June 20, 2024

The Meadows Events & Conference Center & Live Webcast

8 a.m.–4:20 p.m. CDT

7 hours CPE ***(8 hours with bonus session)***

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Agenda

8-8:10 a.m. | Welcome remarks

Dawn Latham | Iowa Society of CPAs
Heidi DeMarais | EY | 2023-2024 Committee Chair
Bishop AB | Channel 1

8:10-8:25 a.m. | Iowa Insurance Division Update

Kevin Clark | Iowa Insurance Division
Bishop AB | Channel 1

8:25-9:15 a.m. | Macro Trends Impacting the Insurance Industry

Marie Carr | PwC
Bishop AB | Channel 1

9:15-9:25 a.m. | Break

9:25-10:15 a.m. | Breakout sessions

Voices of Insurtech Innovation and Investing
Nicole Gunderson | ManchesterStory Group LLC
Susan Hatten | Holmes Murphy (Moderator)
Dan Israel | Global Insurance Accelerator
Ellen Willadsen | Holmes Murphy
Bishop AB | Channel 1

FASB/PCOAB/SEC Update
Andrew Pidgeon | Deloitte
Salon 2/3 | Channel 2

10:15-10:25 a.m. | Break

10:25-11:15 a.m. | NAIC Update

Connie Jasper Woodroof | CJW Associates
Bishop AB | Channel 1

11:15-11:30 a.m. | Break

Attending the bonus session: Sign the bonus session attendance sheets on the registration tables, pick up your lunch in the pre-function area and return to Bishop AB.

Not attending bonus session: Pick up your lunch and be seated at the tables in the pre-function area.

11:30 a.m.-12:20 p.m. | Optional BONUS lunch session: Ethics, Integrity and Accountability 2024: How Are We Doing?

Tom Westbrook | Learn Associates LLC
Bishop AB | Channel 1
VSCPA-specific ethics session | Channel 2

12:20-12:30 p.m. | Break

12:30-1:20 p.m. | Ethics, Integrity and Accountability 2024: It Could Happen To You

Tom Westbrook | Learn Associates LLC
Bishop AB | Channel 1
VSCPA-specific ethics session | Channel 2

1:20-1:30 p.m. | Break

1:30-2:20 p.m. | Breakout sessions

ESG: An Overview and Regulatory Developments
Jon Poth | EY
Bishop AB | Channel 1

Tax Update
Andy Seydel | EY
Salon 2/3 | Channel 2

2:20-2:30 p.m. | Break

Reminder: Sign the afternoon attendance sheets.

2:30-3:20 p.m. | Breakout sessions

2024 Washington Political and Legislative Update
Scott McLucas | KPMG
Bishop AB | Channel 1

Principles Based Bond Project
Kevin Clark | Iowa Insurance Division
Salon 2/3 | Channel 2

3:20-3:30 p.m. | Break

3:30-4:20 p.m. | Hot Topics Panel

Mike Downing | Athene
Kelli Eddy | Farm Bureau Financial Services
Scott Jean | EMC Insurance Company
Patti Martin | Deloitte (Moderator)
Bishop AB | Channel 1

Special thanks...

to the 2023-2024 ISCPA Insurance Industry Committee for their help planning this year's conference! We appreciate your time and commitment to developing a top-notch program for your peers.

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Insurance Industry Conference
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Meet the speakers

Marie Carr is a senior strategy partner in PwC's Insurance Strategy practice with more than 30 years of professional experience. Her experience includes work across all various subsector of insurance including property and casualty, life, disability, health, brokerage and reinsurance. Marie helps corporate boards and leadership teams develop and assess growth strategies which take advantage of emerging trends and disruptions. Marie also serves on PwC's insurance thought leadership editorial board, leading thought leadership development efforts for insurance consulting. Recent publications include Insurance 2030, Customer First Strategy, 2024 GenAi Insurance Trends, "No Regrets" moves for Personal Lines P&C, and Commercial P&C Considerations. Marie has a Bachelors in Economics from Northwestern University, a Masters of Business Administration from University of Chicago Booth School of Business. In addition to work in management consulting, Marie has a PhD in Theology and has served as an Adjunct professor of Global Economics and Macro Economics at the North Park University's Graduate School of Business and Nonprofit Management.

Kevin Clark joined the Iowa Insurance Division in 2020 and currently serves as the Division's Chief Accounting & Reinsurance Specialist. His responsibilities include providing accounting, reinsurance and investment expertise to the financial regulation functions of the Division. He also represents Iowa on related National Association of Insurance Commissioners working groups including as ice Chair of the Statutory Accounting Principles Working Group and has led significant initiatives including the development of the Principles Based Bond Definition for statutory accounting. Prior to joining the Division, Mr. Clark was a Director of Accounting Policy at Athene Holding, Ltd, where his experience spanned both GAAP and statutory accounting, with specialization in investments, reinsurance and insurance liability accounting. He also previously worked as an auditor with Deloitte.

Mike Downing is the Chief Operating Officer and Chief Actuary with Athene USA. He is responsible for the day-to-day operations of the company, including IT, operations, product management, marketing, and Athene's Bermuda operations. Prior to assuming his current role, Mr. Downing served as Executive ice President and Chief Actuary and was responsible for global actuarial valuation, modeling, pricing, product development, and product go-to-market. He holds a Bachelor's degree in Mathematics from Gustavus Adolphus College in St. Peter, Minnesota. He is a Fellow of the Society of Actuaries (FSA) and serves on the board of directors for the Greater Des Moines Partnership.

Kelli Eddy is the Chief Operating Officer for the Life and Wealth Companies at Farm Bureau Financial Services. The Companies offer a broad range of solutions to Farm Bureau Property and Casualty Companies across a 15-state footprint. Over the past several years she has been instrumental in defining and leading the strategic direction for both companies. Strategy development and leading transformational change are two key strengths of Kelli's. She helps leaders (external and internal) recognize their impact when they choose to fully invest in their company's journey. She encourages leaders and employees to lean in, be curious, and ponder/anticipate tomorrow because companies must be willing to disrupt themselves to remain relevant. She also coaches leaders in balancing the "future opportunities thinking" with "thinking similarly" i.e., what risks and threats will exist tomorrow? Before joining Farm Bureau Financial Services, Kelli led Individual Life New Business Operations, Underwriting Operations, Risk and Strategy at Voya. Kelli has worked in the field as an advisor, and as an Investor Services Sales P, which helped her understand the needs of the advisor and their clients. Kelli has a degree in Finance with an emphasis in Computer Science and Mathematics from the University of Montana.

Nicole Gunderson is Principal at ManchesterStory Group LLC, a rapidly growing venture capital firm partnering with market-leading startups in the InsurTech, FinTech and HealthTech sectors. Nicole's career spanned finance, technology, startups and investing. She completed MBA coursework at The Wharton School at the University of Pennsylvania and a B.B.A in finance from the University of Iowa Henry B. Tippe College of Business.

Meet the speakers

Susan Hatten is the Chief Marketing Officer at Holmes Murphy where she oversees the strategy and direction for Holmes Murphy's marketing objectives including brand, voice, look, and feel through both internal and external Holmes Murphy representation, as well as Brokerage Services and PLUS (subsidiary brands) marketing sales support. Susan's team of marketing experts include communications/PR, design, social media, film, events, website, and digital. Susan also oversees the strategy and direction for Holmes Murphy's Foundation and community engagement. In addition to her role at Holmes Murphy, Susan serves as the Chief Operating Officer and Co-Founder of BrokerTech ventures. Prior to joining Holmes Murphy, Susan led business development for the marketing consultancy and advertising agency, The Sigler Companies/Innova. Since joining Holmes Murphy in 2014, Susan has held roles within Enterprise Sales, built the Holmes Murphy Foundation, been involved in the Women Optimizing Women (WOW) initiative, served on the founding team to build BrokerTech Ventures, and now leads Marketing. Susan graduated from Iowa State University with a degree in Business Marketing and Apparel Merchandising/Design. Passionate about her community, Susan holds leadership roles with the Des Moines Downtown Chamber, variety - The Children's Charity, the Winefestival Foundation of Des Moines, ChildServe, United Way of Central Iowa, The Plaza DSM, Pro-Iowa Foundation, and Releve' Women's Group.

Dan Israel is the Managing Director for the Global Insurance Accelerator (GIA). Dan is responsible for the overall operations of the organization - emphasizing the growth, development, and success of the programs, as well as ongoing support of all of the accelerator's portfolio companies. His goal is to bring together strategic and forward-thinking investors with innovative founders who can enhance both groups' opportunities for growth and the insurance space overall. Prior to the GIA, his career has spanned roles in innovation, management and strategy, finance, and operations within a number of industries. He has an M.B.A. from the Kellogg School of Management at Northwestern University and a B.B.A. in Finance and Economics from the University of Iowa Henry B. Tippie College of Business.

Connie Jasper Woodroof began her career in the insurance industry in 1984 completing statutory filings for both Life and Property/Casualty companies. Ms. Woodroof spent nine years with the NAIC where she served in various capacities; reviewing of statements for quality, testing of RBC formulas and software during formula development, and assisting with the development and teaching of an industry educational series. Connie completed 18 years as the NAIC Liaison for Fiserv/StoneRiver/Sapiens, where she helped both Sapiens and its clients keep abreast of events at the NAIC, responded to statutory reporting and accounting information requests and provided educational opportunities. Currently, Ms. Jasper Woodroof is serving as a statutory insurance industry consultant for FORVIS as well as offering consulting services to the insurance industry. Connie remains active on several industry interested parties groups working with NAIC issues. Woodroof holds a FLMI, a B.S. in Accounting and a M.A. in General Psychology.

Scott Jean is the President and CEO of EMC Insurance Company in Des Moines. He began his career at EMC as an intern and has enjoyed working in various areas as he advanced towards his current role. Scott has served as actuary, ice president and chief actuary, and executive ice president of finance and strategy. He serves as chairman and chief executive officer of EMC National Life, an EMC affiliate offering life insurance products. He is a fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries.

Patti Martin is a Managing Director in Deloitte's Accounting and Reporting Advisory practice with a focus in insurance. Patti has over 20 years of professional experience in the insurance industry in a variety of roles including serving life and property and casualty insurance audit clients in Deloitte's Audit & Assurance business. Before joining Deloitte, Patti was a Controller for a non-public life, annuity and group benefit insurance company, and leader of the Claims Risk Management and

Meet the speakers

Quality Assurance organization for the Group Benefit business of a public insurance company. In her current role at Deloitte, Patti provides clients with technical accounting, internal control, and finance transformation advisory services as well as accounting standards implementation guidance. She also serves as a lead ESG and sustainability specialist within the New England region.

