028	1.8%	2.6%	3.9%	6.5%	12.5%	11.5%	0.0%	0.0%
2029	1.9%	2.7%	4.2%	6.9%	13.3%	3.9%	0.0%	0.0%
2030	2.0%	3.0%	4.5%	7.4%	12.4%	0.0%	0.0%	0.0%
2031	2.1%	3.1%	4.8%	7.8%	10.0%	0.0%	0.0%	0.0%
2032	2.3%	3.3%	5.0%	8.2%	7.3%	0.0%	0.0%	0.0%
2033	2.4%	3.5%	5.3%	8.8%	4.6%	0.0%	0.0%	0.0%
2034	2.5%	3.7%	5.7%	9.3%	1.5%	0.0%	0.0%	0.0%

Life/Fraternal Statement

- IMR/AVR instructions
  - Revised language to stop allocation of non-interested related losses to IMR
  - Clarifies changing of NAIC Designation time measurement
  - New guidelines for mortgage loans gain/losses to IMR or AVR
    - If disposed/sold with established valuation allowance, report gain (loss) in AVR
  - All perpetual preferred stock & mandatory convertible preferred stock realized gains/losses to be reported in AVR, not IMR, regardless of NAIC Designation
    - Includes SVO-Identified preferred stock ETFs
  - No change for redeemable preferred stock

Life/Fraternal Statement

- IMR/AVR instructions
  - Debt securities (excluding loan-backed & structured securities) & preferred stock
    - If between purchase & sale date an acute credit event occurs but is not yet reflected by CRP ratings and/or SVO feed at time of sale, gain/loss is NOT included in IMR (sale is credit-related, not interest-related)
      - Reporting is not necessarily based on NAIC Designation at time of sale
- Instructional clarification for VM-20 supplement
  - Inclusion of separate accounts, where applicable
  - Part 1A
    - Both post-reinsurance-ceded reserves & pre-reinsurance-ceded reserves include separate accounts amounts where applicable to the policies in scope

Health Statement

No Health specific revisions

2024 RBC

Reminder

RBC calculates the <u>minimum</u> amount of capital & surplus a company should maintain based on its various risk exposures

All RBC Formulas

- Updated factor for Receivable for Securities

L/F	.016
Health	.024
P/C	.025

All RBC Formulas

- Updated underwriting factors for comprehensive medical, Medicare, Medicare supplement, dental, vision for investment income

	$0 - $3 Million	$3-$25 Million	Over $25 Million
Comprehensive (Hospital & Medical)	0.1427	0.1427	0.0832
Medicare Supplement	0.0973	0.0596	0.0596
Dental & Vision	0.1143	0.0706	0.0706

Property/Casualty RBC

- Underwriting Risk
  - Pet insurance now reported with Special Property using same factor
  - Clarification of reporting for health stop-loss premiums
    - Report on PR019, Line 9 <u>not</u> in Line 25
  - Annual updates to Industry Average Development factors & Investment Income factors for reserves and premiums

P/C Underwriting Risk Factors – Line 1

PR017 Underwriting Risk – Reserves			
Line (1), Industry Average Development Ratio			
Col.	Line of Business	2024 Factor	2023 Factor
(1)	H/F	1.020	0.999
(2)	PPA	1.061	1.047
(3)	CA	1.115	1.106
(4)	WC	0.882	0.873
(5)	CMP	1.024	1.026
(6)	MPL Occurrence	0.910	0.906
(7)	MPL Claims Made	0.996	0.984
(8)	SL	0.996	0.994
(9)	OL	0.993	0.696
(10)	Fidelity/Surety	0.875	0.852
(11)	Special Property	0.989	0.983
(12)	Auto Physical Damage	0.999	1.016
(13)	Other (Credit A&H)	0.942	0.946
(14)	Financial/Mortgage Guaranty	0.493	0.674
(15)	INTL	2.168	2.414
(16)	REIN. P&F Lines	0.930	0.924
(17)	REIN. Liability	1.054	1.024
(18)	PL	0.882	0.874
(19)	Warranty	0.991	0.995
(20)	Pet Insurance	0.989	0.983

PR018 Underwriting Risk – Premiums			
Line (1), Industry Average Loss & Expense Ratio			
Col.	Line of Business	2024 Factor	2023 Factor
(1)	H/F	0.695	0.679
(2)	PPA	0.799	0.701
(3)	CA	0.787	0.777
(4)	WC	0.646	0.651
(5)	CMP	0.684	0.671
(6)	MPL Occurrence	0.752	0.767
(7)	MPL Claims Made	0.828	0.815
(8)	SL	0.583	0.578
(9)	OL	0.649	0.641
(10)	Fidelity/Surety	0.375	0.363
(11)	Special Property	.0559	0.983
(12)	Auto Physical Damage	0.733	1.016
(13)	Other (Credit A&H)	0.711	0.913
(14)	Financial/Mortgage Guaranty	0.158	0.674
(15)	INTL	1.153	2.414
(16)	REIN. P&F Lines	0.587	0.924
(17)	REIN. Liability	0.760	1.024
(18)	PL	0.594	0.874
(19)	Warranty	0.641	0.995
(20)	Pet Insurance	0.559	0.983

P/C Underwriting Risk Factors – PR017

Lines 4 & 8

PR017 Underwriting Risk – Reserves			
Line (4), Industry Loss & Expense RBC Factors			
Col.	Line of Business	2024 Factor	2023 Factor
(1)	H/F	0.220	0.213
(2)	PPA	0.192	0.179
(3)	CA	0.318	0.276
(4)	WC	0.363	0.344
(5)	CMP	0.485	0.494
(6)	MPL Occurrence	0.327	0.383
(7)	MPL Claims Made	0.224	0.276
(8)	SL	0.353	0.344
(9)	OL	0.514	0.531
(10)	Fidelity/Surety	0.479	0.371
(11)	Special Property	0.259	0.246
(12)	Auto Physical Damage	0.146	0.155
(13)	Other (Credit A&H)	0.223	0.220
(14)	Financial/Mortgage Guaranty	0.163	0.179
(15)	INTL	0.514	0.359
(16)	REIN. P&F Lines	0.367	0.656
(17)	REIN. Liability	0.626	0.656
(18)	PL	1.014	0.802
(19)	Warranty	0.363	0.371
(20)	Pet Insurance	0.259	

PR017 Underwriting Risk – Reserves			
Line (8), Adjustment for Investment Income			
Col.	Line of Business	2024 Factor	2023 Factor
(1)	H/F	0.945	0.938
(2)	PPA	0.933	0.928
(3)	CA	0.919	0.911
(4)	WC	0.807	0.830
(5)	CMP	0.887	0.876
(6)	MPL Occurrence	0.863	0.865
(7)	MPL Claims Made	0.890	0.883
(8)	SL	0.887	0.890
(9)	OL	0.858	0.852
(10)	Fidelity/Surety	0.924	0.940
(11)	Special Property	0.960	0.966
(12)	Auto Physical Damage	0.977	0.976
(13)	Other (Credit A&H)	0.952	0.967
(14)	Financial/Mortgage Guaranty	0.921	0.926
(15)	INTL	0.878	0.874
(16)	REIN. P&F Lines	0.907	0.901
(17)	REIN. Liability	0.816	0.838
(18)	PL	0.843	0.841
(19)	Warranty	0.951	0.940
(20)	Pet Insurance	0.960	

P/C Underwriting Risk Factors – PR018

Lines 4 & 7

PR018 Underwriting Risk – Premiums			
Line (4), Industry Losses & Loss Adjustment Expense Ratio			
Col.	Line of Business	2024 Factor	2023 Factor
(1)	H/F	0.933	0.936
(2)	PPA	0.970	0.969
(3)	CA	1.012	1.010
(4)	WC	1.041	1.044
(5)	CMP	0.878	0.883
(6)	MPL Occurrence	1.531	1.668
(7)	MPL Claims Made	1.138	1.130
(8)	SL	0.908	0.922
(9)	OL	1.003	1.013
(10)	Fidelity/Surety	0.756	0.854
(11)	Special Property	0 .829	0.863
(12)	Auto Physical Damage	0.836	0.836
(13)	Other (Credit A&H)	0.931	0.935
(14)	Financial/Mortgage Guaranty	1.805	1.598
(15)	INTLL	1.355	1.234
(16)	REIN, P&L Lines	1.072	1.170
(17)	REIN, Liability	1.253	1.322
(18)	PL	1.229	1.263
(19)	Warranty	0.920	0.854
(20)	Pet Insurance	0.829	

P018 Underwriting Risk – Premiums			
Line (7), Adjustment for Investment Income			
Col.	Line of Business	2024 Factor	2023 Factor
(1)	H/F	0.960	0.954
(2)	PPA	0.931	0.925
(3)	CA	0.897	0.890
(4)	WC	0.836	0.839
(5)	CMP	0.909	0.896
(6)	MPL Occurrence	0.781	0.767
(7)	MPL Claims Made	0.845	0.827
(8)	SL	0 .911	0.898
(9)	OL	0.827	0.816
(10)	Fidelity/Surety	0.913	0.904
(11)	Special Property	0.953	0.949
(12)	Auto Physical Damage	0.975	0.971
(13)	Other (Credit A&H)	0.953	0.947
(14)	Financial/Mortgage Guaranty	0.888	0.884
(15)	INTL	0.915	0.905
(16)	REIN, P&L Lines	0.906	0.893
(17)	REIN, Liability	0.794	0.777
(18)	PL	0.788	0.774
(19)	Warranty	0 .938	0.904
(20)	Pet Insurance	0.953	

Property/Casualty RBC

- Catastrophe reporting – Rcat component – *Information only collection*
  - Severe convective storms
    - Listing of storms has been released for comment
  - Climate conditioned catastrophe exposures
    - Pertains to hurricane and wildfire
    - NAIC has developed tools to assist industry – Climate Scenario Resource Center
  - New interrogatories (3) on catastrophe risk reinsurance programs
- Schedule P collection pages changed because annual statement now includes 10 years of data

Property/Casualty & Health RBC

- Schedule BA residuals
  - New reporting;
    - Excluded from line 16
    - New line 22
  - 20% factor

(16)	Other Long-Term Invested Assets Excluding Collateral Loans, **Residual Tranches or Interests** and Working Capital Finance Investments
(17)	Federal Guaranteed Low Income Housing Tax Credits
(18)	Federal Non-Guaranteed Low Income Housing Tax Credits
(19)	State Guaranteed Low Income Housing Tax Credits
(20)	State Non-Guaranteed Low Income Housing Tax Credits
(21)	All Other Low Income Housing Tax Credits
(22)	**Total Residual Tranches or Interests**

Property/Casualty & Health RBC

- Affiliated investments
  - Instructions clarify both common and preferred stock to be included in column (13) on the affiliated worksheet includes

Property/Casualty & Health RBC

(1) Name of Affiliate	(2) Affil Type	(3) NAIC Company Code or Alien ID Number	(4) Affiliate's RBC after Covariance Before Basic Operational Risk XR025 Line (41) PR032 Line (60) LR031 Line (69) + (73)	(5) Book/Adjusted Carrying Value (Statement Value) of Affiliate's Common Stock	(6) Valuation Basis of Col (5) M - Market Value after any "discount" A - All Other	(7) Total Value of Affiliate's Outstanding Common Stock	(8) Statutory Surplus of Affiliate Subject to RBC (Adjusted for % Owned)	(9) Book/Adjusted Carrying Value (Statement Value) of Affiliate's Preferred Stock	(10) Total Value of Affiliate's Outstanding Preferred Stock	(11) Percent Owned *	(12) RBC Required (H0 Component)	(13) Market Value Excess Component Affiliated ~~Common~~ Stocks RBC Required (H1 Component)
Total	XXX	XXX			XXX					XXX		

Clarifies the Market Value in Excess Affiliated Stock column (13) on the affiliated worksheet includes both common and preferred stock

Property/Casualty & Health RBC

- Affiliated investments summary – PR007, XR010
  - Corrects handling of market value in excess affiliated stocks

Common Stock - Unaffiliated	A/S Source	BACV	Factor	Adjst Capital
(8) Federal Home Loan Bank				
(9) Total Common Stock				
(10) Affiliated Common Stock				
(11) Other Unaffiliated Common Stock				
(12) Market Value Excess Affiliated Stock	XR002 C(13) L(99999999)			
(13) Total Unaffiliated Common Stock & Market Value Excess Affiliated Stock	Lines (8) + (11) + (12)			

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Property/Casualty & Health RBC

- Corrections to PR031, XR024
  - Brings in total unaffiliated common stock & fair value excess affiliated stock to asset risk

ASSET RISK	RBC Amount
(XX) Unaffiliated Common Stock & Market Value Excess Affiliated Stock	

Health RBC

- Tiered factors health care receivables
  - Pharmaceutical rebates receivable
    - First $5m = 20% + 3% applied to amount >$5m
  - Aggregates claim overpayment receivables + loans & advances to providers + capitation arrangement receivables + risk sharing receivables + other health care receivables
    - First $10m = 40% + 5% applied to amount > $10m

Health RBC – Underwriting Risk

		Line of Business	(1) Comprehensive (Hospital & Medical) - Individual & Group
(1)	†	Premium	
(2)	†	Title XVIII-Medicare	
(3)	†	Title XIX-Medicaid	
(4)	†	Other Health Risk Revenue	
(5)		Medicaid Pass-Through Payments Reported as Premiums	
(6)		Underwriting Risk Revenue = Lines (1) + (2) + (3) + (4) - (5)	
(7)	†	Net Incurred Claims	
(8)		Medicaid Pass-Through Payments Reported as Claims	
(9)		Total Net Incurred Claims Less Medicaid Pass-Through Payments Reported as Claims = Lines (7) - (8)	
(10)	†	Fee-For-Service Offset	
(11)		Underwriting Risk Incurred Claims = Lines (9) - (10)	

Includes comprehensive (hospital & medical), Title XVIII Medicare, Title XIX Medicaid from statement Analysis of Operations By Lines of Business, Line 4 – Risk revenue.

Revisions indicate correct reporting of Medicare and Medicaid business In Underwriting Risk

Includes comprehensive (hospital & medical), Title XVIII Medicare, Title XIX Medicaid from statement Analysis of Operations By Lines of Business, Line 3 – Fee-for-service

Health RBC

- Underwriting Risk
  - Indicates correct reporting of Medicare and Medicaid
    - Revises column references from annual statement page 7

† Annual Statement Source

	Line of Business	(1) Comprehensive (Hospital & Medical) - Individual & Group	(2) Medicare Supplement	(3) Dental & Vision	(4) Stand-Alone Medicare Part D Coverage	(5) Other Health	(6) Other Non-Health	(7) Total
(1)	Premium	Page 7, Columns 2 & 3, Lines 1 + 2	Page 7, Column 4, Line 1 + 2	Page 7, Columns 6 & 5, Line 1 + 2			Page 7, Column 14, Lines 1 + 2	
(2)	Title XVIII-Medicare	Page 7, Column 8, Lines 1 + 2	XXX	XXX	XXX	XXX	XXX	Page 7, Column 8, Lines 1 + 2
(3)	Title XIX-Medicaid	Page 7, Column 9, Lines 1 + 2	XXX	XXX	XXX	XXX	XXX	Page 7, Column 9, Lines 1 + 2
(4)	Other Health Risk Revenue	Page 7, Columns 2 + 3 + 8 + 0, Line 4	XXX	Page 7, Columns 6 & 5, Line 4			XXX	
(7)	Net Incurred Claims	Page 7, Columns 2 + 3 + 8 + 9, Line 17	Page 7, Column 4, Line 17	Page 7, Columns 6 & 5, Line 17			XXX	
(10)	Fee-For-Service Offset	Page 7, Columns 2 + 3 + 8 + 9, Line 3	XXX	Page 7, Columns 6 & 5 , Line 3			XXX	
(17)	Maximum Per-Individual Risk After Reinsurance	Gen Int Part 2, Lines 5.31 + 5.32	Gen Int Part 2 Line 5.33	Gen Int Part 2 Line 5.34			XXX	XXX

Life/Fraternal RBC

- Additional line for the treatment of nonadmitted insurance affiliates as part of the Total Adjusted Capital Calculation (LR033)

Life Subsidiary Company Amounts	A/S Source	Stmt Value		Factor		Adjst Capital
(6) AVR/~~Carrying Value of Non-Admitted Ins. Affil~~	Sub A/S P 3, C 1, L 24.01		X	1.000	=	
(7) Dividend Liability	Sub A/S P 3, C 1, Ls 6.1+6.2		X	0.500	=	
(8) Carrying Value of Non-Admitted Ins Affil	Included in LR044, Cs 5 & 7		X	1.000	=	

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Life/Fraternal RBC

- New line & factor for reporting ‘Affiliated Mortgages – Residential – All Other’ in Schedule BA Mortgages – In Good Standing section

	A/S Source	(1)	(2)	(3)	(4)	(5)	(6)
In Good Standing							
1) Insured or Guaranteed							
2) Affiliated Mortgages - Residential – All Other	AVR Equity, C 1, L 44					0.0068	

Life/Fraternal RBC

- New mapping for Schedule BA collateral loans with the underlying characteristics of mortgage loans – LR008
  - Keeps these assets from dropping into the “all other” invested assets category

	Schedule BA - All Other		
(48.1)	BA Affiliated Common Stock - Life with AVR	AVR Equity Component Column 1 Line 67	
(48.2)	BA Affiliated Common Stock - Certain Other	AVR Equity Component Column 1 Line 68	
(48.3)	Total Schedule BA Affiliated Common Stock - C-1o	Line (48.1) + (48.2)	
(49.1)	BA Affiliated Common Stock - All Other	AVR Equity Component Column 1 Line 69	
(49.2)	Total Sch. BA Affiliated Common Stock - C-1cs	Line (49.1)	
(50)	Schedule BA Collateral Loans	**Schedule BA Part 1 Column 12 Line 2999999 + Line 3099999, in part**	

Life/Fraternal RBC

- Schedule BA residuals
  - Increased factor for residuals to 45%
  - Assigns 10% factor for residual sensitivity test

In the Works

- Revisions to Preamble in all formulas
- Review of factors being applied to repurchase agreements
- Handling of collateral loans
- Considering removal of RBC amounts from the Five-Year Historical pages in annual statement
- Possible future revisions of the calculation of covariance for all formulas
- Requested new Working Group to review RBC non-investment-related factors for all business types
  - RBC Risk Research Working Group

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Fall National Meeting

Capital Adequacy Working Group

- Adopted severe convective storm and catastrophe event lists
- Exposed for comment
  - Bond project reporting for PRBC & HRBC (LRBC already exposed)

All RBC Working Groups working on 2025+ formulas

- Property/Casualty RBC and Catastrophe Risk Working Groups
  - Working on possible wildfire inclusion
- Other RBC Working Groups did not meet

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Statutory Accounting

Effective 2024

- *SSAP Nos. 25 & 63*; Nullification of *INT 03-02*
  - Revisions address transfers of assets when modifying intercompany pooling agreements
- *SSAP Nos. 15 & 86*
  - Adoption new disclosures from ASU 2023-06

Effective January 1, 2025

- *SSAP Nos. 93, 94, 34, 48*
  - New market tax credits
  - Expands and amends *SSAP No. 93* to include all tax credit investments
  - Revisions to *SSAP No 94* provides new guidance to include both purchased state and federal tax credits
  - *SSAP Nos. 34 & 48* include consistency revisions for changes to *SSAP Nos. 93 & 94*
  - Schedule BA reporting categories will be revised

Effective January 1, 2025

- *SSAP No. 21*
  - Revision to formal residual definition, accounting and reporting guidance
  - Other SSAPs referral to *SSAP No. 21* for residual information

November National Meeting SAPWG Update

- Hearing Agenda
  - Ref #2024-11: ASU 2023-09, Improvements to Income Tax Disclosure
  - Ref #2021-17: Clearly Defined Hedging Strategy
  - Ref #2024-18: Clarification to NMTC Project
  - Ref #2024-19: ASU 2024-02, Codification Improvements, Amendments to Remove References to the Concepts Statements
  - Ref #2019-21: INT 24-01-Principles-Based Bond Definition Implementation Questions & Answers
  - Ref #2023-28: Collateral Loan Reporting – re-exposed
  - Ref #2024-16: Repack and Derivative Investments – to be rewritten

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November National Meeting
SAPWG Update

Exposed for comment

- Meeting Agenda
  - Ref #2024-20: Restricted Asset Clarification
  - Ref #2024-21: Investment Subsidiary Classification
  - Ref #2024-22: *ASU 2024-01, Scope Application of Profits Interest and Similar Awards*
  - Ref #2024-23: Derivative Premium Clarifications
  - Ref #2024-24: Medicare Part D – Prescription Payment Plan
  - Ref #2024-25: *SSAP No. 16* ASU Clarification
  - Ref #2024-26EP: Fall 2024 Editorial Revisions
  - Comment deadlines: 2024-26EP, December 9, all others January 31

Valuation of Securities Task Force

Collateralized Loan Obligations (CLOs)

- Will become part of modeling process by SSG
  - Delayed implementation until 2025
  - Modeling results will probably not be available for 2025 quarterly reporting
    - Until current-year financial modeling information becomes available, follow established designation procedures as outlined in *P&P Manual*
  - CLOs will not qualify as legacy securities
    - NAIC designation and designation category assigned by SVO <u>must be used</u>
  - CLOs that are ineligible for modeling, but are rated by CRP, fall into the filing exempt (FE) securities process (stated in *P&P Manual*)
  - CLOs not eligible for modeling and NOT rated by CRP are reported as 5.B.GI and disclosed in associated general interrogatory (stated in *P&P Manual*)

All Statements

- Revisions to *IAO Manual*
  - Clarification that NAIC designation 6* can be self-assigned
    - In lieu of reporting with appropriate documentation where documentation does not exist, and
    - Security does not meet requirements for reporting as 5.B.GI
  - Update U.S. Government agency and other U.S. Government obligation abbreviations
    - Needed because of space restrictions starting 2025
    - Some shortened; duplicates eliminated

All Statements

- Revisions to *IAO Manual*
  - Addition of Spain to list of foreign jurisdictions eligible for netting for counterparties for Schedule DB reporting
  - Adds new language limiting what investments can be reported as cash equivalents and short-term investments based on amendments to *SSAP No. 2*
  - Gives SVO and SSG discretion to review and override NAIC designations assigned through the filing exemption (FE) process
    - Effective January 1, 2026

