SSAP No. 43R-Loan Backed and Structured Securities
Investment Reporting Assistance for 3rd Quarter 2009 and Annual 2009

This document represents NAIC assistance for reporting the cumulative effect of adopting SSAP No. 43R—*Loan Backed and Structured Securities* (SSAP No. 43R) within Schedule D of the statutory statement. This document was developed in order to answer questions insurers may have as to the most appropriate reporting of the cumulative effect of adopting SSAP No. 43R within Schedule D. This document was developed by NAIC staff and has not been approved by the NAIC, or any of its committees, task forces or working groups. The following sets forth one method for reporting of this amount; other methods may exist, but NAIC staff suggests this method be followed by all insurers in order to increase consistency in reporting within the industry. Questions regarding this document should be directed to Dan Daveline, ddavelin@naic.org.

Background

On September 23, 2009, the NAIC membership adopted SSAP No. 43R—*Loan Backed and Structured Securities.* As way of background, in November, 2008, the Statutory Accounting Principles Working Group adopted guidance to modify the impairment requirements on these securities to fair value when impairment is determined to be other than temporary (SSAP No. 98). In April, 2009, the Joint Executive/Plenary adopted SSAP No. 98, but modified the effective date from January 1, 2009 to September 30, 2009, due to changes in Generally Accepted Accounting Principles (GAAP) that occurred during the same month. Modifying the effective date allowed the NAIC to analyze the changes in GAAP and determine a proper statutory response. As a result, SSAP No. 43R was adopted, which supersedes SSAP No. 98, and revises valuation and impairment requirements based on the cash flows expected to be collected for the securities, rather than fair value. See the following for a copy of SSAP No. 43R.

http://www.naic.org/documents/committees_e_app_sapwg_ssap_43_revised.pdf

The paragraphs within SSAP No. 43R that are the subject of this document are below (the specific text is underlined):

55. This revised statement supersedes SSAP No. 98 and paragraph 13 of SSAP No. 99 effective September 30, 2009. For reporting entities that either early adopted the requirements of SSAP No. 98 or previously adopted a statutory accounting policy that was in accord with the prescriptions of SSAP No. 98, for which an other-than-temporary impairment was previously recognized, and if such reporting entities do not intend to sell the security, and have the intent and ability to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, those reporting entities shall recognize the cumulative effect of reversing the impact of the adoption of SSAP No. 98, or an equivalent statutory accounting policy, and paragraph 13 of SSAP No. 99 as an adjustment to the opening balance of unassigned funds (surplus) as of July 1, 2009, with a corresponding adjustment to applicable financial statement elements.

56. The accounting and reporting requirements of this revised statement shall be applied to existing and new investments held by a reporting entity on or after September 30, 2009. For loan-backed and structured securities held at the beginning of the interim period of adoption (July 1, 2009) and continue to be held as of September 30, 2009, for which an other-than-temporary impairment was previously recognized under SSAP No. 43R, if a reporting entity does not intend to sell the security, and has the intent and ability to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, the reporting entity shall recognize the cumulative effect of initially applying this revised statement as an adjustment to the opening balance of unassigned funds (surplus) as of July 1, 2009, with a corresponding adjustment to applicable financial statement elements. The cumulative effect on unassigned funds (surplus) shall be calculated by comparing the present value of the cash flows expected to be collected determined in accordance with the methodology in paragraph 32, as applicable, with the amortized cost basis of the loan-backed and structured security as of the beginning of the interim period in which this revised statement is adopted (July 1, 2009). The cumulative-effect adjustment shall include related tax effects. The discount rate used to calculate the present value of the cash flows expected to be collected shall be the rate in effect before recognizing any other-than-temporary impairments and not a rate that has been adjusted to reflect those impairments.

Reporting Guidance

In the above language, the cumulative effect of the above is reported as a change in accounting principle, which has a specific line within the calculation capital and surplus section of page 4 (page 5 for health) of the quarterly and annual statement. The above also notes that the offset to this amount is a corresponding adjustment to the applicable financial statement elements. In the case of this statement, the corresponding adjustment is to the bonds line, and more specifically, an adjustment through Schedule D. Note, because the corresponding adjustment can be the result of reversing either SSAP No. 98, SSAP No. 99, an equivalent statutory accounting policy, or when adding an incremental OTTI related to the adoption of SSAP No. 43R discounted cash flows methodology compared to SSAP No. 43 undiscounted cash flows, this adjustment can be the result of an impairment taken in either the current year (2009) or a prior year if the security is still held in accordance with paragraph 55 of SSAP No. 43R. In such a situation, NAIC staff suggests the insurer report the offsetting adjustment as a negative or positive other than temporary impairment (OTTI).

Annual Statement Reporting

NAIC Staff suggests insurers report the offsetting adjustment of the above examples as a negative or positive other than temporary impairment (OTTI) within the applicable column of Schedule D Part 1 as shown below. The same would be shown in Schedule D Part 4 for any structured security disposed in the 4th quarter of 2009. The below example demonstrates the cumulative effect adjustment that reverses the impact of SSAP No. 98, or an equivalent statutory accounting policy, and thus results in a negative OTTI. To the extent that a company previously impaired securities based upon SSAP No. 43, and the adoption of SSAP No. 43R resulted in additional impairments, the impact of such amounts would be positive figures reported on column 14 below.