Scott McLucas is the Managing Director of Federal Government Affairs at KPMG LLP in Washington D.C. The government affairs office represents the firm's interests in all matters of public policy before the U.S. Congress, the Executive Branch, and relevant U.S. agencies. In the government affairs office, Scott has primary responsibility for legislation in the U.S. House of Representatives and Senate, including the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Prior to joining KPMG in 2001, he worked in political and public policy journalism, producing three PBS television programs, and serving as the managing editor of the foreign policy journal The National Interest. Scott received a B.A. in history from Middlebury College.

Andrew Pidgeon is an Audit and Assurance Partner at Deloitte & Touche LLP in the Accounting and Reporting Services group within the firm's national office. He assists attest and non-attest engagement teams and clients with technical accounting matters. Andrew focuses on the accounting for financial instruments, derivatives and hedging, debt and equity capital transactions, transfers and securitizations, financial instrument and derivative valuation, and consolidation, including special purpose entities (SPEs) and variable interest entities (VIEs). Andrew's career has included a Professional Accounting Fellowship (PAF) at the Securities and Exchange Commission (SEC) in the Office of the Chief Accountant (OCA), and various roles in Deloitte's audit and advisory practices in Los Angeles, Orange County, and San Francisco. He is a CPA in California and a member of the AICPA and California Society of CPAs, and a CFA Charterholder and member of the CFA Institute and CFA Society of San Francisco.

Jon Poth is a Senior Manager at EY with over 11 years of professional experience serving financial services clients. Jon has extensive accounting, audit, attest, and financial reporting knowledge, including insurance specific financial reporting experience. Jon's range of clients include SEC filers, Global-360 multinational entities, and mid-size local based insurers. In addition to his client serving role, Jon serves as the ESG Champion for the FSO Insurance audit practice, providing EY's client base with updates on ESG trends and regulatory developments.

Andy Seydel is a Des Moines-based Partner in EY's FSO tax practice. He has over 20 years of experience as it relates to life insurance and property and casualty insurance companies. He began his career in the audit practice with EY, and after working for three years in the private insurance industry, he re-joined EY in the FSO tax practice in 2013. Andy has extensive experience in the preparation and review of GAAP, IFRS, and Statutory income tax provisions as well as deferred tax inventories. He has expertise in both SSAP 101 and ASC 740 and has extensive experience with the process review and control testing regarding compliance with Sarbanes Oxley Section 404. He provides federal and state tax return compliance services for corporations, partnerships, and life/nonlife consolidated filings. Andy assists client in tax planning and consulting including matters such as accounting method changes, private letter rulings, transaction due diligence, and tax operating model enhancements. He has been a presenter at numerous industry conferences including the Insurance Tax Conference, Society of Actuaries Product Tax Conference, ITA Tax Symposium, and the EY Annual Insurance Industry Update in Des Moines, among others. He is also a frequent instructor of internal trainings for tax and audit professionals. Andy received his Bachelors of Arts in Accounting from Simpson College. He is a CPA, licensed in the State of Iowa. He is a member of the AICPA and Iowa Society of Public Accountants. Andy serves on the board of the Iowa Taxpayers Association.

Meet the speakers

Tom Westbrook is an active presenter at numerous corporations and organizations across the Midwest. His clients include Principal Financial Group, Oldcastle Materials Group, Jeld-Wen, McAninch Construction, Wells Fargo, Wellmark, Nationwide, numerous associations, medical centers, school districts and colleges. His success at blending the theoretical aspects of leadership with practical, performance-based applications has won him praise as a master facilitator. Tom's work at Nationwide included the design of a 21st century learning model applied to their new School of Commercial Underwriting. With Wellmark, Tom and his team designed the orientation for communities creating Blue Zones in Iowa. His work at Principal included the development and offering of instructor-led, highly interactive traditional and web-based leadership courses offered to over 5,000 leaders across the United States. Tom served on the administration and faculty of Drake University. Tom started, directed, and taught in the undergraduate minor in Leadership Education & Development and taught graduate leadership classes. While at Simpson College, Tom served as Dean of Continuing Education, a program he initiated. He has published in many leading journals including: The Human Resource Development Quarterly, American Journal of Distance Education, and The Journal of Continuing Higher Education. He was awarded the Iowa Distance Education Association's Points of Presence Award for exemplary programming. Tom's doctorate was earned at the University of Iowa where he was awarded the Leonard B Dais Award for scholarship and service.

Ellen Willadsen is Chief Innovation Officer for Holmes Murphy. She joined the company in 1995 and during her more than 27 years, she's played a key role in increasing Holmes Murphy's profitability and providing invaluable counsel on major financial decisions. From 1995 to 2021, Ellen served as Chief Financial Officer (CFO), assisting in all strategic and tactical matters as they relate to budget management, evaluation of potential acquisitions, cost benefit analysis, and Holmes Murphy's overall vision of growth. In 2021, Ellen transitioned to the role of Chief Innovation Officer (CIO) and serves as Holmes Murphy's Executive Sponsor for BrokerTech ventures. For many previous years, Ellen served on the Holmes Murphy Executive Committee - she was the first female leader at the company to do so - and as a director on Holmes Murphy's Board. She also previously served on the perpetuation, compensation, and audit committees, providing insight and helping make informed decisions that affect the entire company. Prior to joining Holmes Murphy, Ellen worked as an audit manager for a CPA firm. A graduate of the University of Iowa and a CPA, Ellen continues to contribute her diligent work ethic and financial expertise to move Holmes Murphy forward in achieving dynamic growth and innovation. Ellen is an active participant in the United Way's Women United. She is a member of the Iowa Society of CPAs and was named the ISCPA's Outstanding CPA in Business and Industry in 2019. She is also a member of the Financial Executive Women (FEW) — an organization focused on mentoring and supporting women working in the financial sector. Ellen was inducted into the Iowa Insurance Hall of Fame in 2022.

Iowa Insurance Division Update

Kevin Clark

Insurance Industry Conference | June 20, 2024

Iowa Insurance Division Update

Kevin Clark

NOTES

Macro Trends Impacting the Insurance Industry

Marie Carr

IOWA SOCIETY OF CPAs

Insurance Industry Conference | June 20, 2024

Macro Trends Impacting the Insurance Industry

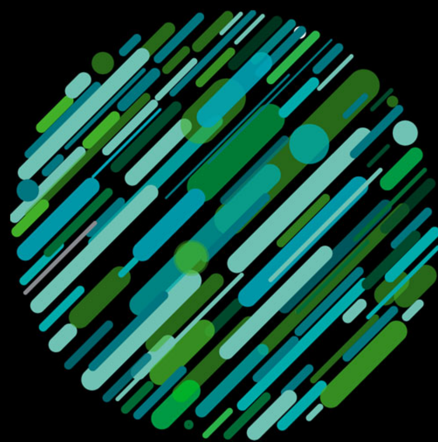
Marie Carr

NOTES

FASB/PCOAB/SEC Update

Andrew Pidgeon

Deloitte.



FASB, SEC, and PCAOB Regulatory Overview and Update

June 2024

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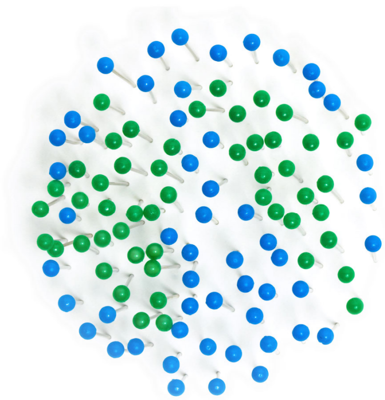
Agenda

Recent developments:

- **FASB**
- **SEC**
- **PCAOB**



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FASB Update

4

Final ASU Issued Recently
2023 and 2024 (as of June 10, 2024)

2024	• ASU 2024-02, Codification Improvements – Amendments to Remove References to the Concepts Statements • ASU 2024-01, Scope Application of Profits Interest Awards: Compensation – Stock Compensation (Topic 718)
2023	• **ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures** • ASU 2023-08, Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets • **ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures** • ASU 2023-06, Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative • ASU 2023-05, Business Combinations – Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement • ASU 2023-02, Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method • ASU 2023-01, Leases (Topic 842): Common Control Arrangements

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Income Taxes (Topic 740): Improvements to Income Tax Disclosures (ASU 2023-09)

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Improvements to Income Tax Disclosures

Background

- In December 2023, the FASB issued an ASU that modifies or eliminates certain existing income tax disclosure requirements in addition to establishing new requirements. Notable changes from proposed ASU include:
  - Eliminated proposed qualitative disclosure to explain significant year over year changes to the rate reconciliation.
  - Eliminated proposed interim disclosure enhancements to both the rate reconciliation and income taxes paid

Rate Reconciliation

- Disclose rate reconciliation information using both percentages and dollar amounts.
- Requires that PBEs disclose rate reconciliation information by category, including consideration of eight specific categories with further disaggregation.
- Provide a qualitative disclosure about the states that contribute to the majority of the effect (greater than 50%) of the state and local income tax, net of federal income tax effect category.
- Provide a qualitative disclosure of individual reconciling items, such as nature, effect, and underlying causes and judgement applied in categorization of such items if not otherwise evident
- Require that nonpublic entities provide a qualitative disclosure about specific categories and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate.

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Improvements to Income Tax Disclosures (cont.)

Final ASU – Rate Reconciliation (cont.)

Specific Category	Additional Details
State and local effects	Qualitative disclosure of state and local jurisdictions that constitute the majority of the effect of the category (greater than 50%)
Foreign tax effects	• Disaggregated by jurisdiction (country) and by nature. • 5% shall be assessed at the jurisdiction level in total. • Reconciling items within a jurisdiction that are equal to or greater than the 5% threshold shall be disclosed by nature, regardless of whether the jurisdiction meets the 5% threshold. • Uncertain tax benefits may be reported net in a single category (as discussed below)
Cross-border tax laws	• Disaggregate by nature. • Net presentation of the cross-border tax laws and resulting foreign tax credits is allowed where the credit is in the same jurisdiction, which is an inherent part of the calculation.
Enactment of new tax laws	Includes the cumulative effects of a change in enacted tax law or rates on current or deferred tax assets and liabilities as of the enactment date.
Tax credits	Disaggregate by nature.
Valuation allowance	Disaggregate by jurisdiction.
Nontaxable or nondeductible items	• Disaggregate by nature. • Effects of stock-based compensation windfalls may be reported in this category. An entity should consider disclosure under 740-10-50-12C of share-based compensation effects included in this category
Uncertain tax benefits	• Disaggregate by jurisdiction and nature. • Initial recognition and measurement may be netted against the associated reconciling item. • Permissible to aggregate across jurisdictions and present as one reconciling item.
Category not specified	Disaggregate by nature based on 5% threshold.