Fall NAIC National Meeting Update

- Valuation of Securities Task Force agenda
  - Require annual reviews of regulatory transactions – adopted
  - Update credit rating provider (CRP) listing and use of CRPs – adopted
  - Further work on removing *P&P Manual* references to subscript S and references to investment risk – adopted

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Bond Project
Effective 2025

Schedule Reporting – First Quarter 2025

- Assets page – still bonds? Or other invested assets?
- Schedule BA (Parts 3 & 4 **new** reporting categories)
- Schedule D (Parts 3 & 4 **new** reporting categories)
  - Part 1B format change; division between ICOs and ABSs
- Schedule DL (Parts 1 & 2 **new** reporting categories)
- Schedule E (Part 2 **new** definitions of cash & cash equivalents; **new** reporting categories)

Transition to New Definition

- All debt securities must qualify under bond definition at 1/1/2025
  - **No** grandfathering
- At transition, make best effort of redetermination
- Assessment at time of acquisition (origination date)
  - If can't determine historical assessment, utilize current information at transition
- Once deemed to meet bond definition, future reassessments not required
  - Unless questioned by auditor or regulator
  - Changes in performance require OTTI assessment; not change in bond determination

Getting Ready for 2025 Quarterly Reporting

1. Review of 2024 year-end Schedule D – Part 1
   - Make sure all securities till qualify as a bond
   - Move any items no longer qualifying as a bond to Schedule BA
     - This step needs to be done even though Schedule D – Part 1 & Schedule BA – Part 1 are not in the quarterly statements for correct balance sheet presentation
2. Classify remaining Schedule D bonds into ICOs and ABS; and then into corresponding subcategories
   - Needed in quarterly for Schedule D – Part 1B reporting

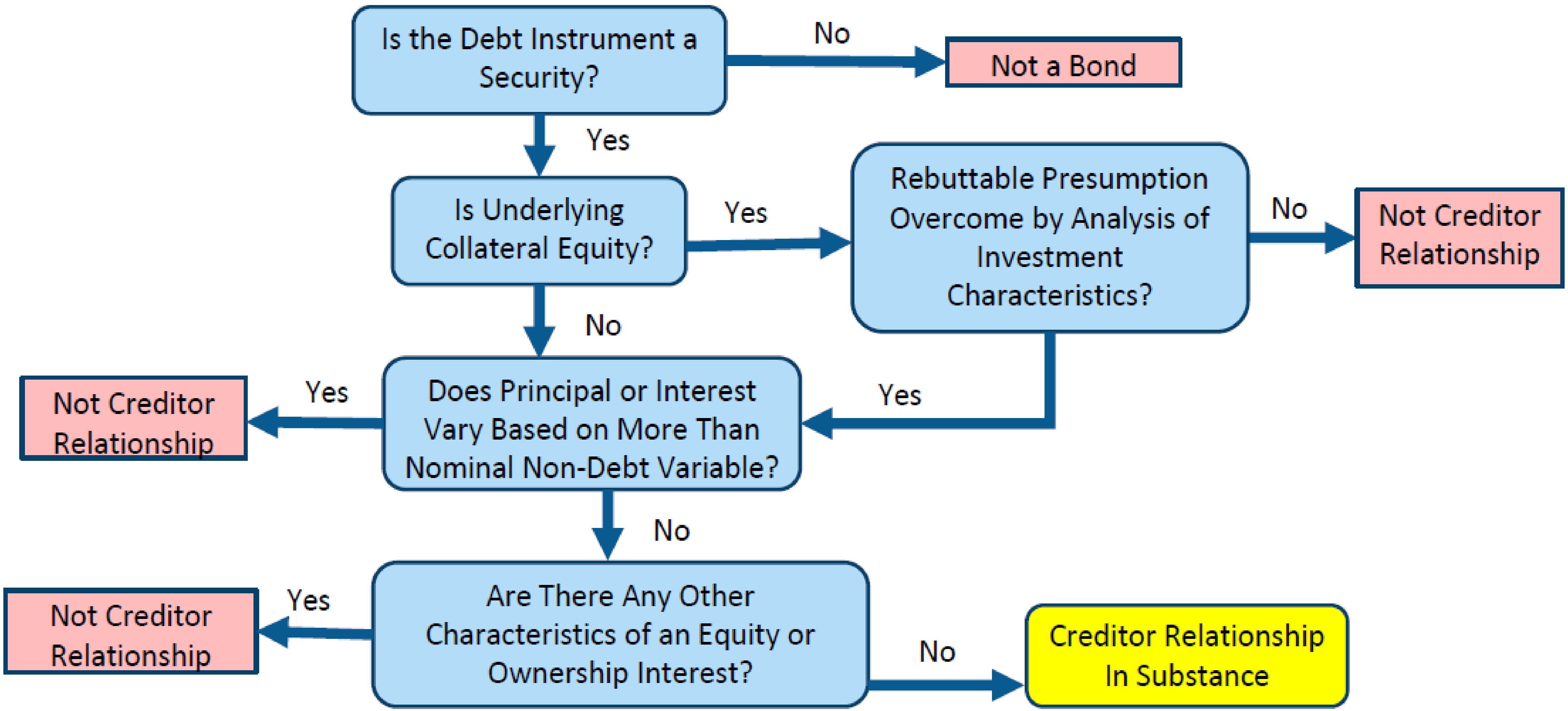
Bond Definition

- Issuer Credit Obligation (ICO) – *SSAP No. 26*
  - Issued by operating entities
  - Repayment primarily by the creditworthiness of an operating entity
  - Support consists of direct recourse or indirect recourse to operating entity
- Asset-Backed Securities (ABS) – *SSAP No. 43*
  - Issued by entities with primary purpose of raising debt capital backed by collateral that provides cash flows to service dept
  - Typically issued by SPVs, but presence or absence of SPV doesn’t make determination

Principle-Based Bond Definition

Focus is on structure not naming convention or legal form

- Must meet definition of security
  - As defined by GAAP in FASB ASC Topics 320 and 360
- If a security, then must meet further criteria to be considered a bond
  - Creditor relationship in substance (ICOs & ABS)
  - Substantive credit enhancement (ABS)
  - Meaningful cash flows (non-financial assets)



Creditor Relationship

Bond Definition

- Must represent a creditor relationship in substance
  - Applies to both ICOs and ABSs
  - Requires bond-like cash flows w/fixed schedule for one or more future payments
  - Pre-determined principal and interest payments w/ contractual amounts that do not vary based on underlying collateral value or other non-debt or variable
  - Excludes investments with equity-like characteristics or that represent ownership interest
    - Can be overcome through analysis supporting predictability of cash flows
  - Having an NAIC designation does not prove a creditor relationship

2025 Quarterly Format Revisions

Schedule D – Part 1B

For 1st quarter reporting: Col. 8 (BACV 12/31 PY) should = Col. 1 (BACV beginning current quarter)

BONDS ISSUER CREDIT OBLIGATIONS (ICO)
1. NAIC 1 (a)
2. NAIC 2 (a)
3. NAIC 3 (a)
4. NAIC 4 (a)
5. NAIC 5 (a)
6. NAIC 6 (a)
7. Total ICO

ASSET-BACKED SECURITIES (ABS)
8. NAIC 1 (a)
9. NAIC 2 (a)
10. NAIC 3 (a)
11. NAIC 4 (a)
12. NAIC 5 (a)
13. NAIC 6 (a)
14. Total ABS

PREFERRED STOCK
15 NAIC 1
16. NAIC 2
17. NAIC 3
18. NAIC 4
19. NAIC 5
20. NAIC 6
21. Total Preferred Stock
22. Total - ICO, ABS, & Preferred Stock

New Bond Reporting Categories – ICOs

U.S. Government Obligations ....
Other U.S. Government Securities ....
Non-U.S. Sovereign Jurisdiction Securities ....
Municipal Bonds – General Obligations ....
Municipal Bonds – Special Revenue ....
Project Finance Bonds Issued by Operating Entities (Unaffiliated / Affiliated) ....
Corporate Bonds (Unaffiliated / Affiliated) ....
Mandatory Convertible Bonds (Unaffiliated / Affiliated) ....
Single Entity Backed Obligations (Unaffiliated / Affiliated) ....
SVO-Identified Bond Exchange Traded Funds – Fair Value ....
SVO-Identified Bond Exchange Traded Funds – Systematic Value ....
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Unaffiliated / Affiliated).
Bank Loans – Issued (Unaffiliated / Affiliated)
Bank Loans – Acquired (Unaffiliated / Affiliated) ....
Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated / Affiliated) ....
Certificates of Deposit ....
Other Issuer Credit Obligations (Unaffiliated / Affiliated) ....

Where division between affiliated and unaffiliated, separate lines used.

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ICO Inclusions

- Not technically bonds, but are explicit inclusions under *SSAP No. 26*
  - SVO-Identified bond ETFs
    - MUST appear on SVO approved list for bond ETFs
    - Separate reporting by method of valuation; fair value vs systematic
  - Bank loans
  - Mortgage loans that qualify as SVO-Identified credit tenant loans
    - Must be approved by SVO to use this reporting category
  - Long-term certificates of deposit

ICO Inclusions

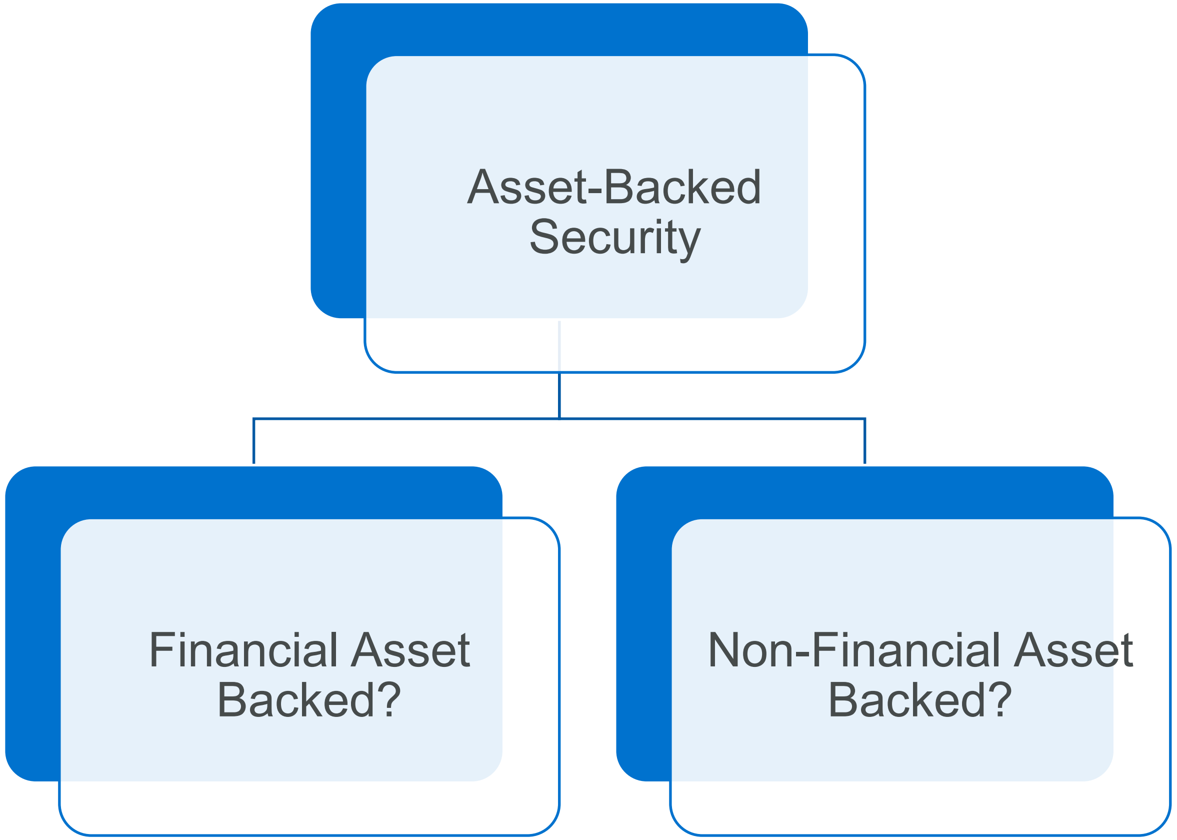
- Not technically bonds, but are explicit inclusions under *SSAP No. 26*
  - Bonds issued by funds representing operating entities (not securitization vehicle)
    - 1940-Act registered closed-end funds and business development corporations debt securities issued from the fund in accordance with permitted leverage ratios qualify as ICOs
    - Safe harbor does not extend to funds that are not SEC-registered

Bond Definition

Asset-Backed Securities (ABS)

All ABS must have substantive credit enhancement

Financial Asset-Backed?
vs.
Non-Financial Asset-Backed



Bond Definition

- Financial asset
  - Defined in *SSAP No. 103* – Transfers and Servicing of Financial Assets and Extinguishments of Liabilities
  - Remember, must have substantive credit enhancement
- Non-financial asset
  - Besides substantive credit enhancement must also have meaningful cash flows or is not a bond

New Bond Reporting Categories – ABS

Financial Asset-Backed Securities – Self-Liquidating

- Agency Residential Mortgage-Backed Securities - Guaranteed
- Agency Commercial Mortgage-Backed Securities - Guaranteed
- Agency Residential Mortgage-Backed Securities – Not Guaranteed
- Agency Commercial Mortgage-Backed Securities – Not Guaranteed
- Non-Agency Residential Mortgage-Backed Securities (Unaffiliated / Affiliated)
- Non-Agency Commercial Mortgage-Backed Securities (Unaffiliated / Affiliated)
- Non-Agency – CLOs / CBOs / CDOs (Unaffiliated / Affiliated)
- Other Financial Asset-Backed Securities - Self-Liquidating (Unaffiliated / Affiliated)

Total Financial Asset-Backed Securities - Self-Liquidating **(Unaffiliated / Affiliated)**

RMBS/CMBS/CLOs

Financial Asset-Backed Securities – Not Self-Liquidating

- Equity Backed Securities (Unaffiliated / Affiliated)
- Other Financial Asset Backed Securities – Not Self-Liquidating (Unaffiliated / Affiliated)

Total Financial Asset-Backed Securities – Not Self Liquidating (Unaffiliated / Affiliated)

CFOs/Other Equity-Backed

Non-Financial Asset Backed Securities - Practical Expedient

- Lease-Backed Securities – Practical Expedient (Unaffiliated / Affiliated)
- Other Non-Financial Asset-Backed Securities – Practical Expedient (Unaffiliated / Affiliated)

Total Non-Financial Asset-Backed Securities – Practical Expedient (Unaffiliated / Affiliated)

Non-Financial Asset-Backed – Full Analysis

- Lease-Backed Securities – Full Analysis (Unaffiliated / Affiliated)
- Other Non-Financial Asset-Backed Securities – Full Analysis (Unaffiliated / Affiliated)

Total Non-Financial Asset-Backed Securities – Full Analysis (Unaffiliated / Affiliated)

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Principles-Based Bond Definition

If does not qualify

as a bond

reported on Schedule BA

$\neq$

Getting Ready for 2025 Quarterly Reporting

- To remove bond from Schedule D – Part 1
  - “Unbook” unrealized adjustments, if any
    - Brings security back to amortized cost basis
  - Dispose of security at amortized cost (Schedule D – Part 4)
  - Purchase security at same amortized cost for Schedule BA (Schedule BA – Part 2)
    - No gain or loss on transfer
  - Book any adjustments to bring investment to correct Schedule BA value
    - No unrealized gain; only unrealized loss

1st Quarter 2025 Transition Disclosure

- NAIC suggests Note #21C – **NOT** Note #2
  - Currently no set format
  - Aggregate BACV reclassified off Sch D1
  - Aggregate BACV after reclassification off Sch D1 that resulted from change in measurement basis
    - Captures those that moved from an amortized cost to fair value approach after transfer
  - Aggregate surplus impact reclassified off Sch D1
    - Difference of BACV at 12/31/2024 and BACV at 03/31/2025
  - Only 1st quarter 2025

2025 Quarterly Format Revisions

- No changes to Verifications
- LEI column removed from all investment schedules
  - Columns had to be renumbered
- Moved ‘Investments Involving Related Parties’ to first electronic column
- Schedule BA – Parts 2 & 3
  - New reporting categories

2025 Quarterly Format Revisions

- Schedule D – Parts 3 & 4
  - New reporting categories
  - Foreign column removed from ‘printed’ format; now an electronic column
    - No change in codes to use
- Schedule DL
  - New reporting categories
  - ‘Code’ column now retitled ‘Restricted Asset Code’

2025 Quarterly Format Revision

- Schedule E – Part 1
  - ‘Code’ column now retitled ‘Restricted Asset Code’
- Schedule E – Part 2
  - ‘Code’ column now retitled ‘Restricted Asset Code’
  - ‘Rate of Interest’ column retitled ‘Stated Rate of Interest’
  - New guidance as to what can be classified as cash equivalents

2025 Quarterly Revisions

- Schedule E – Part 2 & Schedule DA
  - New definition of cash equivalents & short-term investments (SSAP No. 2)
    - **Not** reported as cash equivalents (Schedule E – Part 2) or short-term investments (Schedule DA), regardless of maturity date
      - Asset-backed securities (ABS) under scope of *SSAP No. 43*
      - All investments that would be reported in Schedule BA if long term
      - Mortgage loans in scope of *SSAP No. 37*
      - Derivatives in scope of *SSAP No. 86* and *SSAP No. 108*
      - Parent, subsidiaries, and affiliates
      - Securities that are reset at predefined dates or have other features that result in different terms than the contractual maturity

Principles-Based Bond Definition

- As of January 1, 2025
  - *SSAP No. 26 – Bonds*
    - Provides full principles-based definition of a bond
    - Includes accounting guidance for issuer credit obligation (ICO) accounting
  - *SSAP No. 43 – Asset-Backed Securities (ABS)*
    - Accounting guidance for asset-backed securities
      - Complete rewrite; review carefully
  - *SSAP No. 21 – Other Admitted Assets*
    - Accounting for debt securities that do not qualify as bonds
    - Accounting guidance for residual interests
  - Various other SSAPs updated

Areas Still Being Reviewed

- SAPWG QA document exposed for comment includes:
  - Municipals as ICOs
  - Sports Deals
  - CMBS Interest Only strips
  - Hybrid Securities
  - Assessment of Single Asset Single Borrower Commercial Mortgage Loans securitizations
  - Admittance assessment for non-bond debt securities based on underlying collateral
  - Treatment of non-contractual cash flows in determining meaningful cash flow practical expedient for non-financial ABS
  - Do synthetic or referenced pool structures within an ABS disqualify it from Schedule D – Part 2 – Section 1 reporting?

Definition Transition

- **Compliance is responsibility of the reporting entity**
  - Should be able to provide support documentation if requested by regulators
  - Investments vendors may provide help, but ultimate responsibility belongs to the reporting entity
  - SVO designations <u>do not</u> determine whether a bond or not

Definition Resources

- NAIC has a free web-based course to help prepare for the changes
  - Start on any Monday and complete within one week
  - Only free to industry through the end of 2024
  - Registration link:

  https://web.cvent.com/event/920b55bf-8d48-4cab-9bad-b584b542931b/summary
- All adopted materials are available at:

  https://content.naic.org/committees/e/statutory-accounting-principles-wg

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Federal & State Tax Update
December 11, 2024

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Today's Presenters

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Agenda

I. Key Dates & Players

II. Looking Ahead: 2024 & 2025

III. Election 2024: Possible Implications

IV. U.S. Economic Environment

V. In Brief: A Year in Review

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Key Dates & Players

Key Dates & Players – After the Election

Key Dates After the Election

- 11/12/24 – Congress back in Session
- 11/13/24 – Republicans elect leaders for House & Senate
- 12/11/24 – Appointment of Electors by States
- 12/17/24 – Electors cast their votes
- 12/20/24 – Government funding ends
- 12/25/24 – Electoral votes delivered to Congress
- 1/01/25 – Debt limit suspension ends
- 1/03/25 – 119th Congress convenes
- 1/06/25 – Congress counts the electoral votes & certifies the results
- 1/20/25 – Inauguration

Key Players After the Election

- House
  - Rep. Richard Neal (current Ranking Member on Ways & Means)
  - Rep. Jason Smith (current Chair of Ways & Means)
- Senate
  - Sen. Mike Crapo (current Ranking Member of Senate Finance Committee)
  - Sen. Ron Wyden (current Chair of Senate Finance Committee)

Key Numbers

218

60

Election 2024

Possible Implications

2024 Election Result

- Trump is President-elect
- Republicans hold 53 seats in the Senate (+4)
- Democrats hold 47 seats in the Senate (-4)
- In House,
  - Republican have won 220 seats
  - Democrats have won 214 seats
  - One undecided as of December 2

Possible Outcomes: Congress

Topic	Republican “Sweep”
TCJA & Other 2025 “Extenders”	Priority—various strategies possible for funding
Child Tax Credit	Questionable if 2024 proposed changes incorporated into legislation
174 Capitalization, 163(j) Change, 100% bonus	Bipartisan support, but 2025 priorities/funding may impact passage