SCHEDULE D – PART 1

Showing All Long-Term **BONDS** Owned December 31 of Current Year

PRIOR TO CUMULATIVE IMPACT-COMPANY RECORDS

1	2	Fair Value		10	11	Change in Book/Adjusted Carrying Value		
		8	9			12	13	14
CUSIP Identification	Description	Rate Used To Obtain Fair Value	Fair Value	Par Value	Book / Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized
12345V-AD-3	ABC Asset- Backed Certi ABS Float	51.569	4,125,520	8,000,000	4,125,520	0	24,441	3,689,366

CUMULATIVE IMPACT ADJUSTMENT-COMPANY RECORDS OF CUMULATIVE EFFECT

12345V-AD-3	ABC Asset- Backed Certi ABS Float	51.569	4,125,520	8,000,000	**5,807,802**	0	0	**(1,682,282)**

CUMULATIVE IMPACT ADJUSTMENT-ACTUAL SCHEDULE D AFTER CUMULATIVE EFFECT

12345V-AD-3	ABC Asset- Backed Certi ABS Float	51.569	4,125,520	8,000,000	**5,807,802**	0	0	**2,007,084**

Verification Between Years

When the above is flowed through to the verification between years, it would result in the OTTI showing the net of the actual impairments taken during the year on the individual security, and the cumulative effect of adopting SSAP No. 43R. The above and below illustration allows the regulator to: 1) identify the total reduction taken to the book/adjusted carrying value of the bonds during the current period on an individual by individual security basis within Schedule D Part 1 (and Part 4 if applicable), as well as the same on a total portfolio basis within the Schedule D verification. The following demonstrates the impact on the verification between years.

SCHEDULE D – VERIFICATION BETWEEN YEARS (Shown for the above investment only)

Bonds and Stocks

1.	Book/adjusted carrying value, December 31 of prior year	7,790,445
2.	Cost of bonds and stocks acquired, Part 3, Column 7	0
3.	Accrual of discount	24,441
4.	Unrealized valuation increase (decrease):	
	4.1 Part 1, Column 12	0
	4.2 Part 2, Section 1, Column 15	0
	4.3 Part 2, Section 2, Column 13	0
	4.4 Part 4, Column 11	0
5.	Total gain (loss) on disposals, Part 4, Column 19	0
6.	Deduct consideration for bonds and stocks disposed of, Part 4, Column 7	0
7.	Deduct amortization of premium	0
8.	Total foreign exchange change in book/adjusted carrying value:	
	8.1 Part 1, Column 15	0
	8.2 Part 2, Section 1, Column 19	0
	8.3 Part 2, Section 2, Column 16	0
	8.4 Part 4, Column 15	0
9.	Deduct current year's other than temporary impairment recognized:	
	9.1 Part 1, Column 14	2,007,084
	9.2 Part 2, Section 1, Column 17	0
	9.3 Part 2, Section 2, Column 14	0
	9.4 Part 4, Column 13	0
10.	Book/adjusted CV (Lines 1+2+3+4+5-6-7+8-9)	5,807,802
11.	Deduct total nonadmitted amounts	0
12.	Statement value at end of current period (Line 10 minus Line 11)	5,807,802

Again, to the extent that a company previously impaired securities based upon SSAP No. 43, and the adoption of SSAP No. 43R resulted in additional impairments, the impact of such amounts would be positive figures reported on line 9.1 above.

Page 4 (and/or 5 of the Health Annual Statement)

The only issue with the above presentation is how the above flows through the rest of the annual statement. More specifically, the total amount of OTTI to be reported in the "realized gains and losses" line of the page 4 summary of the operations should NOT reflect this cumulative adjustment, since that amount is to be shown as a separate line within the capital and surplus section of page 4. The following simplified example (ignores IMR) from the life annual statement demonstrates the expected reporting.

Life A/S Example

34.	Net realized capital gains (losses)	(3,689,366)
49.	Cumulative effect of changes in accounting principles	1,682,282

Again, to the extent that a company previously impaired securities based upon SSAP No. 43, and the adoption of SSAP No. 43R resulted in additional impairments, the impact of such amounts would be reported as a reduction in capital in surplus on line 49 above.

Other Pages

Other pages which are intended to show the amount of realized gains and losses should reflect the amount which will be reported on the realized gains (losses) line of page 4. In other words, the other pages should not reflect the cumulative effect of changes in accounting principles. As an example, the Exhibit of Capital Gains and Losses for the above example should include capital losses of $3,689,366 in column 2 of the bonds line. Consequently the amount of other-than-temporary impairments reported in Schedule D will not tie to this exhibit, nor will they tie to the amount reported in the net realized capital gains (losses) of page 4. However, the above illustration allows the insurer to report the total amount of activity on an individual security by security basis, and allows the ending balance to agree to the appropriate balance sheet amount.