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Improvements to Income Tax Disclosures (cont.)

Final ASU – Other Changes Included in the ASU

1 **Disaggregation of Pretax Income and Expenses**
- Requires disaggregation of income (or loss) from continuing operation before income tax expense (or benefit) disaggregated between domestic and foreign
- Requires disaggregation of income tax expense (or benefit) from continuing operations by federal (national), state, and foreign

2 **Indefinitely Reinvested Foreign Earnings**
- Removes requirement to disclose cumulative amount of each type of temporary difference for DTLs that are not recognized as a result of exceptions related to subsidiaries and corporate joint ventures (i.e., DTLs associated with entities for which the company has asserted to indefinitely reinvest foreign earnings)

3 **Unrecognized Tax Benefits**
- Eliminated required disclosure of tax positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease in the next twelve months
- Does not impact disclosures under Topic 275, which may require incremental disclosures of UTBs

4 **Reconciliation with ASC Master Glossary**
- Replaced the term "public entity" with "public business entity" throughout ASC 740

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Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures (ASU 2023-07)

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Segment Reporting
Final ASU

Background

- On October 6, 2022, the FASB issued a proposed ASU that would enhance disclosures about significant segment expenses for all public entities.
- ASC 280 requires a public entity to report for each reportable segment a measure of segment profit or loss that its chief operating decision maker (CODM) uses to assess segment performance and to make decisions about resource allocations.
- A Final ASU was issued in November 2023.

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Segment Reporting (cont.)
Final ASU

Change	Overview and When Disclosure is Required
Significant segment expenses	Public entities are required to disclose significant segment expenses by reportable segment if they are regularly provided to the CODM and included in each reported measure of segment profit or loss. Disclosures are required on both an annual and an interim basis.
Other segment items	Public entities are required to disclose other segment items by reportable segment. Such a disclosure would constitute the difference between reported segment revenues less the significant segment expenses (disclosed) less reported segment profit or loss. Disclosures are required on both an annual and an interim basis.
Multiple measures of a segment's profit or loss	Public entities may disclose more than one measure of segment profit or loss used by the CODM, provided that at least one of the reported measures includes the segment profit or loss measure that is most consistent with GAAP measurement principles. Disclosures are required on both an annual and an interim basis.
CODM-related disclosures	Disclosure of the CODM's title and position is required on an annual basis, as well as an explanation of how the CODM uses the reported measure(s) and other disclosures.
Entities with a single reportable segment	Public entities must apply all of the ASU's disclosure requirements, as well as all existing segment disclosure and reconciliation requirements in ASC 280, on an annual and interim basis.
Recasting of prior-period segment information to conform to current-period segment information	Recasting is required if segment information regularly provided to the CODM is changed in a manner that causes the identification of significant segment expenses to change.

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Segment Reporting (cont.)
Final ASU

Effective Date and Transition

- The amendments in this Update are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted.
- A public entity should apply the amendments in this Update retrospectively to all prior periods presented in the financial statements. Upon transition, the segment expense categories and amounts disclosed in the prior periods should be based on the significant segment expense categories identified and disclosed in the period of adoption.

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FASB - Current Projects

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FASB Technical Agenda – Current Projects
As of June 5, 2024

Topic - Recognition and Measurement Projects	Next Milestone	Expected Date
Accounting for and Disclosure of Software Costs	Board Deliberations	Ongoing
Accounting for Environmental Credit Programs	Board Deliberations	Ongoing
Accounting for Government Grants	Exposure Draft	3Q 2024
Codification Improvements (next phase)	Board Deliberations	Ongoing
Financial Instruments – Credit Losses (Topic 326) – Purchased Financial Assets	Board Deliberations	Ongoing
Induced Conversions of Convertible Debt Instruments (EITF Issue No. 23-A)	Final ASU	3Q 2024
Topic 815 – Hedge Accounting Improvements	Exposure Draft	3Q 2024
Topic 815 – Derivatives Scope Refinements	Exposure Draft	3Q 2024

Topic – Presentation and Disclosure Projects	Next Milestone	Expected Date
Disaggregation – Income Statement Expenses	**Board redeliberation**	**Ongoing**
Interim Reporting – Narrow-Scope Improvements	Exposure Draft	3Q 2024
Statement of Cash Flows Targeted Improvements	Board deliberations	Ongoing

Topic – Framework Projects	Next Milestone	Expected Date
Conceptual Framework: Measurement	Final Concepts Statement	2Q 2024

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Disaggregation – Income Statement Expenses – Board Redeliberation

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Disaggregation—Income Statement Expenses

Board Redeliberation

Background

- Objective is to improve the usefulness of the income statement through the disaggregation of performance information.
- On April 24, 2019, the Board discussed an internal view approach to disaggregating income statement expense information.
- In March 2023, the Board discussed clarifications of the decisions at the January 2023 Board meeting, interim reporting, application to private companies, transition, cost-benefit considerations, and comment period.

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Disaggregation—Income Statement Expenses

Board Redeliberation

Tentative Decisions

- Requires the following on an interim and annual basis for public business entities:
  - For each income statement expense caption that includes the expense categories, disclose in a disaggregated tabular format the details of such costs included in the caption.
  - Further disaggregation is required for costs capitalized to inventory and other manufacturing expenses.
  - Include certain amounts that are already required to be disclosed under existing generally accepted accounting principles (GAAP).

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Disaggregation—Income Statement Expenses

Board Redeliberation

Tentative Decisions (cont.)

- Disclose a qualitative description of the amounts remaining in relevant expense captions or in inventory and manufacturing expense that are not separately disaggregated quantitatively.
- Disclose the total amount of selling expenses and an entity's internal definition of selling expenses and how selling expenses are distinguished from other expenses.

January 31, 2024 Decisions

- Affirmed proposal to require an entity to:
  - Disclose the disaggregation of relevant expense captions
  - Disclose the amounts for employee compensation, depreciation, and intangible asset amortization for each relevant expense caption
  - Disclose an amount for total selling expenses, as defined by the entity
  - Integrate certain existing disclosures with income statement mapping requirements into the same tabular format disclosure as the disaggregation of relevant expense captions
  - Qualitatively describe the nature of other expenses in a relevant expense caption that are not required to be quantitatively disaggregated
- Affirmed that the disclosures should apply only to public business entities.

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Disaggregation—Income Statement Expenses

Board Redeliberation

January 2024 Decisions (cont.)

- Directed the staff to perform further work on the following:
  - Clarify the effects of proportionate consolidation, joint ventures, and other cost-sharing arrangements.
  - Clarify how an entity should present additional expense information that it voluntarily discloses.
  - Clarify how the existing advertising expense disclosure interacts with the proposed selling expense disclosure.
  - Clarify the nature of the amounts that an entity should include in the proposed selling expense disclosure.
  - Identify disclosures that an entity may need to provide when it changes its definition of selling expenses in a subsequent reporting period.
  - Provide guidance for entities in certain industries.
  - Provide examples of other types of expenses that an entity may or may not consider including in its definition of selling expenses.
  - Provide targeted improvements to the proposed definitions and linkages to other Subtopics.
  - Explore the feasibility of a potential scope exception for public business entities that are nonissuers.
- Directed the staff to perform further work on the disclosure and further disaggregation of inventory and manufacturing expense.

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Disaggregation—Income Statement Expenses

Board Redeliberation

March 2024 Decisions

- Affirmed its proposal that
  - An entity that presents salaries and employee benefits in accordance with SEC Regulation S-X Rule 9-04 need not apply the definition of employee compensation when applying the disaggregation requirements.
- Decided the following about **expense captions**:
  - To provide additional guidance about when certain liability-related expenses are excluded from the disaggregation requirements.
- Decided the following about **required expense categories**, excluding inventory and manufacturing expense.
  - To improve the proposed definitions of employee and employee compensation.
  - To specify in the amendments to the Codification that an entity must separately disclose additional expense information that it voluntarily provides from the required disclosures.
- Decided the following about **selling expenses**:
  - To clarify in the amendments to the Codification that an entity's definition of selling expenses should include only items that are presented as expenses on the income statement.
  - Not to specify whether advertising expenses disclosed in accordance with Subtopic 720-35, Other Expenses—Advertising Costs, should be included in the amounts disclosed for total selling expenses.
  - To require that an entity recast its disclosure of prior-period total selling expenses in the period that it changes its definition of selling expenses unless it is impracticable to do so.

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Disaggregation—Income Statement Expenses

Board Redeliberation

May 2024 Decisions

- With respect to joint ventures and other cost-sharing and cost-reimbursement arrangements, the Board decided:
  - To allow an entity to (1) disclose an aggregate reimbursement amount that is either received or paid as a separate line item in the tabular format disclosure or (2) map the reimbursement amount to the required expense categories.
  - To require that an entity disclose a qualitative description of the natural expense categories to which the reimbursement relates.
  - To clarify in the Codification that an entity is not required to disaggregate either (1) its share of profit or loss in an equity method investee or (2) its disclosure of summarized information of results of operations of equity method investees.
- With respect to industry-specific research, the Board decided:
  - Not to provide a practical expedient that would allow an entity to combine cost of product revenue and cost of service revenue into one expense caption.
  - Not to provide any other additional practical expedients and directed the staff not to perform any further research about industry-specific guidance.
- The Board decided to pursue a single-level disaggregation approach for inventory.

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Disaggregation—Income Statement Expenses

Board Redeliberation

Effective Date and Transition

- The Board will determine the effective date of the guidance after it considers feedback on the proposed ASU. The proposal would require PBEs to adopt the new guidance prospectively while also providing an optional retrospective application.

Next Steps

- The Board will continue deliberations at a future Board meeting.