Presidential Priorities—Predictions

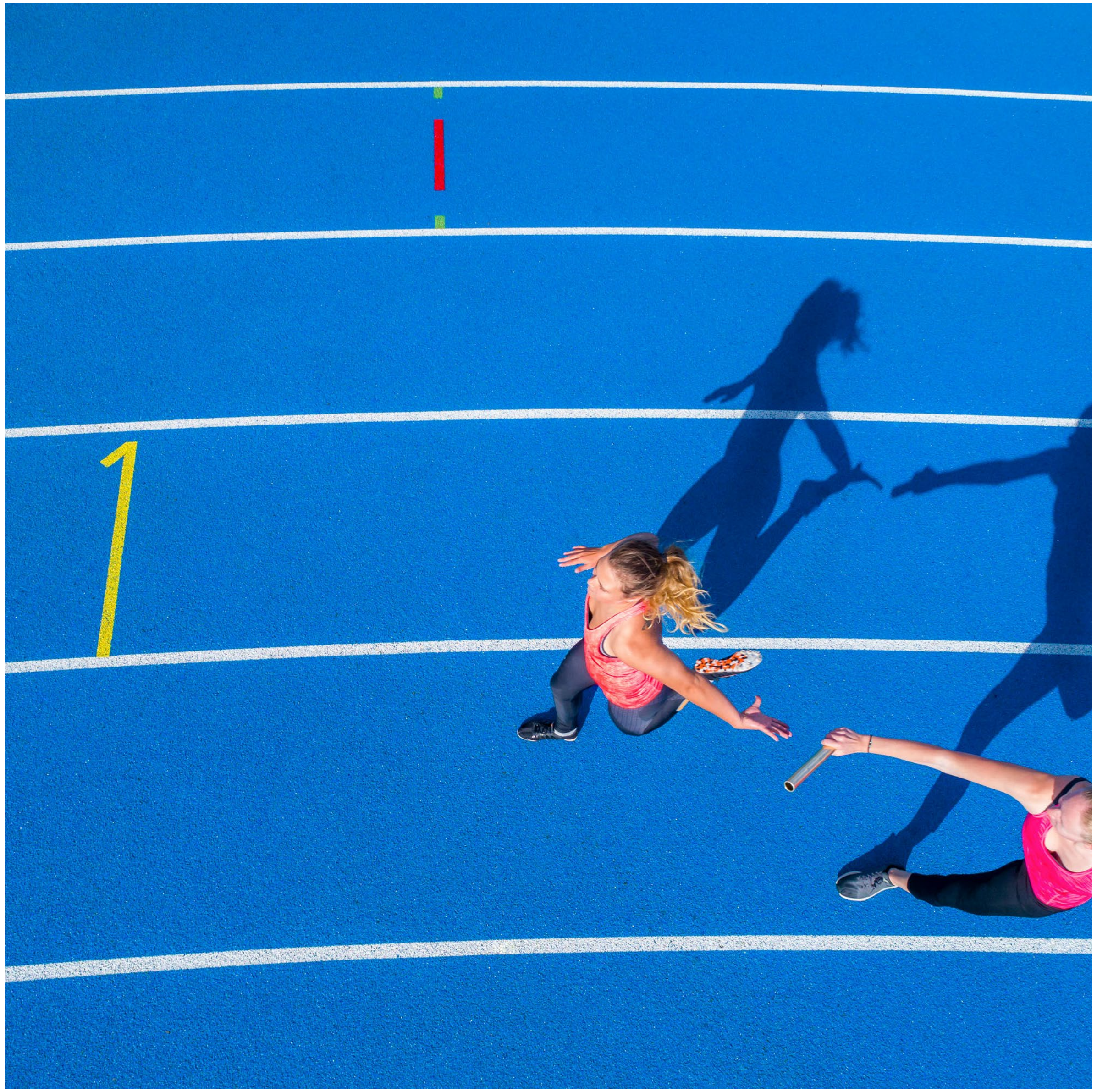
Topic	Trump
TCJA	TCJA permanence
Tariffs	Tariffs – 10% baseline on all goods, 60% Chinese
2024 Proposal	Business provisions from 2024 bill
Corporate Tax Rate	Corporate tax rate reduction to 20%, 15% for domestic manufacturers; Increase?
Housing	Developing available land, aid to first-time homebuyers
IRA	IRA at least partial repeal
Aid to Working Class	Tip taxation exemption, social security benefits exemption, overtime pay exemption, deduction for auto loan interest
Personal Tax Effects	529 savings expansion
Individual Credits	Family caregiver credits, expand child tax credit

Looking Ahead

2024 & 2025

Looking Forward to “Lame-Duck” Session & 2025

- Immediate focus will be on deadline-driven legislation
- National Defense Authorization Act
- Farm Bill (Farm Bill extension expired September 30, 2024)
- FY 2025 government funding
- January 1, 2025: debt limit suspension ends



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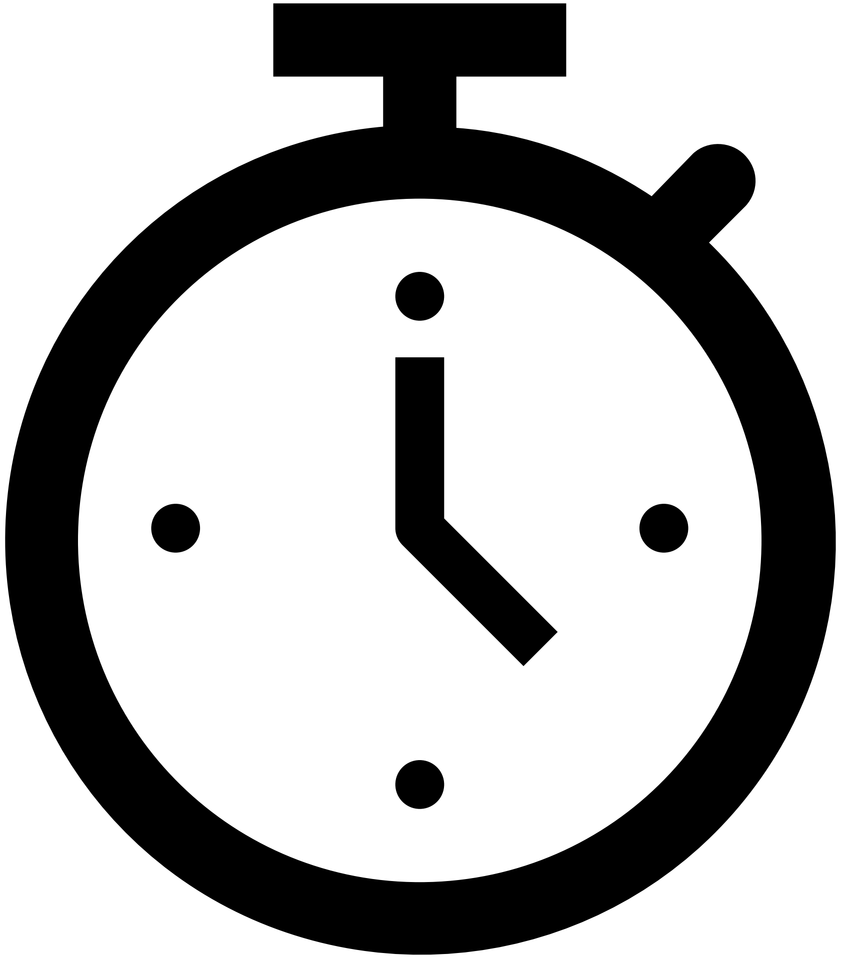
2025 Expirations

- Expirations will be the center of legislators' tax discussions in the coming year
- TCJA of 2017 individual & estate tax provisions expire on December 31, 2025
  - Extension of temporary individual/estate tax provisions vs. permanent corporate rate decrease
- 2024 Bill Provisions
- Other 2025 upcoming changes to various credits



TCJA Expirations & Impact

- With full extension, estimated deficit increase around $4 Trillion
- Without any extenders, would increase tax individuals & businesses pay
- Example: A taxpayer with income of $100,000 & a standard deduction, no action to extend TCJA provisions would result in the following according to the Tax Foundation

Filing Position	Tax Impact
Single, No Dependents	$2,623 increase
Single, 1 Dependent	$3,870 increase
Married Filing Jointly, No Dependents	$1,867 increase
Married Filing Jointly, 2 Dependents	$2,277 increase

TCJA Expirations & Impact

Topic	Current State (2024)	After Sunset
Section 199A – QBI	20% Deduction	No Deduction
Estate & Gift Tax Exemption	$13.61M/individual, $27.22M/MFJ couple	Estimated $6-7M/individual, indexed for inflation
Tax Rate Changes	○ Individual Top Rate: 37% ○ Corporate Rate: 21%	○ Individual Top Rate: 39.6% ○ *No change to corporate rate*
Personal Exemptions, Deductions, & Limitations	○ $29,200 standard deduction (MFJ) ○ $0 Personal Exemptions ○ $2,000 CTC ○ No Pease Limitation	○ Around $16,600 standard deduction (MFJ) ○ $2,000 (to be indexed for inflation) ○ $1,000 CTC ○ Pease Limitation reinstated
SALT "Cap"	$10,000 deduction "cap"	Limited by AGI with Pease limitation, but no dollar "cap"
Mortgage Interest Deductibility	$750,000 threshold (MFJ)	$1M threshold (MFJ)
Miscellaneous Itemized Deductions	Nondeductible	Deductible in excess of 2% AGI
AMT	$133,300 MFJ exemption, phase-out at $1,218,700 MFJ	$84,500 MFJ exemption, phase-out at $160,900 (to be adjusted for inflation)

Other 2025 Changes: Credits

- The following are currently only available through 2025

Name of Credit	Description	Relevant Proposals	Notes
Employer Paid Family Leave Credit (Section 45S)	% of amount paid to qualifying employees during family or medical leave	Paid Family & Medical Leave Tax Credit Extension & Enhancement Act	
New Markets Tax Credit (NMTC)	39% credit on investment in community development entities	New Markets Tax Credit Extensions Act of 2023	Proposal would: • Make NMTC permanent • Adjust NMTC to inflation • Exempt NMTC from AMT
Worker Opportunity Tax Credit (WOTC)	40% of $6,000 of wages paid to qualified individual	Improve & Enhance the Work Opportunity Tax Credit Act of 2023	Proposal would: • Increase credit to 50% • Add additional credit for EEs with > 400 hours

U.S. Economic Environment

U.S. Deficits & the Debt Burden

- Continued annual deficits
- Deficit as a percentage of GDP 7.0% to remain steady through 2034 but significantly larger than historic 50-year average of 3.7%
- Net interest as a percentage of GDP currently 3.1% to increase to 4.1% by 2034, passing all other outlays except Social Security & Medicare as early as 2025

The Budget Outlook, by Fiscal Year

	Percentage of GDP					Billions of dollars			
	Average, 1974–2023	Actual, 2023	2024	2025	2034	Actual, 2023	2024	2025	2034
Revenues	**17.3**	**16.5**	**17.2**	**17.0**	**18.0**	**4,441**	**4,890**	**5,038**	**7,459**
Individual income taxes	8.0	8.1	8.6	8.6	9.7	2,176	2,447	2,550	4,021
Payroll taxes	6.0	6.0	5.9	5.8	5.9	1,614	1,678	1,737	2,455
Corporate income taxes	1.8	1.6	1.8	1.6	1.2	420	525	490	507
Other	1.5	0.9	0.8	0.9	1.2	230	239	260	476
Outlays	**21.0**	**22.7**	**24.2**	**23.5**	**24.9**	**6,123**	**6,880**	**6,975**	**10,305**
Mandatory	11.0	13.9	14.7	13.9	15.3	3,747	4,191	4,127	6,336
Social Security	4.4	5.0	5.1	5.2	6.0	1,348	1,452	1,549	2,478
Major health care programs	3.4	5.8	5.8	5.7	6.8	1,556	1,654	1,690	2,821
Medicare	2.1	3.1	3.2	3.1	4.2	832	903	935	1,735
Medicaid, CHIP, and marketplace subsidies	1.3	2.7	2.6	2.5	2.6	724	750	755	1,086
Other mandatory	3.2	3.1	3.8	3.0	2.5	843	1,086	889	1,037
Discretionary	8.0	6.4	6.3	6.2	5.5	1,719	1,797	1,832	2,259
Defense	4.2	3.0	3.0	3.0	2.8	806	849	905	1,144
Nondefense	3.7	3.4	3.3	3.1	2.7	913	948	928	1,115
Net interest	2.1	2.4	3.1	3.4	4.1	658	892	1,016	1,710
Total deficit (-)	**-3.7**	**-6.2**	**-7.0**	**-6.5**	**-6.9**	**-1,683**	**-1,990**	**-1,938**	**-2,846**
Primary deficit (-)	-1.6	-3.8	-3.9	-3.1	-2.7	-1,024	-1,098	-922	-1,136
Debt held by the public at the end of each period	48.3	97.3	99.0	101.6	122.4	26,236	28,178	30,188	50,664

Source: CBO June 2024 Budget & Economic Outlook

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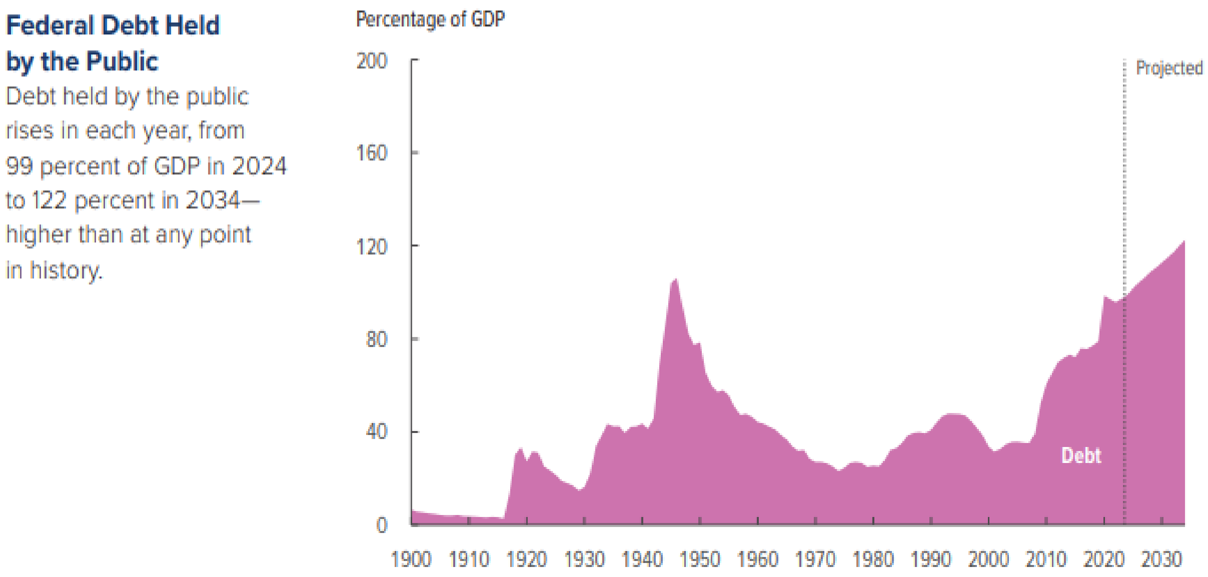
U.S. Deficits & the Debt Burden

- At the beginning of the next presidential term, the national debt held by the public is likely to total about $28 trillion
- Debt is projected to grow by an additional $7 trillion over the next presidential term & $20 trillion through the end of fiscal 2034
- If current policy continues, the debt level, which is now almost 100 percent of GDP, will exceed 200 percent of GDP by 2047



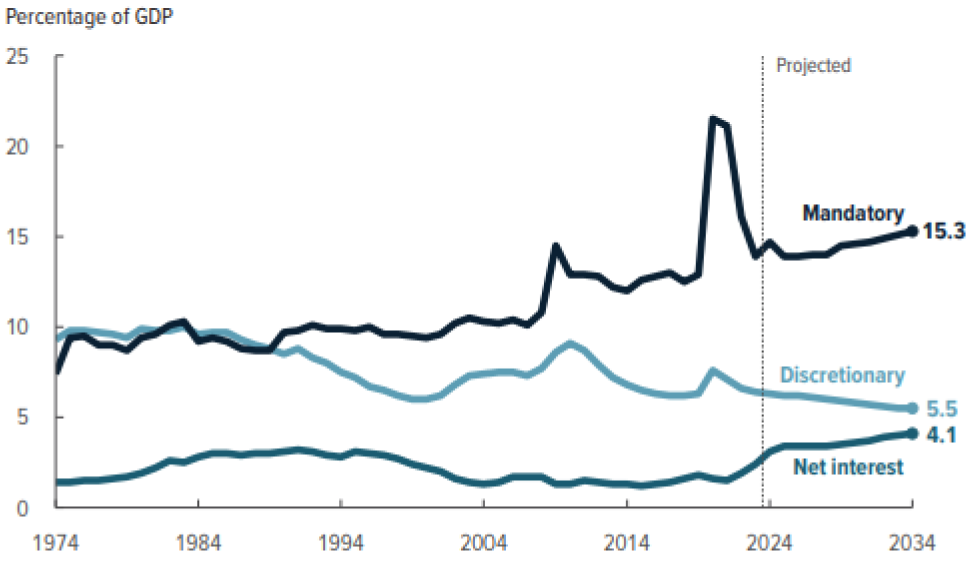
Source: Department of the Treasury, "Financial Report of the United States Government: Fiscal Year 2023," at 27 (2023)

Source: CBO June 2024 Budget & Economic Outlook

U.S. Deficits & the Debt Burden

Outlays, by Category

In CBO's projections, rising spending for Social Security and Medicare boosts mandatory outlays, discretionary spending as a share of GDP falls to historic lows, and higher interest rates and mounting debt cause net outlays for interest to increase. Beginning in 2025, interest costs are greater in relation to GDP than at any point since at least 1940 (the first year for which the Office of Management and Budget reports such data) and exceed outlays for defense and outlays for nondefense programs and activities.



Source: CBO June 2024 Budget & Economic Outlook

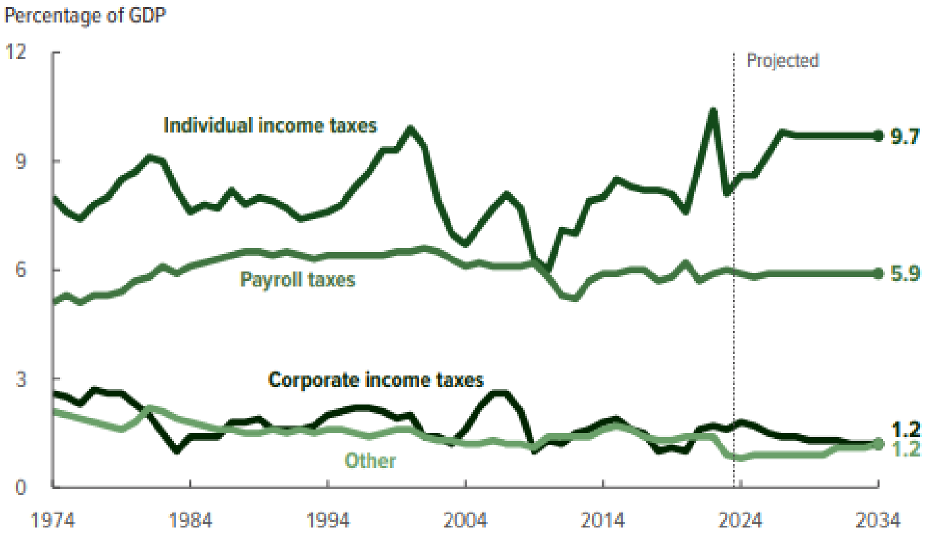
"We estimate that paying off the debt over the ten-year budget window between FY 2026 and FY 2035 would require cutting spending by about 60 percent — which would lead to $44 trillion of primary spending cuts and an additional $7 trillion of resulting interest savings. This would be the equivalent of eliminating Social Security, Medicare, Medicaid, and food stamps or eliminating all spending besides defense and Social Security."

Committee for a Responsible Federal Budget (CRFB) blog – February 28, 2024

U.S. Deficits & the Debt Burden

Revenues, by Category

Receipts from individual income taxes fell sharply in 2023, from a historic high in 2022—in part because capital gains from sales of assets were smaller and because the Internal Revenue Service postponed some tax payment deadlines. In CBO's projections, revenues rise in 2024 as those delayed payments are made. They rise again in 2026 and 2027, following the scheduled expiration of certain provisions of the 2017 tax act. After 2027, revenues change little as a percentage of GDP.



Source: CBO June 2024 Budget & Economic Outlook

Unlikely to pay off the debt by the end of the next presidential term without large accompanying tax increases.

	As a percentage of GDP													
Revenues														
Individual income taxes	8.1	8.6	8.6	9.2	9.8	9.7	9.7	9.7	9.7	9.7	9.7	9.7	9.4	9.6
Payroll taxes	6.0	5.9	5.8	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Corporate income taxes	1.6	1.8	1.6	1.5	1.4	1.4	1.3	1.3	1.3	1.2	1.2	1.2	1.5	1.3
Other[a]	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9	1.1	1.1	1.1	1.2	0.9	1.0
Total	**16.5**	**17.2**	**17.0**	**17.5**	**18.0**	**17.9**	**17.9**	**17.8**	**18.0**	**18.0**	**18.0**	**18.0**	**17.7**	**17.8**
On-budget	12.0	12.8	12.6	13.1	13.7	13.6	13.5	13.5	13.6	13.6	13.6	13.7	13.3	13.5
Off-budget[b]	4.4	4.3	4.3	4.3	4.4	4.4	4.4	4.4	4.4	4.4	4.3	4.3	4.3	4.4

Forward Reflection

What implications can be drawn from existing & proposed legislation viewed in light of the current Budget & Economic Outlook projections?

In Brief: A Year in Review

Key Proposals, Cases, & Other Items From 2024

2024 Tax Proposal

- The Tax Relief for American Families & Workers Act of 2024 (“the Bill”)
  - “The Big Three”
    - §174 deductions for R&D expenditures – U.S. sourced SREs only
    - §163(j) allowance for depreciation, amortization, or depletion to calculate limitation
    - 100% bonus depreciation
  - Child Tax Credit expansion
  - Other:
    - §179 expansion
    - Low-Income Housing Tax Credit changes
    - Assistance for disaster-impacted communities
    - U.S.-Taiwan taxation relief

ERC & “Funding” the Bill

- The bill presented as being “financed” by early termination of Employee Retention Tax Credit (ERTC)
  - Original “moratorium”: September 14, 2023
  - Proposed: January 31, 2024 cutoff date for new claims
  - Controversy about ERTC false claims garners bipartisan support for cutoff
  - Some Republican pushback about ERTC being “legitimate” funding
- Current state:
  - Analyzing risk profiles of current submissions
  - Automatically denying high-risk claims (for example, no wages present)
  - With Bill waning, ERC “cutoff” methodology up in the air

Major Cases of 2024: *Moore* & Overturn of *Chevron*

Moore v. United States

- Challenging constitutionality of Mandatory Repatriation Tax (MRT)
  - Core issue: Does the 16^{th} Amendment authorize Congress to tax unrealized income?
  - Extrapolations/theories about whether this could negate the concepts of flow-through entity taxation
- Ruling narrow, against the Moores: “This decision [does not] attempt to resolve the parties’ disagreement over whether realization is a constitutional requirement for an income tax.”

Loper Bright Enterprises v. Raimondo

- Overturn of the “Chevron doctrine”
  - Allowed federal agency’s interpretation of a statute to receive deference from the courts
- Courts now play greater role in interpreting & implementing law
- Potential for more challenges to regulations (although costly & time consuming)

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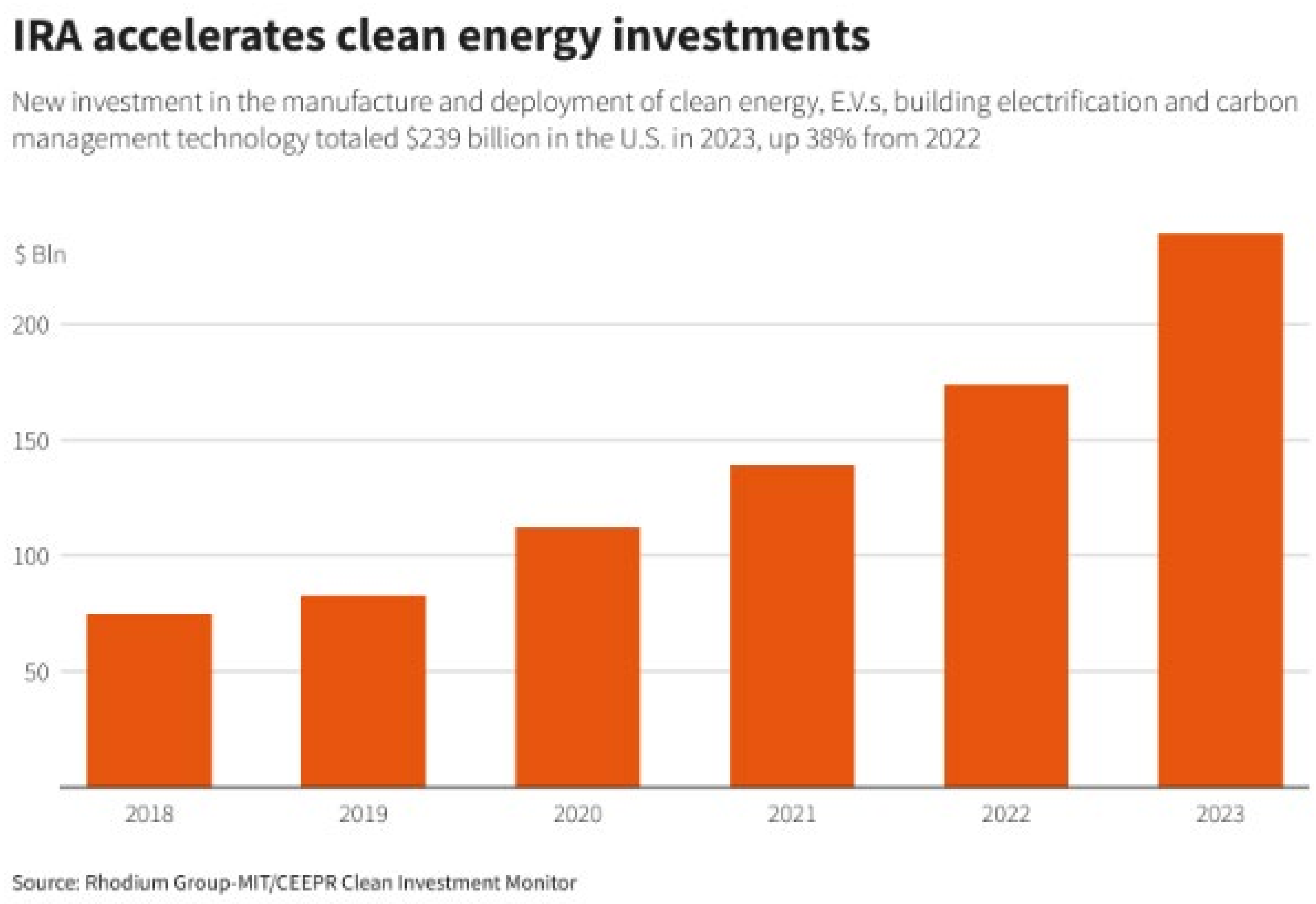
Effects of IRA

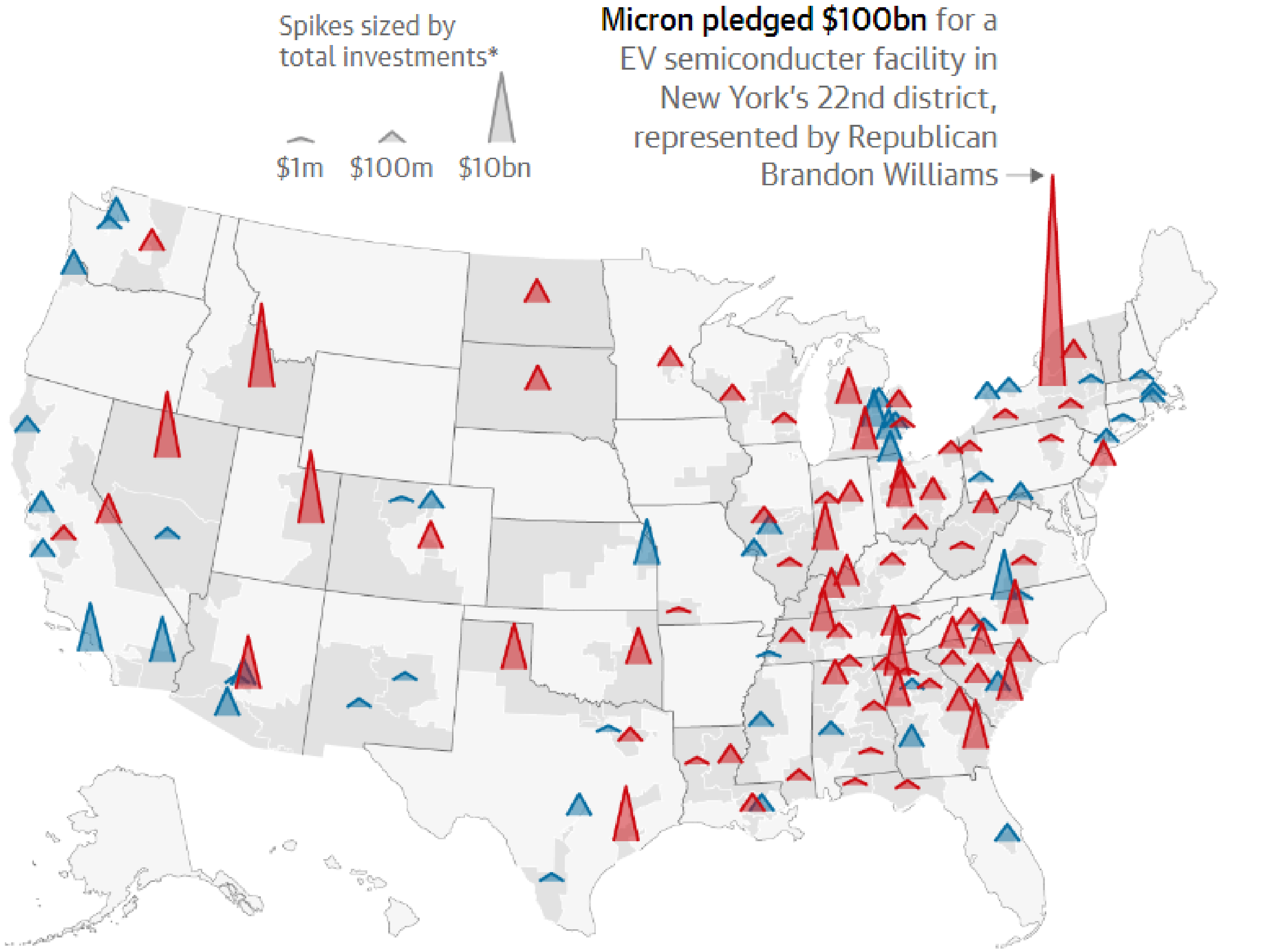


Source: https://www.reuters.com/sustainability/climate-energy/us-climate-law-has-boosted-solar-batteries-hydrogen-other-initiatives-lag-2024-04-02/

Future of the IRA

- Republican-led rhetoric for at least partial IRA repeal to “fund” TCJA extenders & other priorities
  - EVs & related credits focus of this discussion
  - Historical credits (ITCs/PTCs) considered in industry as generally “safe”
- Reality of rhetoric vs. “red” states benefitting from IRA
  - Highlighted in 2024 State of the Union address

Most private clean energy investments have been in Republican-led districts



US congressional districts	Private clean energy investments	Jobs pledged
92 Republican-led	$225bn	96,200
61 Democratic-led	$38bn	64,400

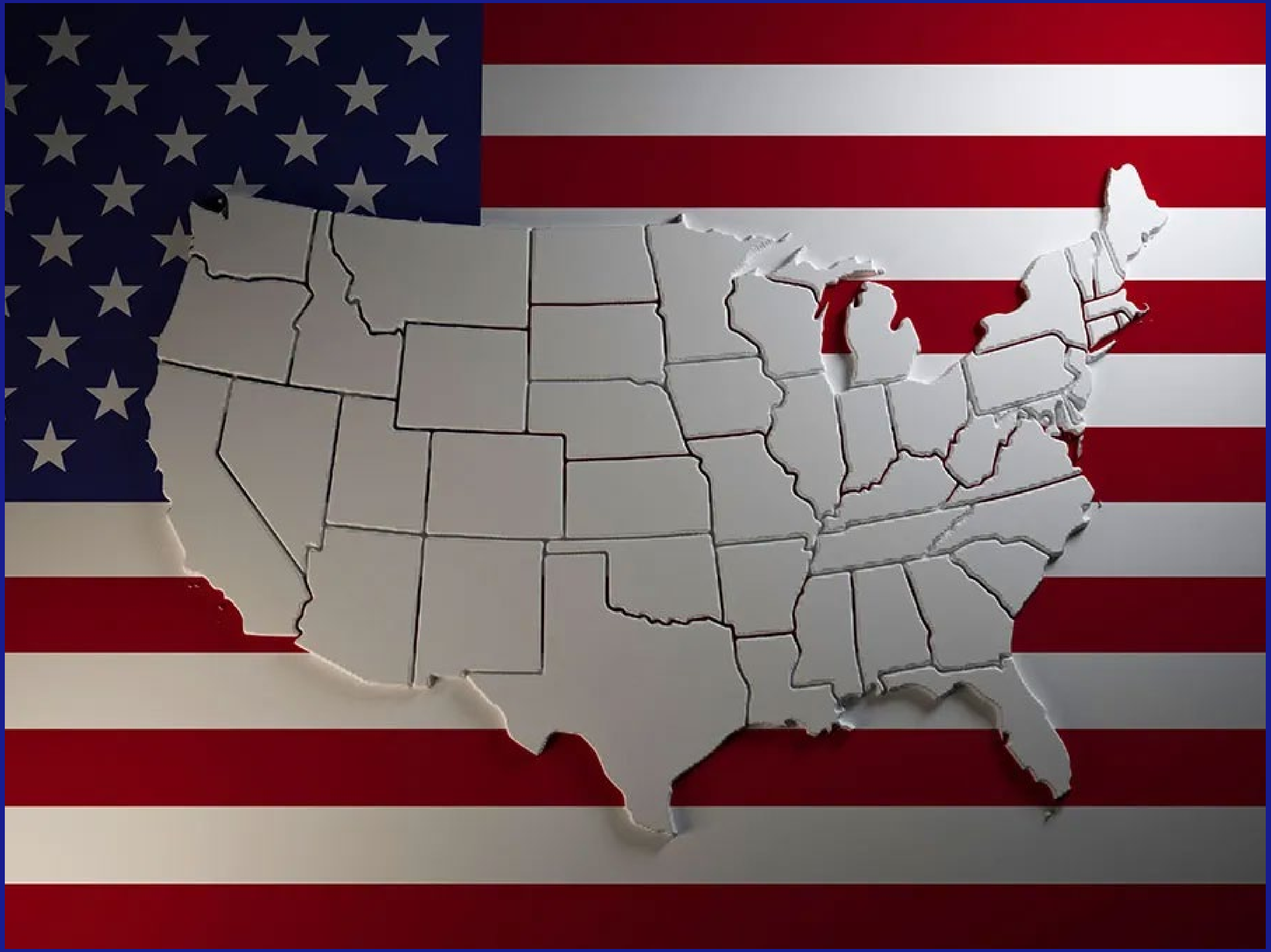
Guardian graphic. Source: Climate Power analysis of public anouncements between 16 August 2022 and 25 July 2023. *Some districts' investment totals were unavailable.

IRA Update

- Proposed & final regulations, notices, & other guidance continue
- Relevant dates & deadlines for 2025

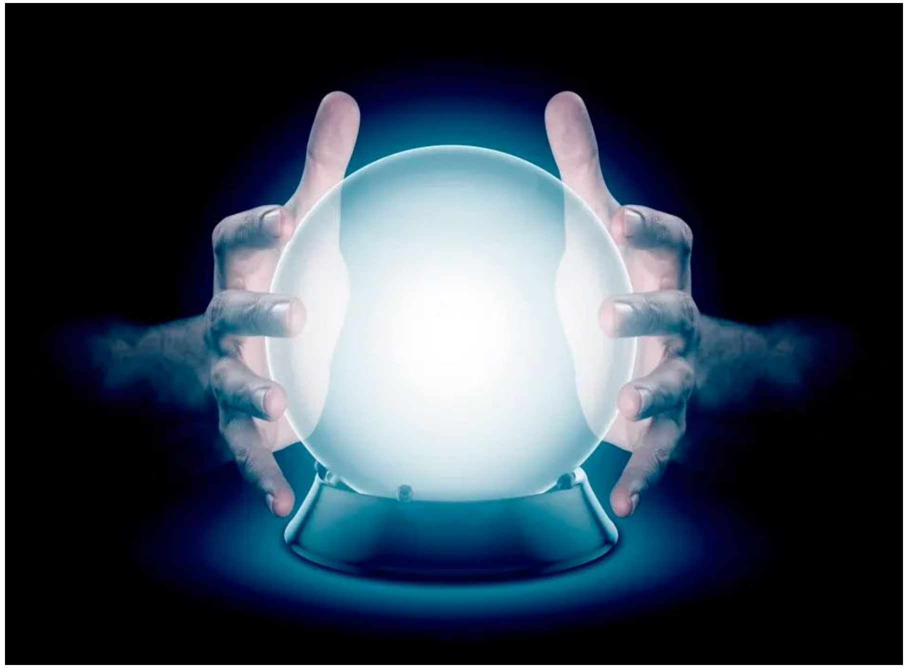
Credit Section	Description
48E/45Y	New ITC/PTC "replace" current credits, new greenhouse gas emissions requirements
48/45	Reduction in credit possible if elect direct pay & domestic content not met
30D	Credit reduction for EVs PIS in 2024 with foreign entity of concern (FEOC) battery components & 2025 with FEOC critical minerals
25C	Product identification # requirement effective for PIS property in 2025
45L	Different Energy Star Program Requirements for dwelling units acquired after 12/31/24
	*Variety of fuel-related credit changes present as well

State & Local Tax Developments



State of the States – 2025 Forecast

- State revenue growth is slowing
  - Federal stimulus continues to wind down
  - All eyes on Washington, D.C. for trickle down tax impacts
  - State premium tax continues to be a strong & steady 2.8% of total state tax revenues
- Tax cuts & incentives trend will continue
  - Since 2021, all states other than Alaska & Nevada have made some form of tax cut
  - For 2024, 28 states proposed/passed tax credit provisions applicable to the insurance industry
- Natural disaster mitigation
  - Fire, flood, & wind assessments to increase
  - Florida continues to be a problem



2024 SALT Trends – Remote Employees

- Issues/considerations
  - Nexus issues
  - Withholding issues
  - Employee income taxes
- Developments
  - Indiana Letter of Findings 01-20232204 – The DOR confirmed that the wages of a Kentucky resident working remotely for an Indiana employer were not subject to Indiana county income tax because the greater percentage of gross income was derived from Kentucky & not Indiana (06/04/2024)
  - *Sakowski v. Massachusetts Commissioner of Revenue*, Appellate Tax Board (Massachusetts), No. C347594, 07/08/2024, a Massachusetts personal income taxpayer employed by a Massachusetts federal agency was not allowed to claim a personal income tax refund as the taxpayer did not work physically in the state during the coronavirus pandemic
  - *Boles v. St. Louis*, Mo. Ct. App. E.D., ED111495, 05/28/2024, held that nonresident teleworkers for St. Louis-based companies are entitled to earnings tax refunds because a city ordinance is clear & unambiguous that the tax only applies to work done within the city's boundaries

2024 SALT Trends – Remote Employees

- Developments (continued)
  - *Matter of Bryant*, DTA No. 830818, 09/12/2024, the New York Division of Tax Appeals (DTA) ruled that, under the New York State convenience of the employer rule, a New Jersey resident working from home for his New York employer after the start of the COVID-19 emergency owed New York income tax for all wages he was paid in 2020, including those earned for services performed in New Jersey
  - *Schaad v. Alder*, Ohio, No. 2022-316, 02/14/2024, the Ohio Supreme Court upheld the temporary authority of the General Assembly to permit the imposition of local income taxes on telecommuters working for in-city employers during the COVID-19 pandemic
  - *Price v. City of Cincinnati*, Ohio Board of Tax Appeals, No. 2021-2679, 04/22/2024, the Ohio Board of Tax Appeals has held that a city can assess income tax liability to a non-resident employee for work performed outside of a city under H.B. 197, Laws 2020
  - *Zilka v. Tax Review Board City of Philadelphia*, Pa., Pa., No. 20 EAP 2022, 11/22/2023, the Supreme Court of Pennsylvania rejected Philadelphia resident Diane Zilka's argument that the city owes her a refund of some of the city & state income taxes she paid while working in Delaware

2024 SALT Trends – Sales Tax

- Growing trend of class action litigation against insurers & their claim practices for totaled vehicles
- Developments
  - *Malcom v. GEICO Indemnity Co.,* M.D. Ga., No. 5:20-cv-00165, 06/10/2024
    - Set final approval to a $5.1 million settlement agreement between GEICO Indemnity Co. & Georgia policyholders, concluding a suit accusing the insurance company of not fully covering the replacement costs of taxes assessed on vehicle purchases
    - The agreement requires GEICO to make full TAVT payments based on the state-mandated calculation
  - *Lewis v. GEICO*, 3d Cir., No. 22-03449, 04/15/2024
    - The Lewis' didn't have standing to sue GEICO alleging that the insurer's condition-adjusted car valuation harmed them, because the company ultimately paid them more than the value of that alleged harm
    - However, the lower court properly certified a class of New Jersey GEICO customers over its prior policy of not paying taxes & fees to leases when their vehicles were totaled

2024 SALT Trends – Sales Tax

- Developments (continued)
  - *Marcelletti v. GEICO Gen. Ins. Co.,* W.D.N.Y., No. 6:23-CV-06211 EAW, 03/13/2024
    - A proposed class action accusing GEICO of breach of contract will proceed because it couldn't refute a customer's claim that his insurance policy covers sales tax on leased totaled vehicles
  - *Esurance Property and Casualty Insurance Co.,* E.D.N.Y., No. 1:2024-CV-00955, filed in February in the Eastern District of New York
    - Similar to above
  - *Taylor v. Root Ins. Co*., 5th Cir., No. 23-50667, 07/24/2024
    - The US Court of Appeals for the Fifth Circuit held that the auto insurance carrier didn't have to pay the equivalent of sales tax on a vehicle loss, as the language in the policy only required Root Insurance Co. to pay applicable sales tax, & there was no tax applicable to the loss
    - A total-loss settlement isn't considered a sale under Texas state law, so there was no applicable sales tax & "actual cash value" under Texas law doesn't include the taxes & fees for the purchase of a replacement vehicle

2024 Key SALT Developments

- Florida H.B. 7073
  - Requires insurance companies to provide a 1.75% discount on policies covering flood or residential coverage, as well as a discount for the amount of any respective fire marshal tax on homeowner's policies
  - The discounts apply to policies with coverage for a 12-month period with an effective date on or after October 1, 2024, & no later than September 30, 2025
  - The policyholder discount is recouped through a premium tax credit & excess credit is refunded
  - Passed, effective 07/01/2024

- *State Farm Mut. Auto. Ins. Co. v. Dept of Revenue*, Fla. Dist. Ct. App., 1st Dist., No. 1D2021-2793, 01/17/2024
  - The Florida First District Court of Appeal held that the DOR was correct in excluding the proration addback in IRC § 832 for purposes of determining the addback for tax-exempt interest
  - The DOR position is that IRC § 103 & FS § 220.13 do not contain any reference to IRC § 832, so no deduction is permitted

2024 Key SALT Developments

- Illinois H.B. 4951
  - A budget-related tax package bill included a revisions to cap corporate income tax net operating loss carryover deductions at $500,000, effective for tax years ending on or after December 31, 2024, & before December 31, 2027
  - Passed, effective 06/07/2024 & as noted

- Massachusetts 830 CMR 62C.8.2
  - Proposed regulation would require motor vehicle insurers who make a payment pursuant to a motor vehicle insurance policy to a motor vehicle repair shop for the servicing or repair of a motor vehicle in Massachusetts during a calendar year to file an annual information return with the Commissioner & furnish a copy to the motor vehicle repair shop
  - Such information returns must report all such payments made to motor vehicle repair shops, & include, among other requirements, identifying information about the motor vehicle repair shop & the amounts attributable to sales & use tax
  - The reporting would be effective beginning with payments made on or after January 1, 2024

2024 Key SALT Developments

- *Nationwide Agribusiness Ins. Co. v. Mich. Dept of Treasury*, Mich. Ct. App., No. 364790, 06/20/2024
  - The Michigan Court of Appeals reversed the tax tribunal's ruling & sided with Nationwide Agribusiness Insurance Co. to permit the insurer & its affiliated groups to file combined insurance tax returns to take advantage of certain tax credits
  - The Michigan Treasury Department filed an appeal on September 24 with the Michigan Supreme Court level

- *North Carolina Farm Bureau Insurance Company, Inc. v. NCDOR*, No. 20 CVS 10244 (Wake County), 04/03/2023
  - This case from 2023 restored the renewable energy property credits purchased through partnership investments that the DOR had disallowed
  - The Department appealed to the state supreme court, but the parties jointly requested to dismiss appeal as approved on 03/21/2024

2024 Key SALT Developments

- Oregon Initiative Petition 2024-17 (IP-17 / Ballot Measure 118)
  - Would impose a new, additional 3% minimum tax on corporations with gross sales exceeding $25 million starting in 2025 if approved by voters
  - Proceeds from the new minimum tax would be earmarked to provide additional rebates to individual taxpayers in Oregon
  - Defeated on the November 5, 2024 general ballot

Contact

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Thank you!