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SEC Update

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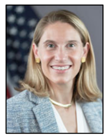
SEC Organization & Structure
Commissioners, Divisions, and Select Offices

MISSION: To protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation

Chair
Gary Gensler (D)
(Term expires 2026)



Commissioner
Caroline Crenshaw (D)
(Term expires 2024)

Commissioner
Hester Peirce (R)
(Term expires 2025)

Commissioner
Jaime Lizárraga (D)
(Term expires 2027)

Commissioner
Mark Uyeda (R)
(Term expires 2028)

Division of Enforcement
Leads investigations of possible violations of the federal securities laws

Division of Corporation Finance
Oversees registration and reporting by public companies, including through rulemaking and reviews of company filings

Division of Investment Management
Regulates investment companies, variable insurance products, and federally registered investment advisers

Division of Trading & Markets
Oversees major securities market participants (e.g., broker-dealers, exchanges, SROs, analysts)

Division of Economic & Risk Analysis
Integrates financial economics and data analytics into the range of SEC activities, including policy-making, rulemaking, enforcement, and examinations

Office of the Chief Accountant
Establishes and enforces accounting and auditing policy to enhance the transparency and relevancy of financial reporting; administers auditor independence rules

Division of Examinations
Administers SEC's nationwide examination and inspection program for investment companies, broker-dealers, exchanges, SROs and PCAOB

Source: www.sec.gov

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SEC Developments
Commission Priorities

Based on recent speeches and the SEC's published agenda, the following are priorities of Chair Gensler:

- Market structure modernization
  - Treasury market*
  - Non-Treasury fixed income markets
  - Security-based swaps*
  - Equity markets*
- Regulation of cryptocurrencies
- Regulation of funds (including private funds) and investment advisers*
- Environmental, Social, and Governance (ESG) disclosures*

** indicates recent proposed rule making or recently adopted rules*

Recent Rule Adoptions and Other Key Proposals Relevant to Public Companies:

- Special Purpose Acquisition Companies, Shell Companies, and Projections
- Beneficial Ownership Reporting
- Share Repurchases

Enforcement Activities:

- Key priorities include ensuring gatekeepers live up to their obligations, misconduct in cryptocurrency, financial fraud and issuer disclosure, and enforcing the FCPA
- Whistleblower Program

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SEC Developments
Other SEC Areas of Focus – Public Companies

Recent Statements of the Office of the Chief Accountant:

- **Fostering a Healthy "Tone at the Top" at Audit Firms** – Chief Accountant Munter issued a statement on the importance of a healthy tone at the top at audit firms.
- **An Investor Protection Call for a Commitment to Professional Skepticism and Audit Quality** – Chief Accountant Munter issued a statement stressing the importance of high-quality audits of financial statements to investor protection and investor confidence. He outlined critical considerations and practices for both auditors and audit committees.
- **The Statement of Cash Flows: Improving the Quality of Cash Flow Information Provided to Investors** – Chief Accountant Munter issued a statement on the importance of the statement of cash flow and the necessity for preparers and auditors to apply the same rigor and attention on the statement of cash flows as other financial statements.
- **The Importance of a Comprehensive Risk Assessment by Auditors and Management** – Chief Accountant Munter issued a statement on the importance of risk assessment processes to financial reporting and the effectiveness of internal control over financial reporting. In addition to highlighting the responsibilities of management, he also stressed the important role of auditors as gatekeepers to hold management accountable.
- **The Potential Pitfalls of Purported Crypto "Assurance" Work** – Chief Accountant Munter issued a statement highlighting concerns related to third-party reviews or "audits" of crypto trading platforms, noting the terminology associated with this work is often misleading.

Other Staff Activities:

- Non-GAAP Measures – SEC staff continues to closely monitor the use of non-GAAP measures.

SEC Developments
Spotlight on ESG: Overview

The Commission has indicated its intent to focus on four areas related to ESG disclosure. Recent actions, or announced intent to take action, in these four areas include:

- ***Climate Change*** –
  - Final Rule: *The Enhancement and Standardization of Climate-Related Disclosures for Investors.* Proposed Rulemaking: *Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices.*
  - Final Rule: *Investment Company Names.*
- ***Cybersecurity Risk Management*** –
  - Final Rule: *Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure*. Proposed Rulemaking: *Cybersecurity Risk Management for Investment Advisers, Registered Investment Companies, and Business Development Companies.*
  - Proposed Rulemaking: *Cybersecurity Risk Management Rule for Broker-Dealers, Clearing Agencies, Major Security-Based Swap Participants, and other market entities.*
  - Final Rule: *Regulation S-P: Privacy of Consumer Financial Information and Safeguarding Customer Information.*
  - The Division of Enforcement's focus on cyber-related disclosure and controls.
- ***Human Capital Management*** –
  - Regulation S-K Amendments in August 2020 included requirements related to "human capital measures or objectives that management focuses on in managing the business," including "measures or objectives that address the development, attraction and retention of personnel."
  - The SEC's published agenda includes additional planned rulemaking in this area.
- ***Board Diversity*** – The SEC's published agenda includes planned rulemaking in this area.

Division of Enforcement – The SEC formed a task force on climate and ESG, which focuses on material gaps or misstatements in issuers' disclosure under existing rules, as well as disclosure and compliance issues relating to investment advisers' and funds' ESG strategies.

SEC Developments

Spotlight on ESG: Final Rule on Climate Disclosure – Overview

The Enhancement and Standardization of Climate-Related Disclosures for Investors

- Final rule adopted March 6, 2024 (proposal issued March 21, 2022)
- On April 4, 2024, the SEC voluntarily stayed the rule pending judicial challenge, while indicting it intended to defend the rule in court
- Overview of disclosure requirements:

	Disclosure Requirements
Financial Statement Disclosures	Subject to certain de minimis thresholds, footnote disclosures include: (1) Capitalized costs, expenses, and losses incurred as a result of severe weather events and other natural conditions; (2) Carbon offsets and renewable energy credits or certificates (RECs) if used as a material component of meeting climate targets/goals; and (3) Estimates and assumptions used in the financial statements that were materially impacted by severe weather events and other natural conditions or disclosed climate-related targets or transition plans.
Emissions Disclosures	Large accelerated filers and accelerated filers will be required to provide disclosure about material Scope 1 and Scope 2 GHG emissions.
Other Disclosures	Disclosures related to the registrant's activities and governance related to material climate-related risks, including: • The impact of those risks on the registrant's strategy, results of operations, financial condition, business model, or outlook. • Activities to mitigate those risks, as well as material expenditures/impacts on financial estimates and assumptions of mitigation activities. • Management and the board's roles in considering those risks, and how those are integrated into the registrant's overall risk management efforts. The rule also requires disclosure about any material climate-related targets or goals the registrant has set.

SEC Developments

Spotlight on ESG: Final Rule on Climate Disclosure – Phase-in Period

The Enhancement and Standardization of Climate-Related Disclosures for Investors (cont.)

- Phase-in periods:

	Disclosure and Financial Statement Effects Audit		GHG Emissions/Assurance		
Registrant Type	All Reg S-K and S-X disclosures, other than as noted in this table	Item 1502(d)(2), Item 1502€(2), and Item 1504(c)(2)*	Item 1505 (Scopes 1 and 2 GHG emissions)	Item 1506 – Limited Assurance	Item 1506 – Reasonable Assurance
Large accelerated filer	FYB 2025	FYB 2026	FYB 2026	FYB 2029	FYB 2033
Accelerated filer (other than SRCs and EGCs)	FYB 2026	FYB 2027	FYB 2028	FYB 2031	N/A
Smaller Reporting Co, Emerging Growth Co, and Nonaccelerated filer	FYB 2027	FYB 2028	N/A	N/A	N/A

**These provisions require disclosure related to the impact of mitigation and transition activities, and targets and goals.*

- *As used in this chart, "FYB" refers to any fiscal year beginning in the calendar year listed.*
- *The extended effective dates for Item 1502 and 1504 generally relate to disclosure about the impact of mitigation activities, transition activities, and targets and goals.*

SEC Developments

Spotlight: Cybersecurity Rulemaking – Overview

Disclosure of Cybersecurity Incidents	Disclosure of Cybersecurity Risk Management & Strategy	Disclosure of Cybersecurity Governance
• Report "material" cybersecurity incidents within four business days, based on materiality determination, without "unreasonable delay" • Describe the incidents' material impact or reasonably likely material impact • Disclosures if one or more of the above required information is not determined or is unavailable at the time of the filing *Periodic Form 8-K Item 1.05*	• Disclose processes for assessing, identifying, and managing material risks from cybersecurity threats • Describe how processes have been integrated overall risk management system or processes • Describe risks, including those resulting from previous incidents, have materially affected or are reasonably likely to materially affect business strategy, results of operations, or financial condition • Disclose whether cybersecurity program engages consultants, auditors, or other third parties as well as the processes to identify and manage risk from third parties *Annually 10-K, Reg. S-K Item 106(b)*	• Describe the board's oversight of risks from cybersecurity threats and identify the committee or subcommittee responsible for oversight, and the process for informing such committees • Describe Management committees or positions responsible for, and experience for, assessing and managing cyber risks • Disclose whether and how management reports cybersecurity information to the board of directors or a committee or subcommittee of the board of directors *Annually 10-K, Reg. S-K Item 106(c)*

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PCAOB Update

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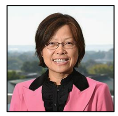
PCAOB Organization & Structure

Board Members and Select Divisions

MISSION:
- To oversee the audits of **public companies** in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports
- To oversee the audits of **broker-dealers** including compliance reports filed pursuant to federal securities laws, to promote investor protection

Erica Williams
Chair
(Term expires 2024)



Christina Ho
(Term expires 2025)

Kara Stein
(Term expires 2026)

Anthony (Tony) Thompson
(Term expires 2027)

George Botic
(Term expires 2028)

Office of the Chief Auditor
Leads PCAOB rulemaking, standard-setting and interpretive activities, and coordinates advisory groups

Division of Enforcement & Investigations
Uses the PCAOB's investigative authority to address serious audit deficiencies and uses its disciplinary authority to impose sanctions and penalties for those deficiencies

Division of Registration & Inspections
Coordinates Board activities related to firm registration and reporting, as well as the PCAOB inspection programs for public company and broker-dealer audits

Office of Economic & Risk Analysis
Conducts economic and other research and analyses to inform and support PCAOB oversight programs

Office of International Affairs
Leads bilateral contact with audit regulators around the world, and supports the Board on international issues (e.g., IFIAR)

Source: For background on the PCAOB Board members refer to the PCAOB's website.

PCAOB Developments

Current Developments

Standard Setting – The PCAOB continues to pursue their standard-setting, research, and rulemaking agendas, reflecting the Board's priorities and progress.

2024 Inspection Areas of Focus:
- Increased number of engagements selected based on risk factors/industry
- Expanded procedures to assess compliance with certain aspects of auditing standards
- Consideration of certain overall business risks present, including
  - Persistent high interest rates, tightening of credit availability, inflationary challenges
  - Disruptions in the supply chain and rising costs
  - Business models that are significantly impacted by rapidly changing technology
  - Geopolitical conflicts
  - Areas with a higher inherent risk of fraud, complex estimates, presentation and disclosures that may be impacted by complexities in the company's activities
- New target team focused on firm culture of integrity and audit quality

Audit Committee Engagement – The PCAOB is expected to continue their engagement with audit committees; inspection teams have increased their direct communication with audit committees of all issuers whose audit engagements are selected for inspection.

PCAOB Standard Setting Agenda
Recently Completed Projects

Project	Description
Standard Setting	
Other Auditors	On June 21, 2023, the PCAOB adopted amendments to AS 1206, *Dividing Responsibility for the Audit with Another Accounting Firm*, to strengthen and modernize the existing requirements and impose a more uniform approach to the lead auditor's responsibilities, including the supervision of other auditors. ***Effective date: Audits of financial statements for fiscal years ending on or after December 15, 2024.***
Confirmation	On September 28, 2023, the PCAOB adopted a new standard, AS 2310, *The Auditor's Use of Confirmations*, to modernize the requirements on the auditor's use of confirmation to reflect changes in technology, as well as to align more closely with the PCAOB's risk assessment standards. ***Effective date: Audits of financial statements for fiscal years ending on or after June 15, 2025.***
Quality Control	On May 13, 2024, the PCAOB adopted a new standard, QC 1000, *A Firm's System of Quality Control,* which provides an updated framework for a PCAOB-registered public accounting firm's quality control system; updates include required annual reporting to the PCAOB and audit committees, as well as expanded responsibility to correct deficiencies identified during audit engagements. ***Effective date: December 15, 2025 (pending SEC approval).***
General Responsibilities of the Auditor in Conducting an Audit	On May 13, 2024, the PCAOB adopted a new standard, AS 1000, *General Responsibilities of the Auditor in Conducting an Audit,* which reorganizes, consolidates, modernizes, and streamlines several of the interim standards adopted in 2003 that address the general principles and responsibilities of the auditor related to conducting an audit. ***Effective date: Audits of financial statements for fiscal years beginning on or after December 15, 2024 (pending SEC approval).***

PCAOB Standard Setting Agenda
Standard Setting Agenda: Short-Term Projects

Project	Status
Noncompliance with Laws and Regulations (NOCLAR)	Proposal issued in June 2023 for a new standard to consider whether changes to an auditor's consideration of possible NOCLAR should be revised to integrate a scalable, risk-based approach that takes into account recent developments in corporate governance and internal control practices. Comments were due August 7, 2023; the PCAOB later held a public roundtable and re-opened the comment period through March 18, 2024*. Adoption anticipated in 2024.*
Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form	Proposal issued in June 2023 for a new standard related to aspects of designing and performing audit procedures that involve technology-assisted analysis of information in electronic form. Comments were due August 28, 2023. *Adoption anticipated in 2024.*
Attestation Standards Update	The staff is obtaining and analyzing information to develop potential recommendations to amend, consolidate, or eliminate certain attestation standards. *Proposal anticipated in 2025.*
Going Concern	The staff is analyzing relevant information and developing a proposal related to the auditor's evaluation and reporting of a company's ability to continue as a going concern. *Proposal anticipated in 2024.*
Firm and Engagement Performance Metrics	Proposal issued in April 2024 to require certain registered public accounting firms to publicly report specified standardized firm- and engagement-level metrics relating to their audits and their audit practices. *Comments were due June 7, 2024.*
Substantive Analytical Procedures	Consider changes to an auditor's use of substantive analytical procedures to better align with the auditor's risk assessment and to address the increasing use of technology tools in performing these procedures, including whether to revise AS 2305, Substantive Analytical Procedures. *Proposal anticipated in 2024.*
Inventory	Consider updates to AS 2510, *Auditing Inventories*, in connection with the Interim Standards project to reflect changes in the auditing environment. *Proposal anticipated in 2025.*
Other Reporting	Consider updates to AS 3105, *Departures from Unqualified Opinions*, and other interim standards in the AS 3300 series. *Proposal anticipated in 2024.*

PCAOB Standard Setting Agenda

Standard Setting Agenda: Mid-Term Projects

Project	Project Description
Fraud	This project will consider how AS 2401, *Consideration of Fraud in a Financial Statement Audit*, should be revised to better align an auditor's responsibilities for addressing intentional acts that result in material misstatements in financial statements with the auditor's risk assessment, including addressing matters that may arise from developments in the use of technology.
Interim Ethics and Independence Standards	In connection with the PCAOB's Interim Standards project, this project will consider whether PCAOB registered firms and their associated persons existing obligations should be enhanced and updated to better promote compliance through improved ethical behavior and independence.
Use of a Service Organization	This project will consider how AS 2601, *Consideration of an Entity's Use of a Service Organization*, should be amended to reflect changes in how companies use services of third parties that are relevant to the company's own internal controls over financial reporting and developments in practice.
Interim Financial Information Reviews	This project will consider updates to AS 4105, *Reviews of Interim Financial Information*, in connection with the Interim Standards project to reflect changes in the auditing and reporting environment.
Internal Audit	This project will consider updates to AS 2605, *Consideration of the Internal Audit Function*, in connection with the Interim Standards project to reflect changes in the auditing and reporting environment.
Interim Standards	The staff is obtaining and analyzing information to develop recommendations to amend, replace, or eliminate the remaining interim standards. These recommendations will be made on an ongoing basis for individual or groups of interim standards as the staff completes its analysis.
Internal Audit	Consider updates to AS 2605, Consideration of the Internal Audit Function, in connection with the Interim Standards project to reflect changes in the auditing and reporting environment

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PCAOB Standard Setting Agenda

Research and Rulemaking Projects

Project	Status
Research Projects	
Data and Technology	The staff continues to conduct research and engage in outreach activities on how technology-based tools are being used by auditors and preparers and whether there is a need for guidance, changes to PCAOB standards, or other regulatory actions.
Communication of Critical Audit Matters (CAMs)	The project seeks to understand why there continues to be a decrease in the average number of CAMs reported in the auditor's report over time and whether there is a need for guidance, changes to PCAOB standards, or other regulatory action to improve such reporting, including the information that is provided as part of the CAM reporting.
Rulemaking Projects	
Contributory Liability	Proposal issued on September 19, 2023, for amendments to the PCAOB's ethics rule, PCAOB Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations*. Comments were due November 3, 2023; adoption is expected in 2024.
Firm Reporting	Proposal issued on April 9, 2024, to amend rules related to PCAOB-registered public accounting firm reporting requirements. Comments are due June 7, 2024.
Registration	Proposal issued on February 27, 2024, on a new PCAOB Rule 2400, *False or Misleading Statements Concerning PCAOB Registration and Oversight,* and amendments related to the PCAOB's registration program. Comments were due April 12, 2024.

Note:
- *Listing of projects above does not represent a priority order.*
- *Research projects focus on whether there is a need for changes to PCAOB standards or other regulatory responses.*
- *Rulemaking projects focus on enhancing investor transparency and enforcement of PCAOB rules.*

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PCAOB Standard Setting Agenda
Other Auditors

On June 21, 2022, the PCAOB adopted amendments to revise several existing standards and adopt AS 1206, *Dividing Responsibility for the Audit with Another Accounting Firm*, to strengthen the requirements and responsibilities that apply to auditors who plan and perform audits that involve other accounting firms and individual accountants.

Key aspects of the amendments – the amendments would:

- Require that the engagement partner to determine whether his or her firm's participation in the audit is sufficient for the firm to carry out the responsibilities of a lead auditor and report as such.
- Require that the lead auditor understand the other auditors' knowledge of independence and ethics requirements and experience in applying them.
- Require that the lead auditor understand the knowledge, skill, and ability of other auditors' engagement team members who assist the lead auditor with planning and supervision and obtain a written affirmation from other auditors that their engagement team members possess the knowledge, skill, and ability to perform assigned tasks.
- Require that the lead auditor supervise other auditors under the Board's standard on audit supervision and inform other auditors about the scope of their work, identified risks of material misstatement, and certain other key matters, and
- Provide that, in multi-tiered audits, a first other auditor may assist the lead auditor in performing certain required procedures with respect to second other auditors.

Effective Date: The amendments and new standard will take effect for audits for fiscal years ending on or after December 15, 2024.

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Voices of Insurtech Innovation and Investing

Nicole Gunderson, Susan Hatten (Moderator), Dan Israel, and Ellen Willadsen

IOWA SOCIETY OF CPAs

Insurance Industry Conference | June 20, 2024

Voices of Insurtech Innovation and Investing

Nicole Gunderson; Susan Hatten; Dan Israel; Ellen Willadsen

NOTES

NAIC Update

Connie Jasper Woodroof

Iowa Society of CPAs NAIC Update

June 20,2024
Connie Jasper Woodroof
CJW Associates

1

Agenda

- 2024 Statement Reporting/Accounting
- 2024 Risk-Based Capital
- Valuation of Securities Task Force

2

2024 Reporting/Accounting

3

All Statement Types

- Notes to Financials #5S – Investments
  - Extensive disclosure for negative IMR in general and separate accounts; now data-captured
    - Limited admitting of negative IMR still considered
  - Addition of section for separate accounts to Note 5S(A) (negative IMR)
- Because Note #5 is shared Note, both will appear in all statement instructions; Property/Casualty, Health, & Title to indicate not applicable

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All Statement Types

- Notes to Financials #5T - Investments
  - Disclosure for aggregate collateral loans by qualifying investment collateral
    - From revisions *to SSAP No. 21R*

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			

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All Statement Types

- *SSAP No. 21R* requires nonadmitting of collateral loan when:
  - Fair value of collateral is not sufficient to cover collateral loan
  - Collateral securing loan is not a qualifying investment
    - Collateral is not an admitted asset
    - Collateral in form of joint ventures, partnerships, LLCs, or SCAs not supported by an audit

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All Statement Types

- Notes to Financials #24E (L,H), #24F (PC) – Reinsurance
  - Removal of disclosure for transitional reinsurance program and risk corridors program of ACA

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All Statement Types

- General Interrogatories – Part 1
  - Revises interrogatory #35 for self-designated PLGI private letter rating (PLR) securities
    - In compliance with IAO's *Purposes and Procedures Manual* for PLR securities
    - Where PLR exists, must be dated during financial statement year
- General Interrogatories – Part 1 (#29.05 in annual; #17.5 in quarterly)
  - Listing of investment mangers to include sub-advisors
    - Internal and external; affiliated or unaffiliated