2024 Insurance Virtual Seminar

How AI is Shaping the Financial Services Industry

Denny Ard, December 11-12, 2024

Agenda

1. Introduction and Welcome
2. Basics of AI
3. Current Trends in AI, and Relevance to the Insurance Industry
4. AI Use Cases in Insurance
5. Challenges and Opportunities
6. Closing

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01

Introduction and Welcome

Session Objectives

1. Understand the basics of AI
2. Learn about general AI trends, including the drive by senior leadership to implement it as well as potential implications in the Insurance sector
3. Review impactful AI use cases within the Insurance sector
4. Discuss the challenges and opportunities related to implementing AI in the Insurance sector
5. Know where to go with your AI-related ideas

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Meet the Presenter

Denny Ard

Partner/National Director of EDGE, Charlotte

704.367.5929

denny.ard@us.forvismazars.com

Denny is the Partner leading EDGE – The Innovation Lab of Forvis Mazars US, which focuses on the incubation, development, and deployment of high value, relevant solutions for clients in today's rapidly changing business environment. In addition, EDGE aims for increased efficiencies in the delivery of assurance, tax, and consulting services, as well as creating enhanced client experiences and satisfaction. Furthermore, an important mission of EDGE is to cultivate a solutions-oriented culture throughout the firm. Denny is leading that charge by collaborating with industry experts to create a new mindset and to recognize innovative behaviors across the Forvis Mazars landscape. Using his years of hands-on client experience, technical knowledge, creative thinking, and problem-solving abilities, Denny is uniquely qualified to inspire and lead innovation efforts within Forvis Mazars.

Prior to EDGE, he led the firm's Assurance Innovation and Methodology Group. His strategic vision and leadership played an instrumental role in the firm's decision to develop a proprietary assurance methodology and invest in the research and development of innovative technologies to modernize the assurance practice. Due to Denny's innovative mindset and thoughtful execution, the firm has transformed their assurance methodology and built the foundation for the assurance practice of the future.

Denny has more than 24 years of public accounting experience serving both public and private companies in a variety of industries. This experience includes 14 years of client service in the assurance practice (more than six years with an international firm) and two years with the firm's Professional Standards Group.

02

Basics of AI

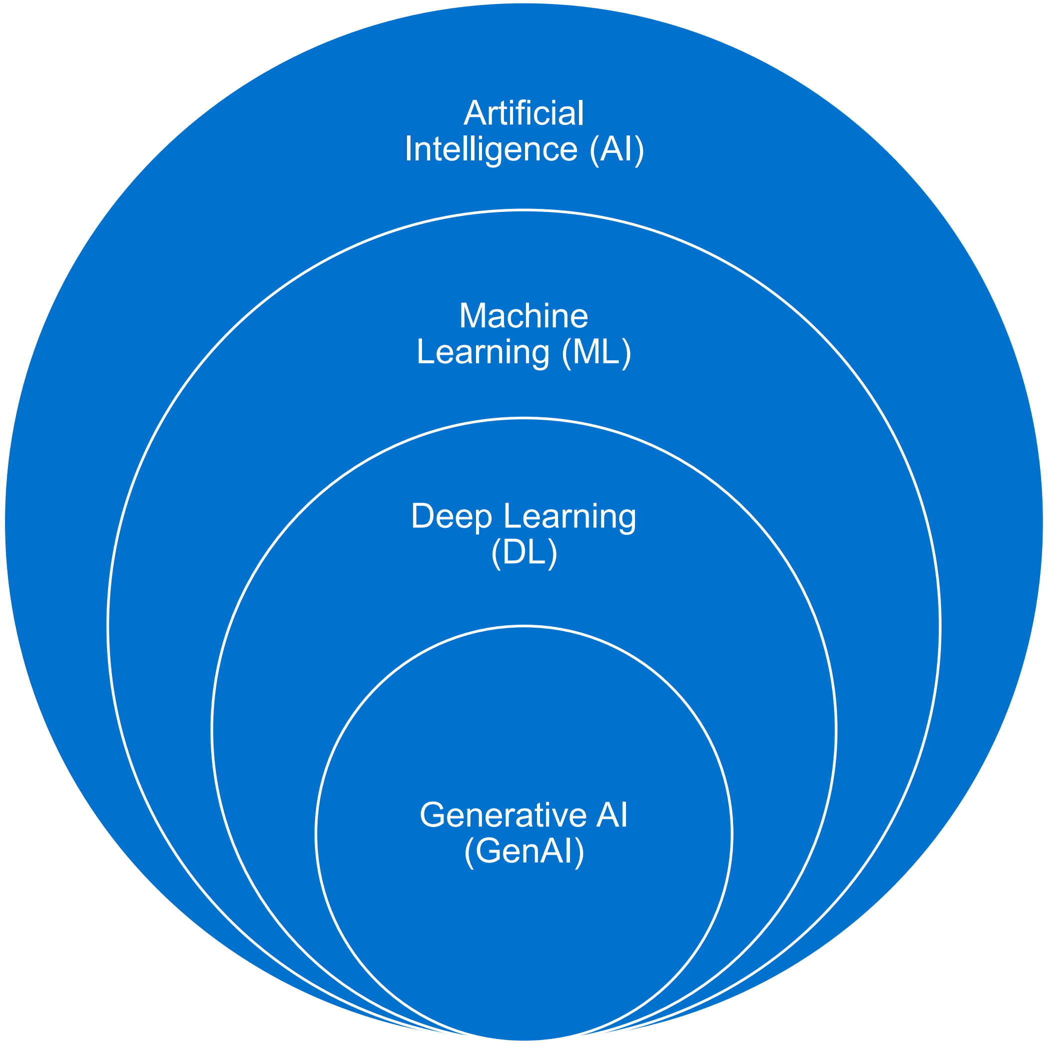
AI in Everyday life

Virtual Assistants

Social & Entertainment

Other

AI Overview – Demystifying the Tech



Artificial Intelligence (AI) – the broad concept of enabling a machine to sense, reason, act, or adapt like a human

Machine Learning (ML) – a subset of AI focused on the concept of machines learning from data, identifying patterns and making predictions, ex: P&C Co. Auto Risk Rating, based on predictive analytics through modeling

Deep Learning (DL) – a subset of ML that uses human-like neural networks to model complex patterns in data to solve problems, ex: P&C Co. digitally processing and analyzing damage claims based solely on photos

Generative AI (GenAI) – a category within AI that uses DL to generate new content ex: P&C Co. uses GenAI to build customizable chatbot experiences.

The Impact of AI

Prompt: "Write a funny poem about a CPA accountant who falls in love with Excel"

In a world of numbers, neat and precise,
Lived a CPA, whose heart was like ice.

But one fateful day, in a cubicle cell,
They met their true love, a program called Excel.

Rows and columns, oh what a sight,
Formulas and functions, pure delight.

Pivot tables and charts, so grand,
Together they'd conquer, hand in hand.

Late nights they'd spend, just the two,
Balancing books, making dreams come true.

With every click and every cell,
Their love for numbers began to swell.

Friends would laugh, and bosses would tease,
"You're in love with software, oh please!"

But the CPA knew, deep in their heart,
Excel was their soulmate, never to part.

So here's to the love, so unique and rare,
Between a CPA and software, beyond compare.

In the world of finance, where numbers excel,
A love story unfolds, with a program called Excel.

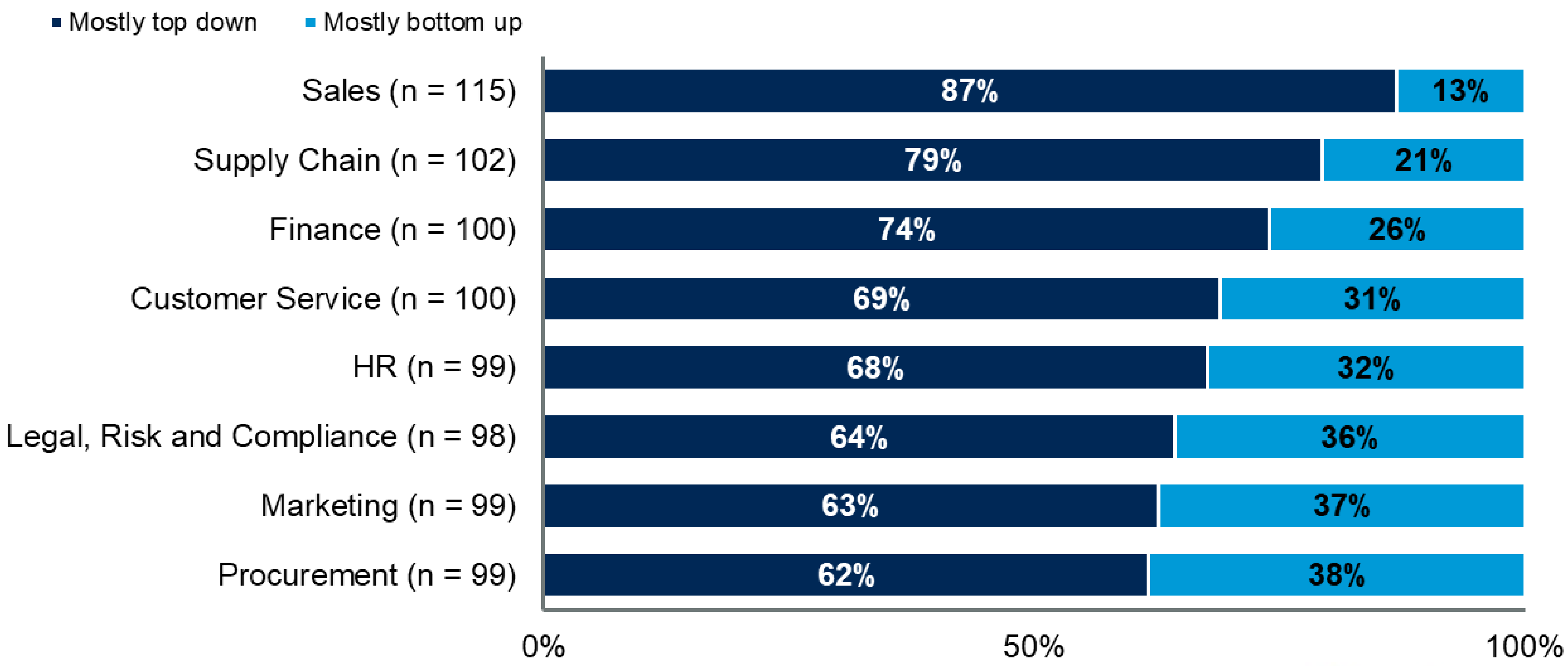
03

Current Trends in AI and Relevance to the Insurance Industry

Current Trends in AI

Push to implement generative AI is coming primarily from the CEO/C-suite or a steering committee

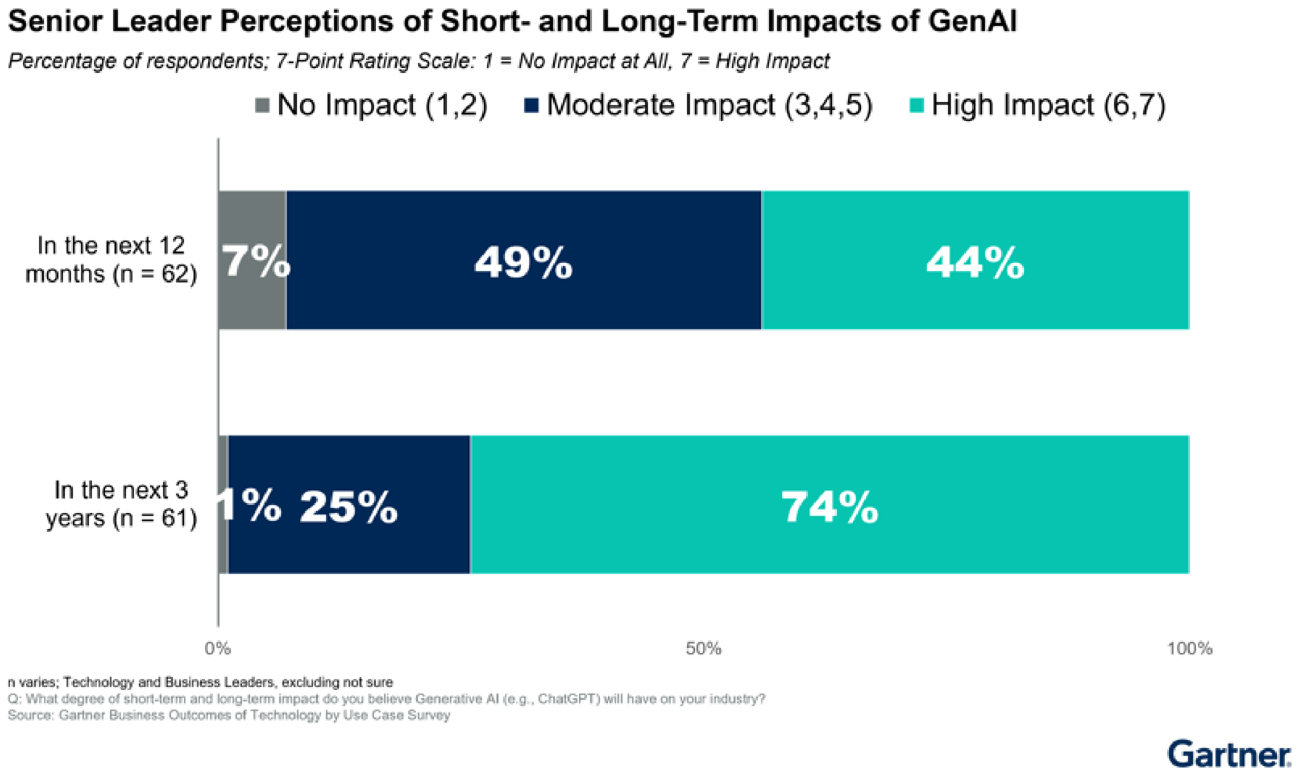
Mostly Top-Down (coming primarily from the CEO/C-suite or a steering committee) vs.
Mostly Bottom-Up (organically developing within each siloed business function) Push for Generative AI



n varies, all respondents, excluding "don't know"
Q: Who is driving the push to implement generative AI within your company?
Source: 2024 Gartner Generative AI Planning Survey

Current Trends in AI

Senior Leader Perceptions of Short- and Long-Term Impacts of GenAI



[Related Gartner Research]()

RESTRICTED DISTRIBUTION

Relevance of AI in Financial Services

AI is transforming the financial services industry by leveraging technology to drive innovation, create efficiencies, and improve customer experiences.

43%

Financial services companies are already using GenAI in their organizations (NVIDIA 2024 survey)

$200-$340B

Value GenAI could add largely through increased productivity (McKinsey Global Institute – March 2024)

75%

Financial services companies are achieving or exceeding their expected value with GenAI (Bain & Company – June 2024)

$35B-$97B

The industry’s AI spend is projected to rise from $35B in 2023 to $97B by 2027 (Forbes – October 2024)

04

AI Use Cases in Insurance

Generative AI – AI Use Cases

Customer facing functions & experiences

Customer Service
Empower customers to find contextualized information

Marketing
Personalize experiences based on services available.

Content Creation
Create, translate unique content

Knowledge Worker
Reduce information and administration burden providing relevant information

HR, Finance, & Supply Chain

HR Automation
Reduce manual work and automate recruiting, onboarding, and supporting.

Supply Chain
Automate source to pay processes, reduce cycle times

Planning & Analysis
Intelligent BI providing faster insights

Regulatory Compliance
Automate and personalize regulatory information and updates

IT, Development, & Operations

App Modernize & Migrate
Generate, update, and migrate code

IT Automation
Automate self-service, identify root cause, correlate issues.

AI Ops
Instant detection and correlation of issues pertaining to ecosystem

Data Platform Engineering
Redesigning data integration

Core Business Operations

Threat Management
Provide clearer insights to analysts reducing time to respond

Asset Management
Automate asset mgt across deployed assets

Product Development
Expedite through ideation and process refinement

Environmental Intelligence
Provide contextualized impact information based on statistical models

Current Use Cases within Insurance Industry

AI is transforming the insurance industry in several significant ways:

Underwriting & Risk Assessment

- AI algorithms analyze vast amounts of data to assess risk more accurately and efficiently. This helps insurers set premiums that better reflect the risk profile of individual policyholders.

Claims Processing

- AI streamlines the claims process by automating routine data entry and document verification. This speeds up the processing time and improves accuracy, leading to faster payouts for policyholders.

Predictive Analytics

- AI uses predictive models to forecast future trends and behavior. This helps with strategic plan and decision-making.

Fraud Detection

- AI systems can identify patterns and anomalies that may indicate fraudulent activity, by analyzing claims data, AI can flag suspicious claims for further investigation, reducing the incidence of fraud.

Customer Service

- AI-powered chatbots provide 24/7 customer support, answering queries, and guiding customers through the claims process. This enhances customer satisfaction by providing quick and accurate responses.

Generative AI

- Recent trends involve using Gen AI technology to analyze photos of damage trained on data. This can significantly reduce the time and cost associated with claims processing.

References
[1] AI in The Insurance Market: Stats & Facts for 2024-2028 – Binariks - [2] 2024 GenAI insurance trends – PwC - [3] 2024 AI Trends Reshaping Insurance Operations - [4] AI Insurance: The Impact of AI on The Insurance Industry In 2024

05

Challenges and Opportunities

Current Insurance Industry Challenges

Data Quality and Integration

- Insurers often deal with fragmented and inconsistent data from various sources. Ensuring high-quality, clean, and integrated data is crucial for AI systems to function effectively.

Legacy Systems

- Many insurance companies still rely on outdated legacy systems, which can be difficult to integrate with new AI technologies. Modernizing these systems is often a slow and costly process.

Operational Bottlenecks

- Implementing AI can be time-consuming, with some companies taking several months to deploy new AI models or update existing ones. This can slow down the overall modernization process'.

Regulatory Compliance

- The insurance industry is heavily regulated, and AI systems must comply. Ensuring that AI models are transparent, explainable, and auditable is essential to meet regulatory standards.

Security and Privacy

- AI systems handle vast amounts of sensitive data, making them targets for cyberattacks. Ensuring robust security measures to protect data and maintain customer trust is a significant challenge.

Cost and Expertise

- Developing and maintaining AI systems can be expensive, and there is often a shortage of skilled professionals who can design, implement, and manage these technologies.

References
[1] AI in The Insurance Market: Stats & Facts for 2024-2028 – Binariks - [2] Report: AI adoption expanding in insurance, but challenges remain
- 3] The Risks and Impact of AI in insurance – IBM - [4] Implementing AI in insurance: Four strategies for overcoming common …

Insurance Industry Opportunities

Enhanced Underwriting

- AI analyzes data for accurate risk assessments, improving underwriting and personalizing insurance products for insurers and customers.

Improved Claims Processing

- AI automates claims processing, speeding up assessments and settlements, cutting costs, and providing quicker payouts.

Operational Efficiency

- AI automates tasks and streamlines operations, saving costs and increasing efficiency, allowing employees to focus on complex tasks.

Fraud Detection & Prevention

- AI detects patterns indicating fraud, reducing losses and keeping premiums lower for honest customers.

Predictive Analytics for Risk

- AI predicts trends and risks, helping insurers manage and mitigate them for stable, profitable operations.

New Business Models

- AI enables innovative models like usage-based and on-demand insurance, attracting new customers and offering flexible coverage.

References
[1] Top 4 AI in Insurance Trends for 2025 that will Help Insurers Grow! - [2] Insurance 2030—The impact of AI on the future of insurance - [3] Artificial Intelligence: Challenges and opportunities for insurers - [4] The Transformative Impact of Artificial Intelligenceon the Insurance ... - [5] How AI is unlocking valuable opportunities in the insurance industry

Current Insurance Industry Opportunities

The McKinsey article "Insurance 2030—The Impact of AI on the Future of Insurance" explores how AI is set to revolutionize the insurance industry by 2030. Here are the key points:

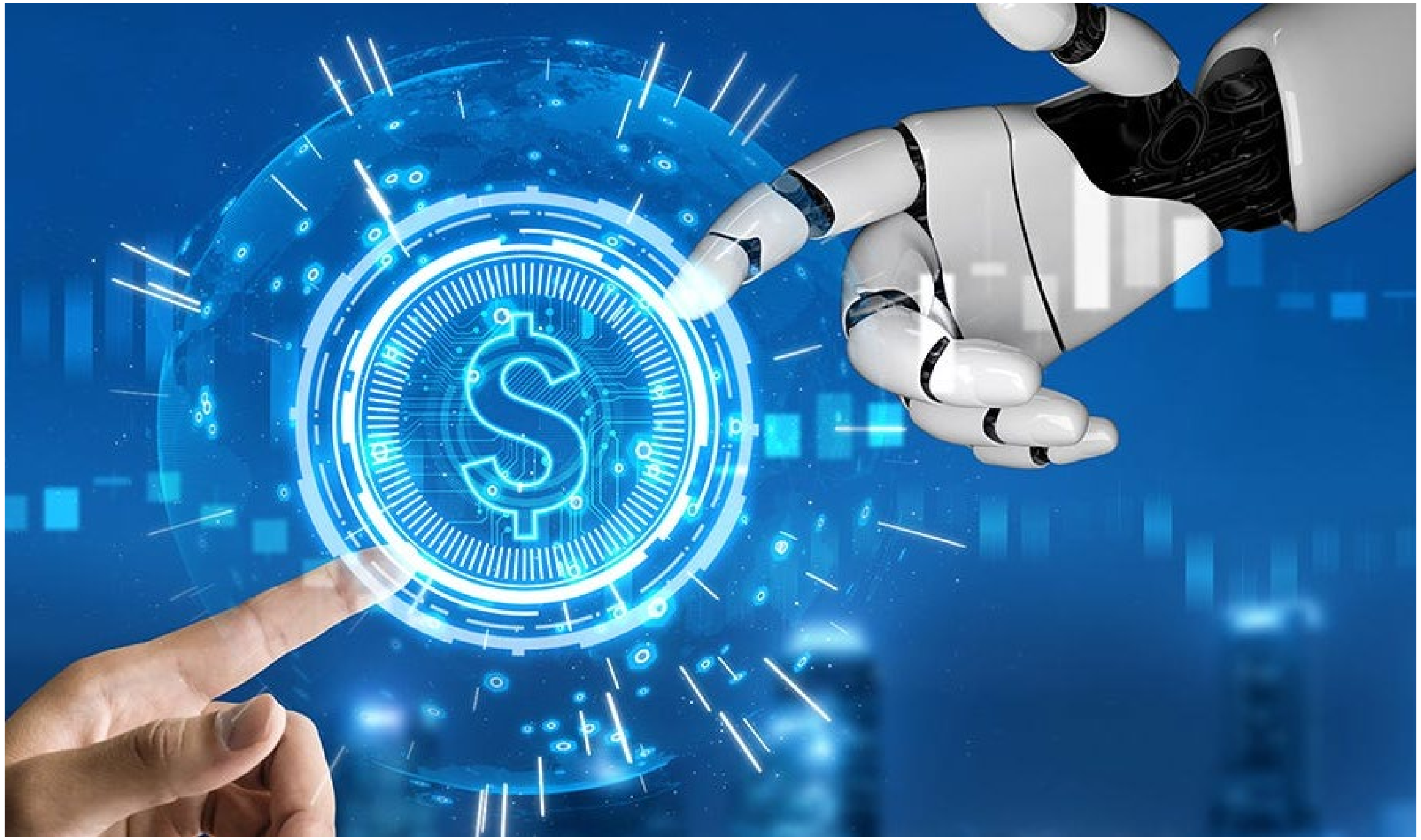
1. **Shift to Predict and Prevent**: AI will transform insurance from a "detect and repair" model to a "predict and prevent" approach. This means insurers will use AI to anticipate and mitigate risks before they result in claims.
2. **Enhanced Customer Experience**: AI will enable highly personalized customer interactions. For example, digital personal assistants will help customers manage their insurance needs in real-time, adjusting premiums based on behavior and risk factors.
3. **Automation and Efficiency**: Many manual processes, such as underwriting and claims processing, will be automated. This will lead to faster, more accurate services and lower operational costs
4. **Integration of Advanced Technologies**: Technologies like deep learning and convolutional neural networks will be integral to AI's ability to mimic human perception, reasoning, and problem-solving .
5. **Real-Time Data Utilization**: AI will leverage real-time data from various sources, including IOT devices, to provide dynamic and responsive insurance solutions.
6. **Strategic Positioning for Insurers**: To thrive in this AI-driven future, insurers must adapt by investing in technology, developing new business models, and ensuring regulatory compliance.

References
[1] Insurance 2030—The impact of AI on the future of insurance

06

Closing

Final Notes



- AI is transforming the insurance industry
- To remain relevant and competitive, companies must evaluate where they are on their AI journey and roadmap accordingly
- How can Forvis Mazars help?

Thank you!

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NAIC Bond Investment Update

2024 Insurance Virtual Seminar

Taylor Longacre

forvis mazars

Agenda

1. Background and Overview
2. Decision Tree
3. Changes and Impacts
4. Implementation Considerations and Best Practices
5. Investment Considerations
6. Additional Resources

01

Background and Overview

NAIC Principles-Based Bond Project
Background and Overview

- Originally introduced at Summer 2019 NAIC meeting around Collateralized Fund Obligations ("CFO") investments.

- Intended to prevent restructuring of equity investments into debt investments to be reported as bonds on Schedule D.

- Project developed into a more comprehensive review of investments being made by insurers.
  - Elimination of investments with equity-like characteristics from being classified as bonds.
  - Increased focus on underlying collateral.

- Effective January 1, 2025.

Background and Overview

Bond – Instrument *Definition*

"A bond shall be defined as any security representing a creditor relationship, whereby there is a fixed schedule for one or more future payments, and which qualifies as either an issuer credit obligation or an asset-backed security.

Determining whether a security represents a creditor relationship should consider its substance, rather than solely the legal form of the instrument. The analysis of whether a security represents a creditor relationship should consider all other investments the reporting entity owns in the investee as well as any other contractual arrangements. A security that in substance possesses equity-like characteristics or represents an ownership interest in the issuer does not represent a creditor relationship."

Source: SSAP 26R Paragraph 5

NAIC Principles-Based Bond Project
Background and Overview

Bond – Instrument Characteristics

- Contractual, fixed schedule for one or more future payments.

- In-substance Creditor Relationship
  - Pre-determined principal and interest payments (fixed or variable interest).
  - Contractual amounts <u>do not vary</u> based on the appreciation or depreciation of underlying collateral or other non-debt variable.

- Instruments with a reliance on equity cash flows likely not a bond

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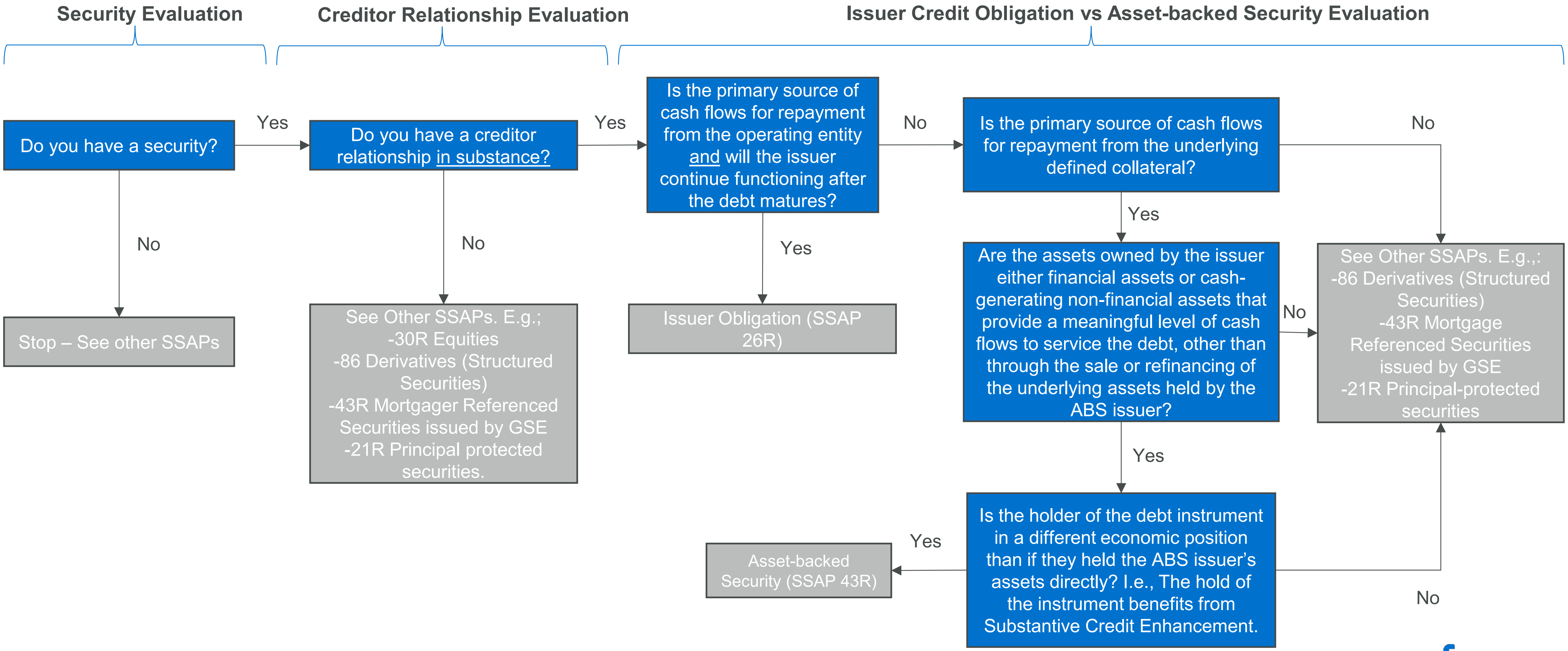
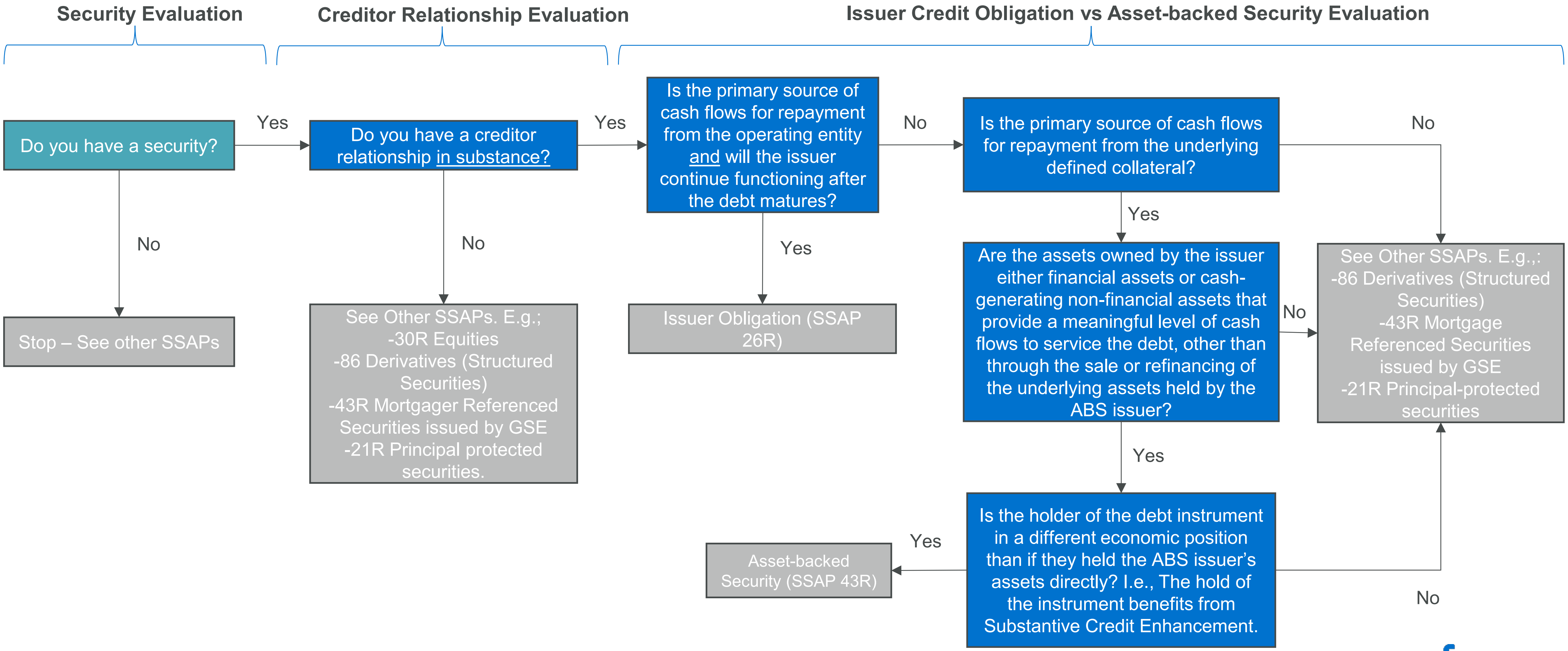
02

Decision Tree

NAIC Principles-Based Bond Project
Decision Tree



NAIC Principles-Based Bond Project
Decision Tree



NAIC Principles-Based Bond Project
Decision Tree

Definition of Security

“A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

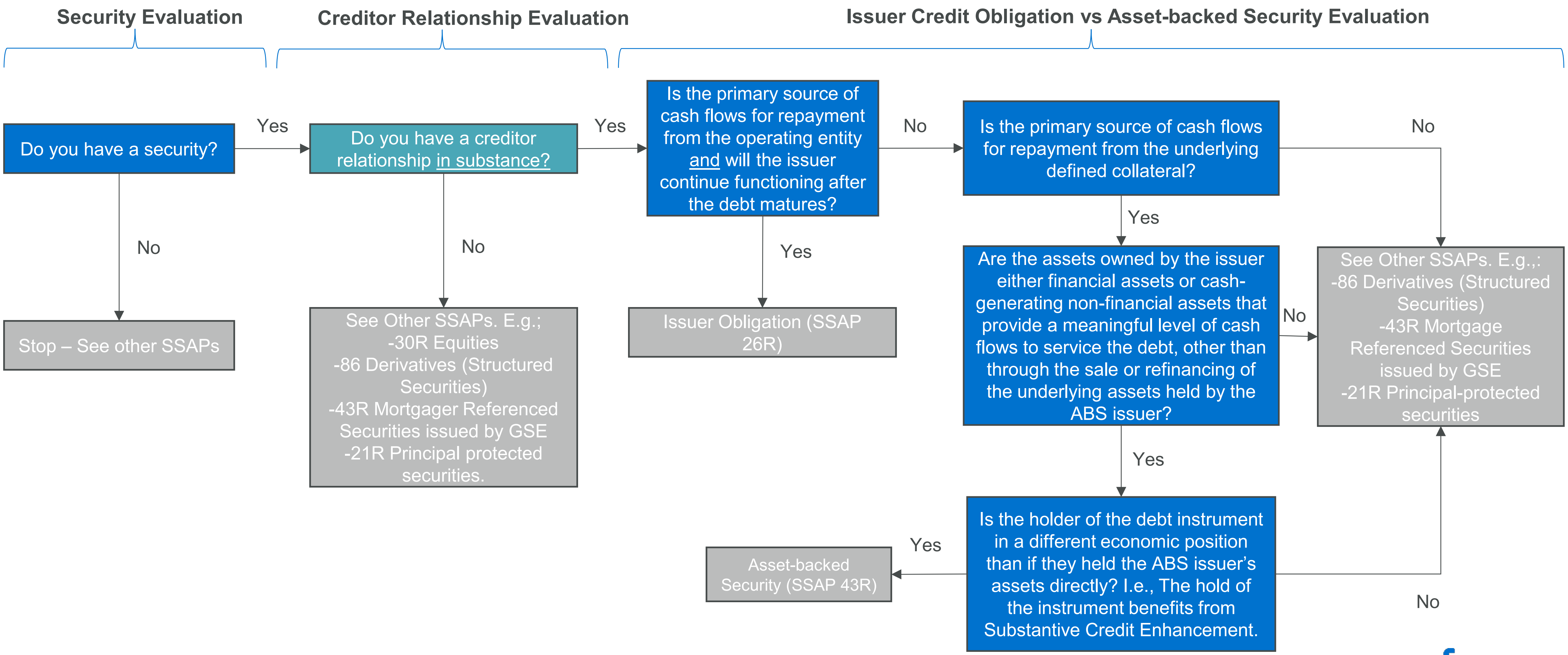
a) It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to be record transfers by or on behalf of the issuer.

b) It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.

c) It is either one of a class or series or by its terms is divisible into a class or series of shares, participations, interests or obligations.”

Source: SSAP 26R Paragraph 5

NAIC Principles-Based Bond Project
Decision Tree



NAIC Principles-Based Bond Project

Decision Tree – Creditor Relationship

Does a creditor relationship exist?			
Pre-Determined interest and principal payments	Contractual amounts do not vary based on appreciation/depreciation of underlying collateral	Most debt instruments collateralized by equity interests*	Reliance of the debt instrument on the sale of underlying equity interests or refinancing at maturity**
Creditor Relationship Exists		Creditor Relationship Does Not Exist	

*If equity risks have been sufficiently redistributed through the capital structure of the issuer, could still be creditor relationship.

**If equity valuation risk is mitigated and can be supported as bond risk, could represent creditor relationship.

NAIC Principles-Based Bond Project
Creditor Relationship (cont.)

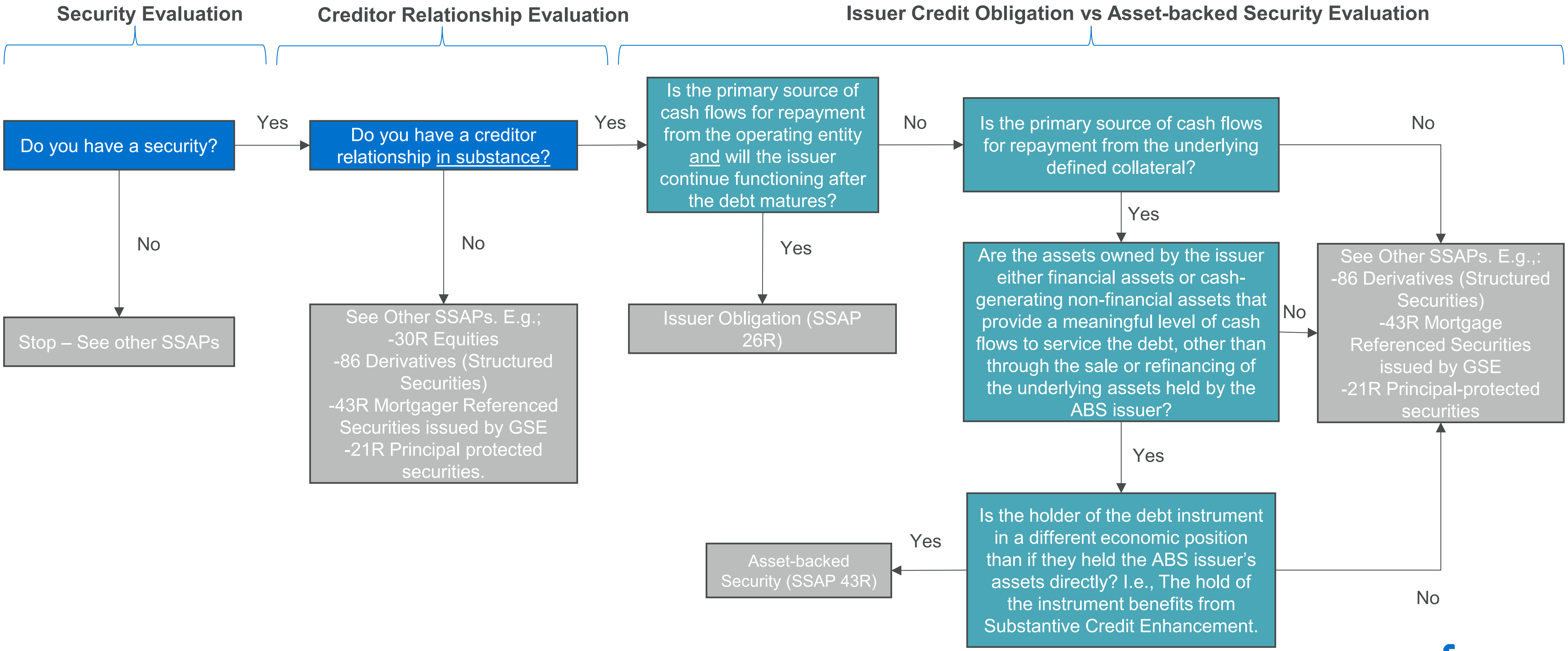
Debt Collateralized by Equity Interest – Rebuttable Presumption

- Rebuttable presumption is that debt instruments collateralized by equity interests are NOT considered a creditor relationship

- HOWEVER, if the characteristics of the underlying equity interests:
  - Lend themselves to predictable cash flows, AND
  - Underlying equity risks have been sufficiently redistributed

- THEN, the debt instrument MAY meet the criteria for a creditor relationship.
  - Factors to consider could include:
    - Number and diversification of underlying equity interests, liquidity facilities, over-collateralization, waiting period for distributions, capitalization of interest, covenants, reliance on ongoing sponsor commitments, etc.
  - Also, as reliance on sale or refinancing increases, the more compelling other factors need to be to overcome the rebuttable presumption.

NAIC Principles-Based Bond Project
Decision Tree



NAIC Principles-Based Bond Project
Issuer Credit Obligations vs Asset-Backed Securities

Issuer Credit Obligations

- Issuer is expected to continue functioning beyond the final maturity of the debt initially raised by the issuer.
- All returns from a bond instrument in excess of principal are required to be considered as interest.
- Examples include:
  - Corporate Bonds
  - US Treasuries
  - Municipal Securities

Asset Backed Securities

- Different economic position vs holding ABS issuer assets directly (i.e. Substantive Credit Enhancement)
  - Examples of substantive credit enhancements include, substantive guarantees, subordination, and/or overcollateralization.
- Assets owned by ABS issuer expected to generate “meaningful” level of cash flows towards repayment of the bond.
  - Examples include use, licensing, leasing servicing, or management fees.
- ABS issuer is not expected to continue functioning beyond the final maturity of the debt initially raised by the ABS issuer.
- Examples include:
  - Collateralized Loan Obligations
  - Securitized Collateralized Fund Obligations
  - Lease Backed Transactions

NAIC Principles-Based Bond Project
Asset Backed Securities

Substantive Credit Enhancements

- Holder must be in different economic position vs. owning collateral directly.
  - IF holder would be in the same position, not an ABS, and not a bond.
  - Substantive Credit Enhancement through overcollateralization/subordination or other guarantee or recourse to support underlying risks can be recategorized as bond risk.
    - Should absorb loss prior to the debt instrument.

NAIC Principles-Based Bond Project
Asset Backed Securities

Meaningful Cash Flows

- Meaningful cash flows are required for ABS backed by non-financial assets.

- The definition of meaningful is specific to each transaction, determined at origination, and considers the following factors:
  - Price volatility in the principal market for the underlying collateral
  - Liquidity in the principal market for the underlying collateral
  - Diversification characteristics of the underlying collateral
  - Overcollateralization of the underlying collateral relative to the debt obligation
  - Variability of cash flows from sources other than sale or refinancing, expected to be generated from the underlying collateral

NAIC Principles-Based Bond Project
Asset Backed Securities

Meaningful Cash Flows – Practical Expedient

Original principal relies on sale or refinancing of **<u>less than 50%</u>** of the original principal.	Meets meaningful cash flows criteria.
Most debt instruments collateralized by equity interests*	Further analysis to determine if meaningful criteria met.

Assessment

- Credit enhancements absorb losses before the debt instrument being evaluated. (Determined at origination)
- Securitization contains first loss position, must have contractual interest and principal payments and substantive credit enhancements exist.

03

Changes and Impacts

NAIC Principles-Based Bond Project
Changes and Impacts

Accounting, Classification, and RBC Changes and Impacts

- Differences and changes in valuation methods
  - ABS Carry Value; Surplus Calculations, Asset Valuation Reserves (Life and Fraternal)
  - Starting in 2025, all ABS must be classified as long-term regardless of maturity date.

- Cash equivalents and short-term investment classification scrutiny

- Reclassification from Schedule D to Schedule BA

- State-dependent diversification rules
  - Prudent Person Approach/Finite Model

- Investments no longer classified as bonds move from Schedule D to Schedule BA
  - RBC charges based on schedule (20% RBC Charge for Schedule BA (*P&C, Health, Title Insurers*))
  - Consideration for investments moving between classifications will be critical

- Future investment strategy related to RBC calculation impacts

NAIC Principles-Based Bond Project
Changes and Impacts

Transition Guidelines

- <u>Disposal</u> from Schedule D to Schedule BA will be at amortized cost.