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All Statement Types

- General Interrogatories – Part 2 – Negative IMR
  - Attestation for admitting negative IMR
    - Yes/No response for Life/Fraternal
    - N/A for P/C, Health, and Title

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All Statement Types

- Collateralized Loan Obligations (CLOs)
  - Effective date for modeling/system changes moved to year-end 2025
- Investment instructions
  - 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*

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All Statement Types

- Schedule BA
  - *SSAP No. 21R* - 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

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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, and new section ‘U’ added to Schedule P

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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 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

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

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 of 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 of 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)	$

Group and Credit Life (Excluding 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 of 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 (8.17 – 8.21)	$

Group and Credit Term Life (Excluding FEGLI/SGLI) with Remaining Rate Terms Over 36 Months	Amount of 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 Permanent Life (Excluding FEGLI/SGLI) with Pricing Flexibility	Amount of 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)	$
8.33 Life Reserves (8.30 + 8.31 + 8.32)	$
8.34 Life Net Amount at Risk (8.29 – 8.33)	$

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Life/Fraternal Statement

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

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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/looses to IMR or AVR
    - If disposed/sold with established valuation allowance, report gain (loss) in AVR
  - All perpetual preferred stock and mandatory convertible preferred stock realized gains/losses to be reported in AVR, not IMR, regardless of NAIC Designation
    - No change for redeemable preferred stock

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Life/Fraternal Statement

- IMR/AVR instructions
  - Debt securities (excluding loan-backed & structured securities) & preferred stock
    - If between purchase and 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

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New Bond Reporting Beginning First Quarter 2025

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

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2024 Risk-Based Capital (RBC)

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Reminder

- Format changes now in place
- However, instructions and factors do not have to be finalized until end of June
- Several RBC Working Group meetings scheduled prior to end of June

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All RBC Formulas

- Exposed revisions to Preamble emphasizes the purpose and the intent of using RBC
- New section discusses limited use of RBC
- Exposed updated factor for Receivable for Securities
  - Life .016
  - Health .024
  - P/C .025
- Exposed tiered factors for pharmaceutical rebates receivable

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All RBC Formulas

- Exposed 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

- Pending, reporting line for residual tranches added with possible 45%
  - The line is being added to all formulas; the factor is on hold

23

Property/Casualty RBC

- Underwriting Risk
  - Pet insurance now reported as separate line of business
    - Using same factor as Inland Marine
  - Annual revisions for underwriting risk factors including investment income
  - Clarification of reporting for health stop-loss premiums
  - Pending, revisions to Industry Average Development factors and Investment Income factors for reserves and premiums

24

Property/Casualty RBC

- Catastrophe reporting – Rcat component – *Information only collection*
  - Catastrophe reinsurance programs interrogatories
  - Severe convective storms
  - Climate conditioned catastrophe exposures
- Clarification for reporting market value in excess of affiliated stock column for affiliated investments
- Schedule P collection pages changed because annual statement now includes 10 years of data

25

Property/Casualty & Health RBC

- Affiliated investments
  - Clarifies the Market Value in Excess Affiliated Stock column on the affiliated worksheet includes both common and preferred stock
  - Reference to R0 and H0 components removed from Column 12 on affiliated investment worksheet (PR003, XR002)

26

Life/Fraternal RBC

- Additional line for the treatment of nonadmitted insurance affiliates as part of the Total Adjusted Capital Calculation (LR033)
- New line for the separate reporting of 'Residential – All Other' in the Mortgage Loan section
  - Factor yet to be determined
- Proposed Schedule BA residuals
  - Increase factors for residuals to 45%
  - Assigns 10% factor for residual sensitivity test

27

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

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Being Researched for RBC

- Factors being applied to repurchase agreements
- Handling of collateral loans
- Oliver Wyman residual tranche report
- Removal of RBC amounts from the Five-Year Historical paged in annual statement
- Possible future revisions of the calculation of covariance

29

Valuation of Securities Task Force

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Adopted Revisions to Manual

- Update U.S. Government agency and other U.S. Government obligation abbreviations
  - Needed because of space restrictions starting 2025
  - Some shortened; duplicates eliminated
  - Not clear if use is required
- Technical corrections to *SSAP No. 43R* references

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Exposed for Comment

- Beginning 1/1/2025, allows NAIC designation and designation category for reporting of cash equivalents and short-term investments that are asset-backed securities and no longer allowed to be reported on Schedules E – Part 2 and/or Schedule DA
  - Must be in compliance with Manual for valuing
- Addition of Spain to list of jurisdictions eligible for counterparty exposure rating
- Changing effective date for CLO modeling to year-end 2025
- Meeting scheduled June 18

32

Exposed for Comment

- 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
- Updates listing of SVO processes

33

Current On-going Projects

- SVO discretion over NAIC designations assigned through filing exempt process
  - Previously exposed; reviewing comments received
- Issue date for private letter rating filings

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Any Questions?

You can find me at:

connie.cjwassociates@gmail.com

THANK YOU!

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Optional Bonus session: Ethics, Integrity and Accountability 2024: How Are We Doing?

Tom Westbrook

Iowa Society of CPAs
Insurance Industry Conference

Ethics, Integrity, and Accountability 2000 – 2024: How Are We Doing?

Tom Westbrook, Ph.D.

Learn ASSOCIATES

Ethics, Integrity, and Accountability
2000 – 2024:
How Are We Doing?

Tom Westbrook, Ph.D. served as Professor of Leadership Studies at Drake University and is CEO of Learn Associates LLC, a training and development company. For more information about this course and others, please contact the following:

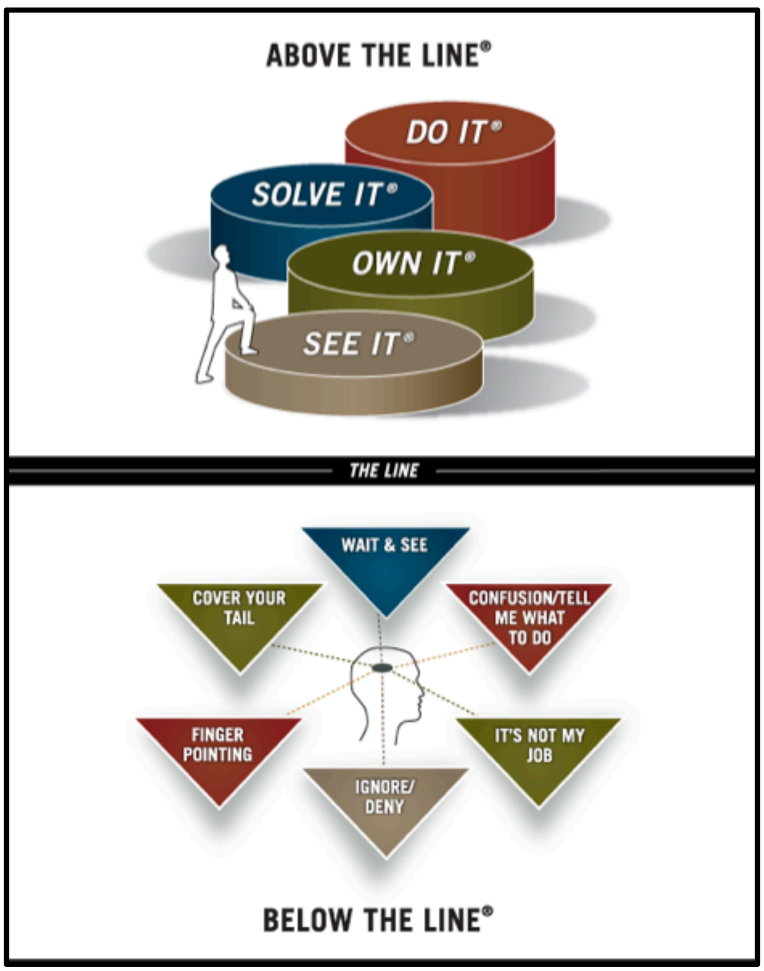
Thomas Westbrook, Ph.D.
Learn Associates LLC
Thomas.Westbrook@Drake.edu
515-778-0295

Learn ASSOCIATES

Draw a line matching the term to the correct definition:

Ethics	Being genuine, worthy of trust, reliance, or belief.
Integrity	Standards of right and wrong that prescribe what we ought to do.
Authenticity	Choosing to take-action to achieve desired results; it is making and keeping personal commitments and answering for one's actions.
Accountability	Alignment of what one does and what one says.

The Oz Principle



See: https://culture.io

State of Industry

The data presented below are from two national longitudinal ethics/ integrity surveys conducted by KPMG and the Ethics & Compliance Initiative (ECI). You are encouraged to review their reports available at KPMG Integrity Survey and ethics.org.

KPMG

Observed Misconduct (percentage of employees nationally)

	2000	2005	2008	2013	2019
Observed misconduct in the prior 12-month period					
Believe observation could cause "a significant loss of public trust" if discovered					

Sample of categories of fraud and misconduct assessed in the survey

Compromised customer or marketplace trust by:
- Engaging in false or deceptive sales practices
- Submitting false or misleading invoices to customers
- Engaging in anti-competitive practices (e.g. market rigging)
- Improperly gathering competitors' confidential information
- Fabricating product quality/safety test results
- Violating contract terms with customers

Compromising shareholder or organizational trust by:
- Falsifying or manipulating financial reporting information
- Stealing or misappropriating assets
- Falsifying time and expense reports
- Breaching computer, network, or database controls
- Violating document retention rules
- Engaging in activities that pose a conflict of interest
- Wasting, mismanaging, or abusing the organization's resources

Compromising employee trust by:
- Discriminating against employees
- Engaging in sexual harassment or creating a hostile work environment
- Violating workplace health and safety rules
- Breaching employee privacy

Compromising supplier trust by:
- Violating or circumventing supplier selection rules
- Accepting inappropriate gifts or kickbacks from suppliers
- Paying suppliers without accurate invoices or records
- Entering into supplier contracts that lack proper terms, conditions, or approvals
- Violating contractor payment terms with suppliers

Compromising public or community trust by:
- Violating environmental standards
- Exposing the public to safety risk
- Making false or misleading claims to the media
- Providing regulators with false or misleading information
- Making improper political contributions to domestic officials
- Making improper payments to bribe foreign officials

General:
- Violating company values and principles
- Engaging in fraudulent or illegal acts