- Assets previously reported at fair value on Schedule D as of 12/31/2024, reverse any unrealized adjustments on 1/1/2025 and dispose of the asset from Schedule D.
  - There is no recognized gain or loss on the disposal of the asset from Schedule D.

- Asset will be <u>acquired</u> onto Schedule BA and reported at amortized cost
  - Additional adjustments for correct Schedule BA valuation can then be made as part of the transition.

- This process of derecognizing from Schedule D as a disposal and recognizing it as an acquisition on Schedule BA will ensure schedules appropriately roll from period to period

04

Implementation Considerations and Best Practices

NAIC Principles-Based Bond Project
Implementation Considerations and Best Practices

Implementation Best Practices

- Following the standard-setting process over the past couple of years provides context to changes and helps with applications

- Project Management
  - Know who needs to be involved and get them up to speed and aware of timelines early
  - Organization and clarity of tasks and deadlines

- Classification Checklist / Decision Tree
  - Have a clean, executable checklist or decision tree that can be easily applied

- Industry groups and NAIC Blanks Working Group materials

NAIC Principles-Based Bond Project
Implementation Considerations and Best Practices

Implementation Playbook

- Program Management – Implementation Plan

- Develop a Classification Decision Tree/Checklist

- Determine Universe of Investments for Evaluation (Schedule D)

- Perform Evaluation
  - New details on the nature of investments to determine the appropriate classification
  - Analysis documentation and creation of applicable workstreams for reclassification analysis
  - Multiple functional group involvement and messaging (i.e. Accounting Policy, STAT Reporting, Controllership, Investment Accounting, FP&A, Capital Management, Leadership)

NAIC Principles-Based Bond Project
Implementation Considerations and Best Practices

Implementation Challenges / Issues

- Seeing a fair number of securities reclassified to collateral loans
  - To consider: Variances in collateral required to be held between model investment rule and certain state requirements

- Challenges when investments have features of both ICOs and ABS
  - For specific instances, the Blanks Working Group has created a Q&A document to address issues, including things such as PIK interest, Repack investments, double-barreled municipal bonds, and several others.

- Property and Casualty, Health, and Title companies will have a 20% RBC charge for Schedule BA.

- Life and Fraternal – for items that cannot use look-through, the RBC charge will be 45%.

NAIC Principles-Based Bond Project
Implementation Considerations and Best Practices

What are we hearing?

- Some investment accounting vendors are assisting their clients with reclassifications; however, they are limited by the information received from their clients. In some cases, determining classification requires more information than in the past – most of which the vendors do not generally have.

- Some carriers feel that they do not need to deal with this until year-end 2025, but the reality is that it impacts Q1 2025.

05

Investment Considerations

NAIC Principles-Based Bond Project
Investment Considerations

RBC Treatment Impacted

- Certain assets will be moved from Schedule D Part 1 to Schedule BA, which may materially increase RBC charges.
  - Affected assets are primarily held by Life companies. RBC impact will vary depending on specific Schedule BA treatment. Best case: asset moves to BA but RBC charge remains the same. Worst case: asset also goes from bond RBC charge (typically single digit %) to equity charge (typically 30%)
  - Impact on RBC ratio is hard to generalize due to wide variation among insurer RBC factors. Moving assets from D to BA but keeping the same RBC charges would have a negligible impact. Materially increasing C-1o or C-1cs charge due to reclassification could be material depending on the number of affected assets and relative sizes of other RBC factors.
    - Major RBC impacts will likely be few and far between, though hard to call it unimportant as the Life industry has been closely tracking this change and vocal about their preferences and concerns
  - **Even if the RBC charge remains the same, moving assets to BA makes them less attractive at the margin as BA assets are viewed as more opaque and speculative than D bonds, are carried at lower of cost or amortized value (thus incorporate mark-to-market risk to surplus), and may limit risk-bearing capacity under statutory investment limits**

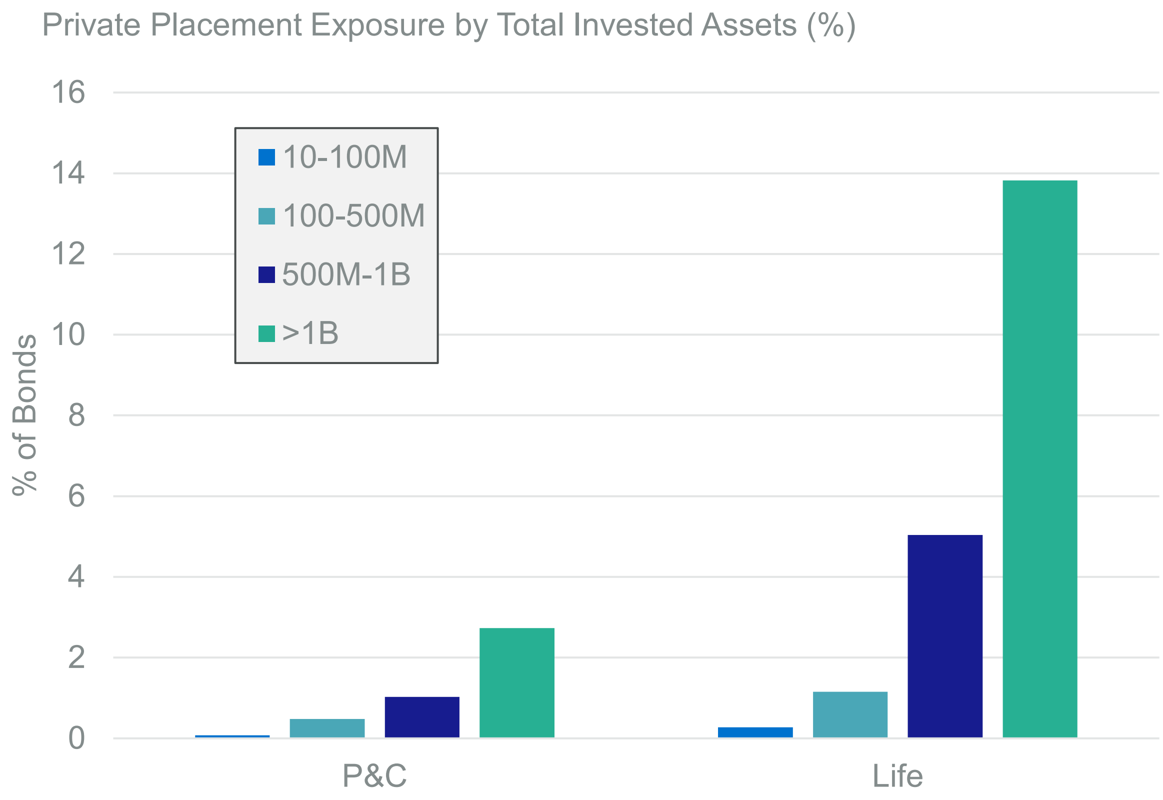
NAIC Principles-Based Bond Project
Investment Considerations

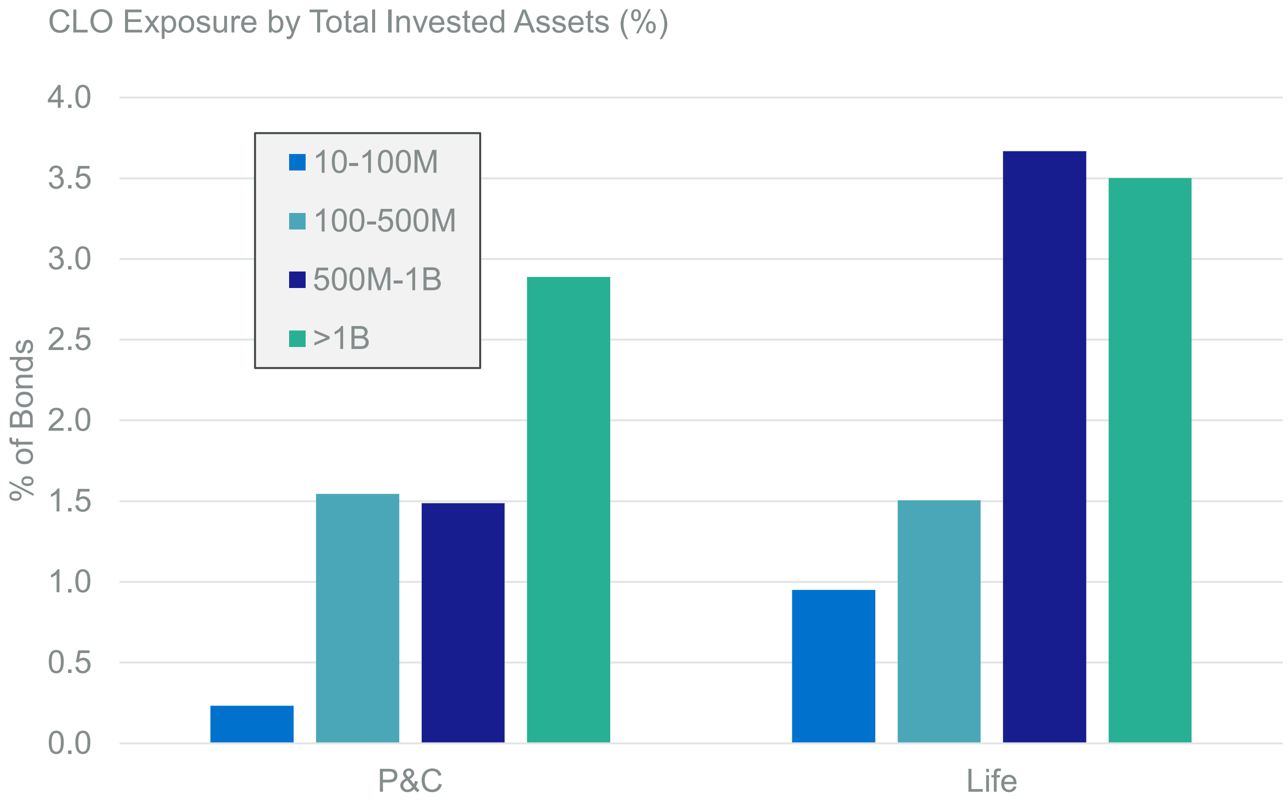
Investment Behavior Changes

- Insurers may choose to reduce affected assets in response, though many are likely illiquid
  - Larger impact will likely be on how insurers invest going forward, rather than any attempt to dump existing holdings. This change has been a long time coming and the most-affected insurers have tracked its progress for years
  - **This change will probably not dramatically alter the investment behavior of more than a handful of insurers, though combined with other changes it may slow the adoption rate of private credit investments for the industry**

NAIC Principles-Based Bond Project
Investment Considerations

Large Life Insurers Most Affected





Source: S&P Capital IQ Pro. Data as of 12/31/23

NAIC Principles-Based Bond Project
Investment Considerations

“Principles-Based” to Encourage, Not Stymie, Innovation

- The structure of the changes indicates a desire to settle multiple related concerns once and for all
  - PBBD is the largest part of a suite of related regulatory moves intended to increase transparency and validate ratings/RBC treatment of novel investment structures, particularly private credit
  - **Other changes include the potential to challenge/override FE ratings, increased disclosure requirements for private letter ratings, a new model-based approach to determining CLO ratings, and increased scrutiny of high-yielding assets in cash flow testing**

- Some affected securities historically seemed tailored to technically qualify as bonds while encompassing un-bond-like risks. The new approach emphasizes “substance rather than form”.

- By instituting principles and flowcharts for receiving Schedule D Part 1 status, the NAIC hopes to encourage legitimate innovation in security designs while closing perceived loopholes and eliminating ambiguity or need for case-by-case solutions

NAIC Principles-Based Bond Project
Investment Considerations

Synthetic Securities Disadvantaged

- New security structures have been driven in part by PE-owned or –affiliated life insurers, leveraging sophisticated investment capabilities to tailor assets to prior regulatory requirements. Broader language in new approach will instead incentivize focus on seeking opportunities in investment markets rather than wording of regulations
  - **In particular, synthetic security designs combining a “performance asset” (equity, derivatives, equity tranche of structured deal, etc) with a “principal payment asset” (Treasuries or other high-grade bonds) are likely to now wind up on Schedule BA and be rated at least as punitively as the individual underlying holdings were held separately**
    - One notable exception is convertible bonds, which may benefit from this change, though synthetic convertibles (incorporating debt and equity features from multiple different issuers) do fall under the new rules

NAIC Principles-Based Bond Project
Investment Considerations

Implementation Already Underway

- The need to coordinate with investment accounting service providers to ensure a smooth transition is more pressing for most insurers than the need to adjust portfolio holdings
  - This is the largest re-ordering of the investment schedules in likely several decades
- Accounting software providers are already working to prepare new classification schemas and reporting templates to be ready for year-end 2025
  - If you haven't already, we advise communicating with them to check on implementation progress
  - Goal is typically to be ready to reclassify all assets effective 1/1/25, even if reporting won't occur until year-end
  - Some providers may be charging one-time fees or adjusting pricing to reflect increased workloads or data requirements
  - Private ABS with complex structures and lack of publicly-available data will likely require the longest lead time to reclassify
- Major investment accounting firms have published implementation guides and are proactively communicating with insurers and investment managers on what to expect in 2025
  - These can be helpful resources for firms who do investment accounting entirely in-house
- Although affected assets are not required to move to Schedule BA until 12/31/25 reporting, insurers may opt to do so earlier if desired

06

Additional Resources

NAIC Principles-Based Bond Project
Additional Resources

Links and Additional Resources

- NAIC has a free web-based course to help prepare for the changes
  - Start on any Monday and complete within one week
  - Only free to industry through the end of 2024
  - Registration link: https://web.cvent.com/event/920b55bf-8d48-4cab-9bad-b584b542931b/summary
  - All adopted materials are available at: https://content.naic.org/committees/e/statutory-accounting-principles-wg

Contact

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GAAP Accounting & Update
Insurance Virtual Seminar

December 12, 2024

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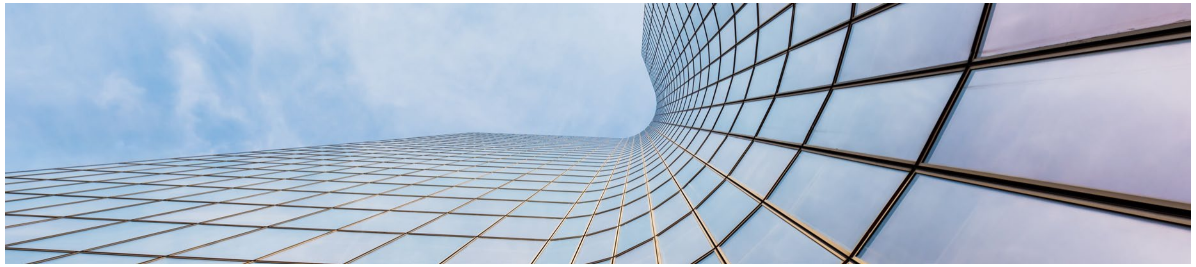
Upcoming Effective Dates

Public Business Entities (PBE) & Smaller Reporting Companies (SRC)
For fiscal years/annual periods beginning after:

December 15, 2024

- 2018-12 Insurance (SRC)
- 2022-05 Insurance Transition (SRC)
- 2023-08 Crypto
- 2023-09 Income Taxes
- 2024-01 Profits Interests
- 2024-02 Codification Improvements



January 1, 2025

- 2023-05 JVs

Private Company & Nonprofits
For fiscal years/annual periods beginning after:

December 15, 2024

- 2018-12 Insurance
- 2022-05 Insurance Transition
- 2022-03 Restricted Equity Securities
- 2023-02 Tax Credits
- 2023-08 Crypto

January 1, 2025

- 2023-05 JVs

December 15, 2025

- 2023-09 Income Taxes
- 2024-01 Profits Interests
- 2024-02 Codification Improvements

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ASU 2018-12

Long-Duration Insurance
Contracts

ASU 2018-12, Long-Duration Insurance Contracts
Summary

- The amendments make targeted, but significant, changes to assumption updates, amortization of deferred acquisition costs (DAC), and accounting for market-risk benefits, while adding extensive new disclosures.
- The ASU will significantly change current practice, and insurers will need to change how they monitor and gather data.
- Unlocking of assumptions will increase income statement volatility.
- The effect on each insurer will depend on product mix, current accounting practice, and reporting requirements.

Effective Dates ASU 2018-12
(as amended)

SEC Filers, Not SRCs
Already effective

All Others
Fiscal year beginning after December 15, 2024

Resource: [Prepared for the Changes to Long-Duration Insurance Contracts?]

ASU 2018-12, Long-Duration Insurance Contracts
Significant Changes

Area of Focus	Target	Improvement
Liability for future policy benefits	Original assumptions remain “locked”	Assumptions periodically updated
	Discount rate is the insurer’s expected investment yield	Discount rate is a high-quality fixed-income instrument yield
Market risk benefits (variable products)	Two measurement models	One measurement model
Deferred acquisition costs	Complex amortization	Simplified amortization
Disclosures	Limited disclosures	Enhanced disclosures

ASU 2022-03

Fair Value Measurement of
Equity Securities Subject to
Contractual Sale Restrictions

ASU 2022-03, Restricted Equity Securities
Summary

- The ASU clarifies that a contractual restriction on the sale of an equity security is not considered part of the security's unit of account and should not be considered in measuring fair value.
- Entities are now prohibited from recognizing and measuring the contractual sales restriction as a separate unit of account, *e.g.*, as a liability or contra-asset.
- New disclosures.

Effective Dates
ASU 2022-03

PBEs
Annual periods beginning after December 15, 2023

All Others
Annual periods beginning after December 15, 2024

Resource: [Proportional Amortization Option for More Tax Credit Programs & LIHTC Accounting Changes]

ASU 2022-03, Restricted Equity Securities
Scope

The ASU applies to all equity securities subject to any contractual sales restriction. Common examples include, but are not limited to:

- Underwriter lock-up agreements – Contractual sale restrictions typically executed with an initial or secondary public offering to prohibit the sale of equity securities owned by certain investors for a specified period
- Market standoff agreement – A legal contract that prevents company insiders from selling their shares in the company on the stock market for a certain period of time following an initial public offering
- A provision within a broad shareholder's agreement
- Private investments in public equity or a business combination involving a special-purpose acquisition company

ASU 2022-03, Restricted Equity Securities
Disclosures

These disclosures are required for equity securities subject to contractual sale restrictions:

- The fair value of equity securities subject to contractual sale restrictions
- The nature and remaining duration of the restriction(s)
- The circumstances that could cause a lapse in the restriction(s)

ASU 2022-03, Restricted Equity Securities
Effective Date & Transition

- ASU 2022-03 will be effective for public business entities (PBE) for fiscal years beginning after December 15, 2023, including interim periods therein, with early adoption permitted. All other entities would be required to adopt this ASU for fiscal years beginning after December 15, 2024, and interim periods therein.
- Early adoption is permitted for both interim and annual financial statements that have not yet been issued (or made available for issuance).
- For entities other than investment companies—as defined under ASC 946, Financial Services—Investment Companies—the ASU would be applied prospectively as an adjustment to current-period earnings on the date at which the entity first applies the new guidance, with any adjustments recognized in earnings. The entity will disclose the amount recognized as an adjustment to earnings in the period the entity first applies the measurement guidance.
- Specialized transition guidance is provided for investment companies.

ASU 2023-02

Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method

ASU 2023-02, Proportional Amortization – Tax Credits
Summary

- Expand the proportional amortization method accounting election to certain other existing and future programs including new markets tax credits, historic rehabilitation tax credits, and renewable energy tax credits.
- Certain existing specialized guidance for LIHTC investments have been removed to provide more comparable accounting for all tax programs.
- Election would be made for each tax credit program.

Effective Dates
ASU 2023-02

Public Business Entities
Annual & interim periods beginning after December 15, 2023

All Others
Fiscal years beginning after December 15, 2024

Resource: Proportional Amortization Option for More Tax Credit Programs & LIHTC Accounting Changes

ASU 2023-02, Proportional Amortization – Tax Credits
Criteria

To qualify for the proportional amortization method, these conditions must be met:

- It is **probable** the income tax credits allocable to the investor will be available.
- The investor does not have the ability to exercise **significant influence** over the operating and financial policies of the underlying project. In evaluating the significant influence criteria, the investor shall consider the operations, financial decisions, and related objectives of the entire project.
- **Substantially** all the projected benefits are from income tax credits and other income tax benefits. Projected benefits include—but are not limited to—income tax credits, other income tax benefits, and other nontax-related benefits (including refundable tax credits).
- The investor's projected yield based solely on the cash flows from the income tax credits and other income tax benefits is positive.
- The investor is a limited-liability investor in the limited-liability entity for both legal and tax purposes, and the investor's liability is limited to its capital investment

ASU 2023-02, Proportional Amortization – Tax Credits
Disclosures

An entity would be required to disclose the following for interim and annual financial statements:

- The nature of its investments
- The effect of the recognition and measurement of its investments and the related income tax credits and other income tax benefits on its financial position and results of operations

Mandatory details would include:

- The amount of income tax credits and other income tax benefits recognized during the period, including the line item in the statement of operations and statement of cash flows in which they have been recognized
- The amount of the investments and the line item in which the investments are recognized in the statement of financial position
- For investments accounted for using the proportional amortization method, the amount of investment amortization recognized as a component of income tax expense (benefit)
- For investments accounted for using the proportional amortization method, the amount of non-income-tax-related activity and other returns received that are recognized outside of income tax expense (benefit) and the line item in the statement of operations and statement of cash flows in which they have been recognized
- For investments accounted for using the proportional amortization method, significant modifications or events that resulted in a change in the nature of the investment or a change in the relationship with the underlying project

ASU 2023-02, Proportional Amortization – Tax Credits
Effective Date

- Effective for public business entities for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years.
- For all other entities, this ASU is effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years.
- For all entities, early adoption, including adoption in an interim period, is permitted. If an entity adopts in an interim period, it shall adopt as of the beginning of the fiscal year that includes that interim period.

ASU 2023-02, Proportional Amortization – Tax Credits
Transition

Either modified prospective or retrospective basis allowed.

- **Modified retrospective transition**. An entity would evaluate all investments that are still expected to generate either income tax credits or other income tax benefits from a tax credit program as of the adoption date.
- **Retrospective transition**. An entity would evaluate all investments that are still expected to generate either income tax credits or other income tax benefits from a tax credit program as of the beginning of the earliest period presented.
- Special transition guidance has been provided for LIHTC investments that can no longer use the cost method guidance, the equity method example, or the delayed contribution guidance.
- An entity is not required to justify why the change in accounting principle is preferable.