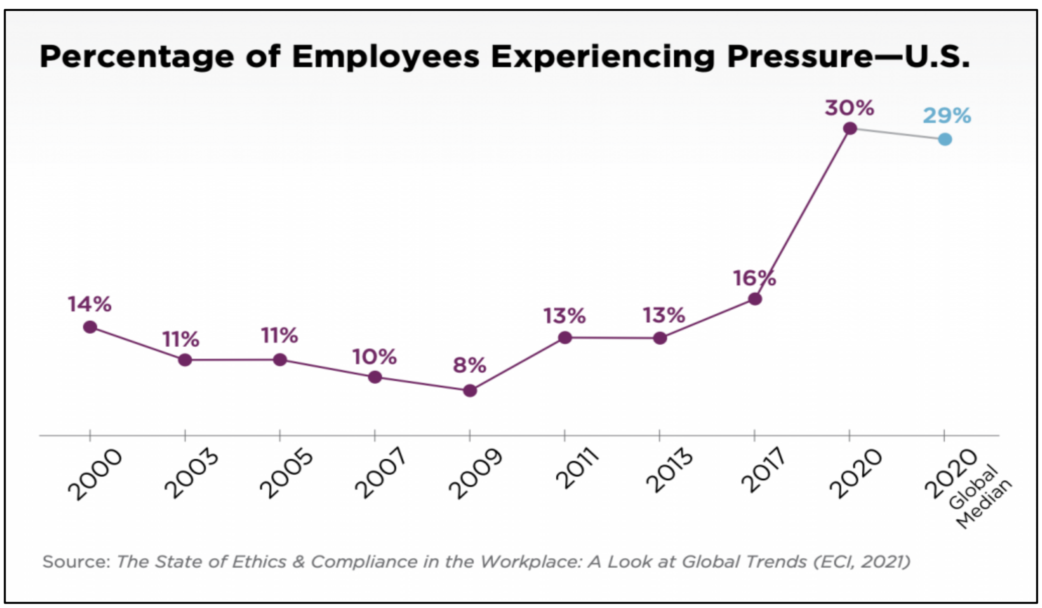
Ethics & Compliance Initiative (ECI)

The Ethics Landscape, U.S. Trends 2000 – 2020

	Strong Ethical Culture	Pressure To Bend Rules	Observed Misconduct	Reporting	Retaliation
U.S.	+ 21%	+ 30%	+ 49%	+ 86%	+ 79%

The Ethics Landscape by Management Level, U.S. Trends 2000 – 2020

	Strong Ethical Culture	Pressure To Bend Rules	Observed Misconduct	Reporting	Retaliation
Top Management	33%	51%	62%	95%	92%
Non-Management	17%	12%	34%	64%	45%



Most Common Types of Pressure in U.S. (2020)

- Meeting performance goals
- Attempting to save one's own or others' jobs
- Supervisory pressure
- Financial interest

Most Common Types of Observed Misconduct in U.S. (%)

- Observed favoritism toward certain employees (35%)
- Observed management lying to employees (25%)
- Observed conflicts of interest (23%)
- Observed improper hiring practices (22%)
- Observed abusive behaviors (22%)
- Observed health/safety violations (22%)

Specific types of Retaliation after Reporting (%)

- Other employees intentionally ignored me/began treating me differently (24%)
- My supervisor intentionally ignored me or began treating me differently (23%)
- My supervisor excluded me from decisions and/or work activities (20%)
- I was given a poor performance review (19%)
- I was given unfavorable work assignments (19%)
- I was verbally abused by other employees (19%)
- My property was damaged (19%)

ECI 2021

So, What About 2024?

Table Talk: Your Thoughts About the Research & Implications for Your Organization

Ethics, Integrity and Accountability 2024: It Could Happen To You

Tom Westbrook

Iowa Society of CPAs:
Insurance Industry Conference

Ethics, Integrity, and Accountability 2000 – 2024: It Could Happen To You

Tom Westbrook, Ph.D.

Learn ASSOCIATES

Ethics, Integrity, and Accountability 2000 – 2024: It Could Happen To You

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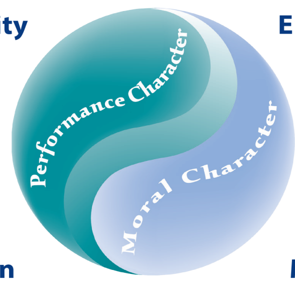
EXCELLENCE WITH INTEGRITY™

PERFORMANCE CHARACTER AND MORAL CHARACTER COMPETENCIES

Adaptability Caring
Ambition Civility Citizenship
Craftsmanship Confidence Courage Compassion
Critical Thinking Collaboration Cooperation Courtesy
Dependability Creativity Emotional Intelligence
Diligence Curiosity Empathy Forgiveness
Drive Determination Friendliness Graciousness
Effort Entrepreneurship Generosity Gratitude
Enthusiasm Endurance Honesty Honor Hope
Grit Imagination Initiative Humility Integrity
Passion Justice Loyalty Kindness Love
Perseverance Organization Moderation Mercy
Positive Attitude Pride in Work Patience Peacefulness
Resilience Resourcefulness Responsibility Respect
Self-Awareness Thrift Self-Control Sensitivity
Service Truthfulness Trustworthiness
Work Ethic Wisdom



Adapted from Lickona & Davidson (2005).

www.excellenceandethics.org

Values Exercise:
If five of your closest colleagues were here in the room today, what would they say are your three top performance characteristics and three top moral characteristics? Circle them on the page.

Share with colleague!

Discuss Your Score:

____

____

____

Psychological Safety
Rate your organization from 1 to 5, with 5 being an extremely high level of attainment.

_____ 1. If you make a mistake on your team, will it be held against you?

_____ 2. Are the members of your team able to bring up problems and tough issues?

_____ 3. Do people on your team sometimes reject others for being different?

_____ 4. It is safe to take a risk on your team?

_____ 5. It is difficult to ask members on your team for help.

_____ 6. Would anyone on your team deliberately act in a way that undermines your or team efforts.

_____ 7. Are your unique skills and talents valued and utilized on your team?

_______ **Your Score:**

Table Talk: What level of Psychological Safety exists in your organization:

____

____

____

____

____

Suggested E & C Program Elements
Rate your organization from 1 to 5, with 5 being an extremely high level of attainment. Does your organization:

________ 1. Have a code of conduct that articulates the values and standards of the organization?

________ 2. Have a senior-level ethics or compliance officer or one assigned as such?

________ 3. Conduct background investigations of prospective employees?

________ 4. Conduct background checks/due diligence on third parties?

________ 5. Provide communication and training on your code of ethics?

________ 6. Perform audits and monitor employee compliance with its code of conduct?

________ 7. Have a confidential and anonymous hotline that employees can use to report misconduct or seek advice?

________ 8. Have policies to hold employees and managers accountable for code of conduct violations?

________ 9. Provide incentives for employees to uphold the code of conduct of the organization?

________ 10. Have policies to investigate and take corrective action if misconduct is alleged?

________ **Your Score:**

Table Talk: Discuss your results and your sense of E&C program elements at your organization. Then, pick one or two items that will aid your organization if more emphasis was placed on the item:

____

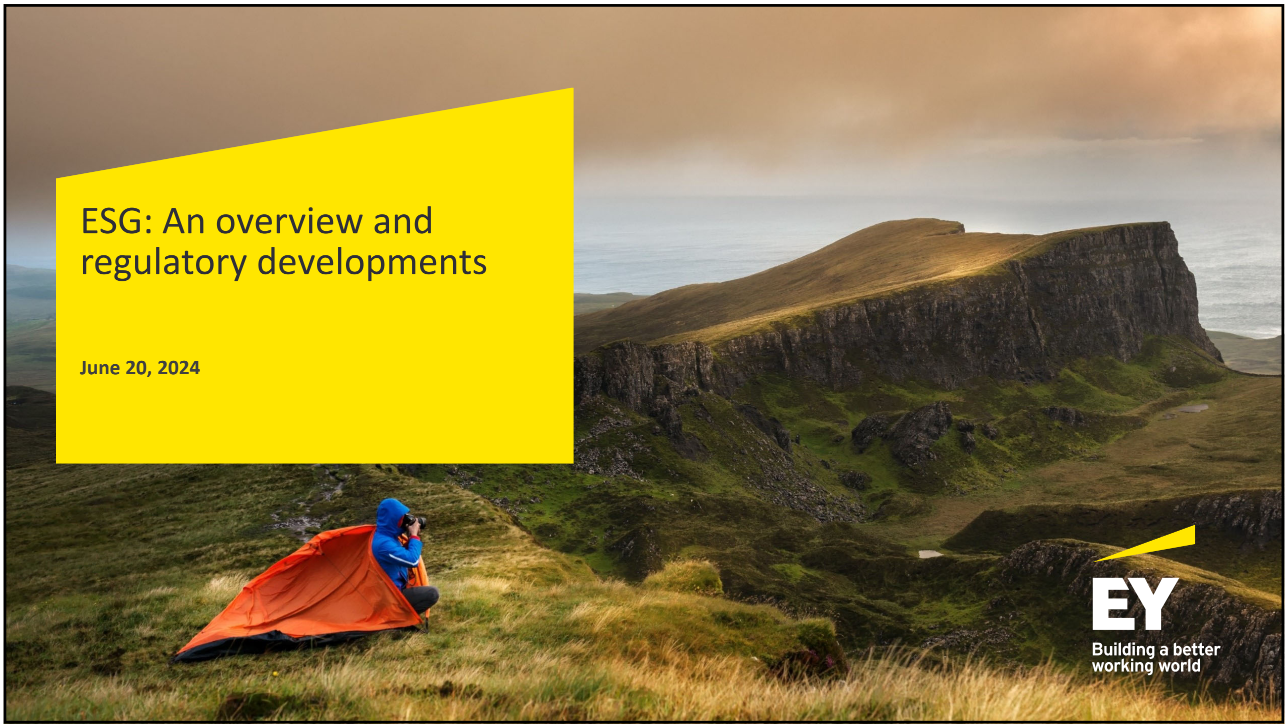
____

____

____

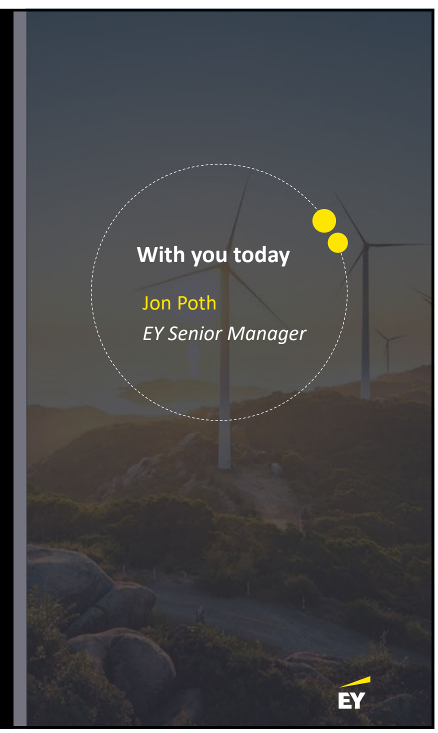
ESG: An Overview and Regulatory Developments

Jon Poth


ESG: An overview and regulatory developments
June 20, 2024
EY
Building a better working world

1

Agenda


With you today
Jon Poth
EY Senior Manager
EY

2

1

Environmental, social, and governance (ESG)

3

What is ESG?