ASU 2023-05

Joint Ventures

ASU 2023-05, Joint Ventures
Summary

- Provides—for the first time—recognition and initial measurement for joint ventures (JVs).
- The ASU does not change the JV definition, the accounting by an equity method investor for its JV investment, or the accounting by a JV for contributions received after formation
- Early adoption is permitted, and existing JVs have an option to apply the guidance retrospectively

New Requirements			
Form a new entity without and acquirer	Measure its identifiable net assets and goodwill at the formation date	Initial measure of the total net assets is equal to the fair value of 100% of outstanding equity interests	New disclosures

Effective Dates
ASU 2023-05

All Entities
For JV formations on or after January 1, 2025

Resource: New JV Accounting Rules – Fair Value Required

ASU 2023-05, Joint Ventures
Scope & Exclusions

The ASU covers the accounting for contributions received (both monetary and nonmonetary) upon formation by entities that meet the JV or a corporate JV definition.

The ASU does **not** apply to:

- Transactions between a JV and its owners other than the formation of a JV
- Formations of entities determined to be not-for-profit entities under ASC 958, *Not-for-Profit Entities*
- Combinations between entities, businesses, or nonprofit activities under common control
- Entities in the construction or extractive industries that may be proportionately consolidated by their investor-venturers
- Collaborative arrangements within the scope of ASC 808, *Collaborative Arrangements*

ASU 2023-05, Joint Ventures
New Guidance

The formation of a JV is the creation of a new reporting entity, and none of the assets and/or businesses contributed to the JV are viewed as having survived the combination as an independent entity. **No accounting acquirer will be identified.**

Formation Date

Determining the formation date is a critical first step because the JV will measure its identifiable net assets and goodwill, if any, at the formation date. The JV formation date is the date on which an entity initially meets the JV definition, which may not be the legal formation date.

ASU 2023-05, Joint Ventures
Measurement

Initial measurement of a JV’s total net assets is equal to the fair value of 100% of the JV’s equity immediately following formation (including any noncontrolling interest in the net assets recognized by the JV).

The ASU has special provisions/clarifications for contingent payments, share-based payment awards, private company alternatives in-process research and development, goodwill, transfer of financial assets, and incomplete initial accounting.

ASU 2023-05, Joint Ventures
Disclosures

A JV's required disclosures should help a financial statement user understand the nature and financial effect of the JV formation in the period in which the formation date occurs. JV disclosure requirements upon formation are more streamlined than for a business combination and should include the following:

- The formation date
- A description of the purpose for which the JV was formed, *e.g.*, to share risks and rewards in developing a new market, product, or technology; combine complementary technological knowledge; or to pool resources in developing production or other facilities
- The formation-date fair value of the JV as a whole
- A description of the assets and liabilities recognized by the JV at the formation date
- The amounts recognized by the JV for each major class of assets and liabilities as a result of accounting for its formation (either presented on the face of financial statements or disclosed in the financial statement notes)
- A qualitative description of the factors that make up any goodwill recognized

ASU 2023-05, Joint Ventures
Effective Date & Transition

All JV formations with a formation date on or after January 1, 2025 on a prospective basis.

- Early adoption is permitted in any interim or annual period if financial statements have not yet been issued (or made available for issuance), either prospectively or retrospectively.

Retrospective Adoption

- A JV formed before the effective date can elect to apply the ASU retrospectively if sufficient information is available. If elected, the cumulative effect of initially applying the ASU would be an adjustment to the opening balance of retained earnings at the initial application date. The initial application date would be the beginning of the earliest comparative period presented.
- If the ASU is adopted on a retrospective basis, the standard change in accounting principle disclosures in ASC 250 would apply in the period of adoption.

ASU 2023-08

Crypto Assets

ASU 2023-08, Crypto Assets
Summary

- Covered crypto assets would be measured at fair value under ASC 820, Fair Value Measurement, with any changes in fair value reported in net income each reporting period.
- Crypto assets should be presented separately from other intangible assets on the balance sheet. An entity can—but is not required to—present crypto assets on a more disaggregated basis, *i.e.*, by individual crypto asset holding or intangible asset class.
- Gains and losses from remeasuring crypto assets would be reported in net income separately from the changes in the carrying amounts of other intangible assets, such as amortization or impairments.
- Crypto assets received as noncash consideration during the ordinary course of business that are converted "nearly immediately" into cash would be classified as operating cash flows.

Effective Dates
ASU 2023-08
Early adoption permitted

All Entities
Fiscal year beginning after December 15, 2024

Resource: Details on FASB's New Crypto Guidance

ASU 2023-08, Crypto Assets
Scope

ASU 2023-08 will apply to all entities, including public business entities, private companies, nonprofits (NFPs), and employee benefit plans holding assets meeting the scope criteria below:

- Meet the intangible asset definition in the Codification Master Glossary, which specifically excludes financial assets.
- Do not provide the asset holder with enforceable rights to—or claims on—underlying goods, services, or other assets. Contracts with customers, guarantees, and insurance contracts (even if in digital form) continue to be covered by other GAAP.
- Are created or reside on a distributed ledger or blockchain or similar technology.
- Are secured through cryptography.
- Are fungible.
- Are not created or issued by the reporting entity or its related parties.

ASU 2023-08, Crypto Assets
Annual & Interim Disclosures

For annual and interim reporting periods, an entity is required to disclose the following information:

- The name, cost basis, fair value, and number of units for each significant crypto asset holding and the aggregate fair values and cost bases of the crypto asset holdings that are not individually significant
- Restrictions. The following information is required for crypto assets subject to contractual sale restriction(s):
  - The fair value of those crypto assets
  - The nature and remaining duration of the restriction(s)
  - The circumstances that could cause the restriction(s) to lapse

  An entity with multiple crypto assets subject to contractual sale restrictions shall consider all the following:

  a. The level of detail necessary to satisfy the required disclosures

  b. How much emphasis to place on each of the required disclosures

  c. How much aggregation or disaggregation to undertake

  d. If financial statement users need additional information to evaluate the quantitative information disclosed

ASU 2023-08, Crypto Assets
Annual Disclosures

For annual reporting periods, an entity is required to disclose the following information:

- A rollforward/reconciliation of activity in the reporting period for crypto asset holdings
- For any crypto dispositions in the reporting period, the difference between the sale price and the cost basis and a description of the activities that resulted in the dispositions. If gains and losses are not presented separately, the entity is required to disclose the income statement line item in which those gains and losses are recognized
- The method for determining the cost basis of crypto assets, *e.g.*, first-in, first-out; specific identification; average cost; or other

An entity that receives crypto assets as noncash consideration in the ordinary course of business or as NFP contributions that are converted nearly immediately into cash is not subject to this roll-forward requirement.

ASU 2023-09

Income Tax Disclosures

ASU 2023-09, Income Tax Disclosures
Summary

- PBEs are required to prepare an annual detailed, tabular tax rate reconciliation.
- All other entities would be required to provide qualitative disclosure on specific categories and individual jurisdictions that result in significant differences between the statutory and effective tax rates.
- All entities would be required to annually disclose taxes paid disaggregated by federal, state, and foreign taxes, as well as disaggregating taxes by individual jurisdiction if taxes paid exceed 5% of total income taxes paid.
- All entities also must include the income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign, as well as the income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign.

Effective Dates
ASU 2023-09
Early adoption permitted

PBEs
Annual periods beginning after December 15, 2024

All Others
Annual periods beginning after December 15, 2025

Resource: [FASB Finalizes New Income Tax Disclosures]

ASU 2023-09, Income Tax Disclosures
Rate Reconciliation – 8 Required Categories

1 State and local income tax, net of federal (national) income tax effect.

This category is intended to reflect the difference between an entity's statutory rate and effective tax rate resulting from an entity's state and local income tax. This includes current and deferred taxes for state and local jurisdictions.

2 Foreign tax effects

This category is intended to reflect the differences between the statutory rate of the country of domicile and the tax rates of other jurisdictions. If a foreign jurisdiction meets the 5% threshold, it would be separately disclosed as a reconciling item. Within any foreign jurisdiction (regardless of whether it meets the 5% threshold), the reconciling item would be separately disclosed by nature if its gross amount (positive or negative) meets the 5% threshold. In some cases, a foreign jurisdiction in total may not meet the 5% threshold, but there could be individual reconciling items, which meet the 5% threshold, disclosed for that foreign jurisdiction.

3 Enactment of changes in tax laws or rates enacted in the current period.

This category reflects the cumulative tax effects of a change in enacted tax laws or rates on current or deferred tax assets and liabilities at the date of enactment. The effects of changes in tax laws or rates are typically required to be accounted for through income tax expense or benefit from continuing operations in the period of enactment.

4 Effect of cross-border tax laws

This category reflects the effect of incremental income taxes imposed by the jurisdiction (country) of domicile on income earned in foreign jurisdictions. When the jurisdiction (country) of domicile taxes cross-border income but also provides a tax credit on the same income during the same reporting period, the tax effect of both the cross-border tax and its related tax credit may be presented on a net basis in the effect of cross-border tax laws category.

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ASU 2023-09, Income Tax Disclosures
Rate Reconciliation – 8 Required Categories

5 Tax credits

This category is intended to reflect the difference resulting from the receipt of tax credits, such as domestic or foreign tax credits, and research and development (R&D) credits. The final ASU provided additional clarity over the exposure draft on items such as global intangible low-taxed income (GILTI) credits and state tax credits that are included in other categories.

6 Changes in valuation allowances

This category is intended to reflect differences resulting from changes in valuation allowances on deferred tax assets. This includes valuation allowances initially recognized or subsequently adjusted in the reporting period. This category is intended to capture changes in the primary or federal jurisdiction, whereas changes for state or foreign jurisdictions would be accounted for in the other respective categories.

7 Nontaxable or nondeductible items

This category is intended to reflect the permanent differences between an entity's book basis and tax basis, such as the difference related to share-based compensation, amortization of goodwill, and goodwill impairment.

8 Changes in unrecognized tax benefits.

This category is intended to reflect reconciling items due to changes in judgments related to tax position taken in prior reporting periods such as subsequent recognition, derecognition, and change in measurement of unrecognized tax benefits. Unrecognized tax benefits for positions taken in the current year would be accounted for in the applicable respective categories, *e.g.*, a position related to an R&D tax credit, or a state tax position, etc.

ASU 2023-09, Income Tax Disclosures

Rate Reconciliation

All Other Entities (Non PBEs)

All other entities would **qualitatively** disclose the nature and effect of the eight reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate. A numerical reconciliation is not required.

All Entities (PBE & Non PBE)

All entities also should provide an explanation, if not otherwise evident, of the individual reconciling items disclosed, such as the nature and effect of any significant matters impacting the comparability of information for all periods presented.

ASU 2023-09, Income Tax Disclosures
Rate Reconciliation Qualitative Example

Non-PBE

The difference between Entity W's effective tax rate and its statutory tax rate is primarily attributed to tax credits, state taxes, and foreign taxes. More specifically, the foreign tax effects of Entity W's operations in Ireland had a decreasing effect on its effective tax rate, while the foreign tax effects of Entity W's operations in France had an increasing effect on its effective tax rate. Entity W received federal R&D tax credits, which decreased its effective tax rate, while state taxes in California increased its effective tax rate.

ASU 2023-09, Income Tax Disclosures
Income Taxes Paid – Statement of Cash Flows

All entities would disclose the following information annually about income taxes paid:

- The amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes.
- The amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than 5% of total income taxes paid (net of refunds received).

ASU 2023-09, Income Tax Disclosures
Income Statement Disclosures

All entities also would be required to disclose the following information:

- Income/loss from continuing operations before income tax expense/benefit disaggregated between domestic and foreign.
- Income tax expense/benefit from continuing operations disaggregated by federal (national), state, and foreign. Income taxes on foreign earnings that are imposed by the jurisdiction of domicile shall be included in the amount for that jurisdiction of domicile, *i.e.*, the jurisdiction imposing the tax.

ASU 2024-01

Profits Interests

ASU 2024-01, Profits Interests
Summary

- ASU 2024-01 adds an illustrative example (with four fact patterns) to assist entities in determining whether a profits interest award should be accounted for under ASC 718.
- FASB expects that this clarification may result in more profits interest awards being accounted for in accordance with ASC 718.
- Early adoption is permitted. An entity can apply the guidance either:
  - Retrospectively to all prior periods presented in the financial statements, or
  - Prospectively to profits interest awards granted or modified on or after the date the ASU is first applied, along with disclosure about the nature of and reason for the change in accounting principle

Effective Dates
ASU 2024-01
Early adoption permitted

Public Business Entities
Annual & interim periods beginning after December 15, 2024

All Others
Annual & interim periods beginning after December 15, 2025

Resource: [FASB Clarifies Profits Interest Accounting]

ASU 2024-01, Profits Interests
Capital Interests vs. Profits Interests

Capital Interests

- Past economic profits (net of losses)
- Past capital contributions (net of distribution)
- Would receive proceeds in an immediate liquidation

Profits Interests

- Future economic profits (net of losses)
- Receives nothing in an immediate liquidation

ASU 2024-01, Profits Interests
Current Guidance

Current Guidance		
	ASC 710-10 Deferred Compensation	ASC 718 Stock Compensation
Classification	Liability	Equity or liability
Measurement	Present value of the benefits expected to be provided to the employee	Equity: Grant-date fair value Liability: Remeasured at fair value or intrinsic value each period
Recognition	The portion applicable to the current services is accrued each period (some guides suggest not accruing costs until “probable and reasonably estimable”)	Recognized over requisite service period straight-line or using graded attribution model (accelerated recognition of compensation cost)

ASU 2024-01, Profits Interests

Scope

Although this issue is most prevalent for private companies, most notably private equity portfolio companies, it also can impact certain PBEs. For example, a PBE may have profits interest awards that remain outstanding when the entity has not yet completed an IPO but has filed or furnished financial statements to the SEC, or when profits interest awards remain outstanding following an IPO.

ASU 2024-01 applies to all reporting entities that account for profits interest awards as compensation to employees or nonemployees in return for goods or services.

ASU 2024-01, Profits Interests
Effective Date & Transition

- Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. For early adoption in an interim period, the change should be made as of the beginning of the annual period that includes that interim period.
- An entity can apply the guidance either:
  - Retrospectively to all prior periods presented in the financial statements, or
  - Prospectively to profits interest awards granted or modified on or after the date the ASU is first applied, along with disclosure about the nature of and reason for the change in accounting principle

ASU 2024-03

Expense Disaggregation
(DISE)

ASU 2024-03, Expense Disaggregation (DISE)
Summary

- PBEs will be required to disclose additional expense details in annual and interim financial statement notes.
- No changes to existing presentation requirements or to the face of the income statement. ASU 2024-03 covers where information will appear in the financial statement notes since certain current disclosures will now be included with the new disaggregated tabular disclosures.
- Early adoption is permitted. An entity can apply the guidance either:
  - Retrospectively to all prior periods presented in the financial statements, or
  - Prospectively to financial statements issued for reporting periods after the effective date

ASU 2024-03

Early adoption permitted

Public Business Entities

Annual periods beginning after December 15, 2026

Public Business Entities

Interim periods[1] beginning after December 15, 2027

[1] FASB's intent was that PBEs should initially adopt the amendments for interim periods within annual reporting periods beginning after December 15, 2027, however the final codification of ASU 2024-03 was missing the "within annual reporting periods" words. For non-calendar year end entities, this could have been interpreted as needing to adopt interim requirements before the annual requirements. On November 25, 2024, FASB issued an exposure draft with a short comment period to correct this oversight. A final ASU is expected in early 1Q2025.

Resource: [Details on FASB's Public Company Expense Disclosures (DISE)]

ASU 2024-03, Expense Disaggregation (DISE)
Scope

- All public business entities (private companies, nonprofits, and employee benefit plans are not in scope)
- FASB affirmed its decision to include all PBEs without any exceptions. Several comment letters requested a scope exception for small reporting companies, certain industries (government contractors and regulated utilities), and nonissuers that must file or furnish financial statements to the SEC, *i.e.*, broker-dealers.

A PBE as a business entity meeting any one of the criteria below. Neither a nonprofit entity nor an employee benefit plan is a business entity:

a. It is required by the SEC to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information is required to be or is included in a filing).
b. It is required by the Securities Exchange Act of 1934 (Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.
c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.
d. It has issued—or is a conduit bond obligor for—securities that are traded, listed, or quoted on an exchange or an over-the-counter market.
e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available on a periodic basis, *e.g.*, interim or annual periods.

An entity may meet the definition of a PBE solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a PBE for purposes of financial statements that are filed or furnished with the SEC.

ASU 2024-03, Expense Disaggregation (DISE)
Expenses Subject to Disaggregation

1. Purchases of Inventory
2. Employee Compensation
3. Depreciation
4. Intangible Asset Amortization
5. Depreciation, Depletion, and Amortization (DD&A) for oil-and-gas producing activities
6. Depletion

For interim and annual reporting periods, an entity must disaggregate—in a tabular format disclosure in the notes to financial statements—all relevant expense captions presented on the face of the income statement in continuing operations that contains one or more of the five expenses noted above.

ASU 2024-03, Expense Disaggregation (DISE)
Purchases of Inventory

- Includes only amounts covered by guidance in ASC 330, *Inventory*.
- **Cost-Incurred Basis** – Amounts capitalized to inventory under ASC 330 and amounts that were directly expensed in the current reporting period
- **Expense-Incurred Basis** – Period expenses that were directly expensed to the income statement and expenses incurred on the derecognition of inventory (which may relate to costs capitalized in prior periods).

Practical Expedient – When substantially all of an entity's income statement expense caption comprises purchase of inventory under ASC 330, an entity is not required to disaggregate that expense caption into required expense categories. If this practical expedient is elected, an entity must disclose a qualitative description of the composition of the expense caption.

ASU 2024-03, Expense Disaggregation (DISE)
Employee Compensation

- The employee definition includes, but is not limited to full-time, part-time, temporary, or seasonal employee.
- The new employee compensation definition is not intended to list all possible types of cash and noncash compensation across all entities but includes the following:
  - All forms of cash consideration (including deferred cash compensation)
  - Share-based payment arrangements
  - Medical care benefits
  - Pension benefits, postretirement benefits, and nonretirement postemployment benefits (including special or contractual termination benefits) given by an entity in exchange for service rendered by employees or for the termination of employment.
  - Compulsory payments paid to the general government that confer entitlement to receive a (contingent) future social benefit, such as unemployment insurance benefits and supplements; accident, injury, and sickness benefits; old-age, disability, and survivors' pensions; and family allowances, reimbursements for medical and hospital expenses, or provision of hospital or medical services.
- An entity is not precluded from disclosing subtotals that include relevant expense amounts and additional expense amounts that are voluntarily disclosed, *i.e.*, a subtotal for total workforce costs breaking out employee compensation and subcontractor costs.

Practical Expedient – Entities that must comply with SEC Regulation S-X 210.9-04 (banks) are required to present a caption for salaries and employee benefits would not need to use the ASU's compensation definition.

ASU 2024-03, Expense Disaggregation (DISE)
Other Matters

Estimates

An entity is not required to use transaction-level details. An entity may take a reasonable approach to prepare the required disclosures in a systematic and rational way. An entity may use estimates or other methods that result in a reasonable approximation of amounts when disaggregating the above expense categories for the relevant expense captions.

Expense Reimbursements/Cost Sharing

For certain industries (construction, software development and government contracting) or cost-sharing or cost-reimbursement arrangements are common and generally are not allocated to natural expenses. An entity that presents an expense reimbursement from another entity in a relevant expense caption to either:

- Separately disclose the amount of that reimbursement in the tabular format disclosure, or
- Disclose the amounts of the required expense categories net of any reimbursement effects.

An entity should provide an explanation of how such reimbursements are reflected in the tabular format disclosure. An entity that includes an expense reimbursement to another entity in a relevant expense caption must separately disclose the amount of that reimbursement in the tabular format disclosure, as well as a qualitative description of the natural expense categories to which the reimbursement relates.

Integration With Current Disclosures

Certain existing GAAP disclosure requirements will now be included in the new tabular format with the same frequency currently required (interim or annual reporting periods).

ASU 2024-03, Expense Disaggregation (DISE)
New Selling Expenses Disclosures

- Total amount of selling expenses on an interim and annual basis.
- Definition of selling expenses must be disclosed in annual reporting periods (or in interim periods if the definition is changed)

Selling expenses are not defined in ASU 2024-03; an entity may tailor its definition to its specific facts and circumstances using reasonable judgment.

Example
During the years ended December 31, 20X4, 20X3, and 20X2, the entity defined selling expenses to be the same as its advertising and marketing expenses, which are presented on the face of its consolidated income statement. The entity’s advertising and marketing expenses include costs incurred for advertising, market research, and business development.

Research Projects

FASB Research Projects
Scope

Accounting for and Disclosure of Intangibles

The research will consider potential ways to improve the accounting for and disclosure of intangibles, including internally developed intangibles and research and development. **On May 8, 2024, Chair Richard R. Jones announced the staff will include this topic in the Invitation to Comment to be issued in the second half of 2024.**

Accounting for Commodities

This research project will explore accounting for and disclosure of commodities.

Consolidation for Business Entities

This research project will explore whether a single consolidation model could be developed for business entities. This research project does not include reconsideration of the consolidation guidance in Topic 958, Not-for-Profit Entities.

Definition of a Derivative

This project will consider refinements to the scope of Topic 815, Derivatives and Hedging, including certain aspects of the definition of a derivative and derivative scope exceptions, and the application to certain arrangements (such as research and development funding arrangements and financial instruments with environmental, social, and governance-linked features).

FASB Research Projects
Scope

Financial Key Performance Indicators for Business Entities

This research project will explore standardizing the definitions of financial key performance indicators, following the progress of the Disaggregation Income Statement Expenses project, and considering interactions with the regulatory framework. **On May 8, 2024, Chair Richard R. Jones announced the staff will include this topic in the Invitation to Comment to be issued in the second half of 2024.**

Statement of Cash Flows

The project will make targeted improvements to provide investors with additional decision-useful information. Initial areas of focus will include disclosure on cash interest received and reorganizing the statement of cash flows for financial institutions with a required subtotal within the operating sections for net interest income-related adjustments. **On November 8, 2023, FASB added a project to its technical agenda to (1) reorganize and disaggregate the statement of cash flows for financial institutions to improve the decision usefulness of that statement and (2) develop a disclosure about an entity's cash interest received. This project was retained to explore further potential improvements.**

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