- Environmental, social, and governance (ESG) is a set pf practices and metrics to evaluate a company beyond traditional financial performance.
- Goal = capture all non-financial risks and opportunities inherent to a company's business initiatives.

Environmental

1. Energy
2. Greenhouse gasses
3. Water
4. Pollution
5. Waste
6. Materials
7. Encroachment on nature

Social

1. Company interaction with employees and communities
2. Health and safety track record
3. Policy on diversity, equity, and inclusion (DEI)
4. Labor relations between management and employees
5. Initiatives with local community leaders
6. Partnership with suppliers

Governance

1. Board and Management Quality and Integrity
2. Board Structure
3. Ownership and Shareholder Rights
4. Remuneration
5. Auditing and Financial Reporting
6. Stakeholder Governance

4

2 Background on climate reporting

5

Introduction to climate risk

What is climate-related risk and why it is important?

Climate-related risks refer to the potential risks that may arise from climate change or from efforts to mitigate climate change, their related impacts, and their financial and non-financial consequences, both for now and over the long term

1. Climate change is a complex, multifaceted issue that has wide ranging impacts, presenting both risks and opportunities
2. In the context of financial institutions, climate risk relates to the effects of climate change on operations, supply chains and portfolios, as well the impact on their customers, clients and communities within which they operate
3. Climate change is an existential threat, and the current impacts are already affecting our communities and businesses. There is increasing pressure from stakeholders, including investors and customers to focus on climate risk

Climate related disclosures include:

- Disclosures of board and management oversight of climate-related strategy, targets, goals, and plans to identify, assess, and manage climate related risks.
- An entity's greenhouse gas emissions (GHG), as outlined within the GHG Protocol as developed by the World Business Council for Sustainability Development.

Scope 1: **Direct** GHG emissions from operations that are owned or controlled by an entity (e.g., vehicles, equipment, factories)

Scope 2: Indirect GHG emissions from the generation of purchased or acquired electricity, steam, heat or cooling that is consumed by operations owned or controlled by an entity

Scope 3: Indirect GHG emissions not otherwise included in an entity's Scope 2 emissions, which occur in the upstream and downstream activities of a registrant's value chain (e.g., business travel, shipping)

6

TCFD is the base framework for many recent regulatory developments for climate

TCFD recommendations

Governance
An organization's governance around climate–related risks and opportunities

Strategy
The actual and potential impacts of climate–related risks and opportunities on an organization's businesses, strategy and financial planning

Risk management
The processes used to identify, assess and manage climate–related risks

Metrics and targets
The metrics and targets used to assess and manage relevant climate–related risks and opportunities

Source: Final Report: Recommendations of the TCFD on Climate–related Financial Disclosures, June 2017, TCFD, pp. v, 13–14, accessed via www.fsb–tcfd.org.

7

8

Overview

- The rules apply to substantially all registrants, including emerging growth companies (EGCs), smaller reporting companies (SRCs) and foreign private issuers (FPIs)
- Disclosures will be required in:
  - Registration statements (e.g., Form S-1, Form 10, Form F-1, Form 20-F)
  - Annual reports (i.e., Form 10-K and Form 20-F)
- The threshold for disclosure is primarily based on the US Supreme Court's definition of materiality
  - Certain financial statement disclosures are subject to bright-line thresholds
- The compliance dates depend on a registrant's filer status and the type of disclosure, and the rules will be phased in starting in fiscal year 2025

Key changes from the proposal

- Greater reliance on the US Supreme Court's definition of materiality
- No required disclosures in interim reports
- More time for companies to prepare

9

Overview

- The SEC's required climate-related disclosures are modeled in part on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and require disclosures about:
  - Material climate-related risks and their material impacts, including those on strategy, business model and outlook
  - Governance
  - Risk management
  - Material targets and goals (including those related to the reduction of greenhouse gas (GHG) emissions)
- The rules also require disclosures about material Scope 1 and Scope 2 GHG emissions and assurance over those disclosures

Source: "Final Report: Recommendations of the TCFD on Climate-related Financial Disclosures," TCFD, June 2017

Key changes from the proposal

- Safe harbors from private liability for climate-related disclosures (excluding historical facts) about transition plans, scenario analysis, the use of internal carbon prices and climate-related targets and goals
- Removal of Scope 3 emissions from requirements and application of materiality to Scope 1 and 2 emissions

Insurance-related considerations

- Scope 3 emissions (specifically financed emissions) are likely the most material for insurers
- While not required for SEC reporting, Scope 3 is included in the CSRD and CA climate regulations

10

Climate-related risks and their impact on registrants

- Registrants will be required to describe, among other items:
  - Material climate-related risks
  - Actual and potential material impacts of each risk
  - Material expenditures and material impacts on financial estimates and assumptions that directly result from activities to mitigate or adapt to the risks
- Additional disclosures will be required if a registrant:
  - Has adopted a plan to manage a material transition risk
  - Uses scenario analysis to assess the impact of climate-related risks and, as a result, determines a climate-related risk is reasonably likely to have a material impact on the registrant
- Uses an internal carbon price that is material to how it evaluates and manages a climate-related risk

Key changes from the proposal

- Removal of "value chain" from the definition of material climate-related risk
- More flexibility to determine the granularity of disclosures about locations of properties, processes or operations subject to physical risks (e.g., no requirement to disclose ZIP code)
- New required quantitative and qualitative disclosures about activities to mitigate or adapt to material climate-related risks and transition plans

Insurance-related considerations

- The NAIC's climate risk survey contains suggested disclosures on the use of scenario analysis.
- These may trigger SEC disclosures on scenario analysis exercises.

Governance

- Registrants will be required to describe:
  - The board of directors' oversight of climate-related risks, including:
    - Any board committees or subcommittees responsible for the oversight of climate-related risks, if applicable
    - How the board is informed about climate-related risks and oversees progress toward climate-related targets or goals or transition plans
- Management's role in assessing and managing material climate-related risks, including:
  - Whether and which management positions or committees are responsible and their relevant expertise
  - Processes to assess and manage climate-related risks
  - Whether management reports information about the risks to the board and its committees or subcommittees

43% of public insurers align with TCFD disclosures for Board oversight, while only 28% do so for management's role.[1]

Key changes from the proposal

- No requirement to describe any climate-related expertise of board members

[1]TCFD 2023 Status Report, Figure A10: Disclosure by Industry for Expanded Population: 2022 Fiscal Year Reporting)

Risk management

- Registrants will be required to describe any processes they have for identifying, assessing and managing material climate-related risks, including, as applicable, how they:
  - Identify whether they have incurred or are reasonably likely to incur a material physical or transition risk
  - Decide whether to mitigate, accept or adapt to risks
  - Prioritize addressing risks
- If a registrant manages a material climate-related risk, it will need to disclose whether and how these processes have been integrated into its overall risk management system or processes

Insurance-related consideration

- While climate-related risks for Property & Casualty firms are well understood, other types of insurers (e.g., D&O, health, life) may have exposures to climate-related risks that are more complex and could require additional research
- Insurers typically have extensive existing disclosures around risk management; however, firms will need to elaborate on how climate-related risks specifically are included in overall ERM processes

Key changes from the proposal

- Less prescriptive approach to disclosure requirements

Targets and goals

- Registrants will need to disclose any climate-related targets or goals that have materially affected or are reasonably likely to materially affect their business, results of operations or financial condition, including:
  - The scope of activities included in the target
  - The unit of measurement
  - The defined time horizon for intended achievement and whether the time horizon is based on one or more goals established by a climate-related treaty, law, regulation, policy or organization
  - Any established baselines and a description of how related progress will be tracked
  - How they intend to meet their targets or goals
- Registrants will need to also describe:
  - Any progress made toward meeting their targets or goals and how it was achieved
  - Material impacts of the target or goal or the related actions taken to make progress
  - Material expenditures and material impacts on financial estimates and assumptions resulting directly from the target or goal
- Additional disclosures will be required if carbon offsets or renewable energy credits or certificates (RECs) are a material component of a registrant's plan to achieve its targets or goals

Key changes from the proposal

- New required quantitative and qualitative disclosures related to material targets or goals
- Clarification that target or goal need not be publicly announced to be subject to disclosure

Scope 1 and Scope 2 Greenhouse Gas (GHG) emissions

- Accelerated and large accelerated filers will be required to disclose gross direct GHG emissions from operations they own or control (Scope 1) and/or indirect emissions from purchased electricity and other forms of energy their operations consume (Scope 2), if material
  - Scope 1 and Scope 2 emissions will need to be reported separately and in the aggregate in terms of carbon dioxide equivalents
  - If any of the seven GHGs defined in the rules is individually material, it will need to be disaggregated
  - EGCs and SRCs will be exempt from the requirements to disclose GHG emissions
- Disclosures will be required for the most recently completed fiscal year and, to the extent previously disclosed or required to be disclosed, for the historical fiscal year(s) for which audited consolidated financial statements are included in the filing

Key changes from the proposal

- EGCs and SRCs exempt
- No Scope 3 emissions or GHG intensity metrics disclosure requirements
- No required disclosures for historical periods preceding the initial compliance date

Insurance-related considerations

- While Scope 3 emissions are typically the largest sources for insurers, firms will need to undergo materiality assessments to determine if Scopes 1 and 2 could be material to their investors

Scope 1 and Scope 2 Greenhouse Gas (GHG) emissions

- Registrants will be required to describe the methodology, significant inputs and assumptions they used to calculate their GHG emissions, including the protocol or standards used and the organizational boundaries
  - If the boundaries materially differ from the entities and operations included in the consolidated financial statements, a brief explanation of the difference will need to be provided
- Domestic registrants may delay filing the GHG emissions disclosures for the most recent year as part of their Form 10-Q for the second quarter or in an amendment to their annual report on Form 10-K
- A company filing a registration statement will need to file the information for the most recent year that is at least 225 days before the date of effectiveness of the registration statement

Key changes from the proposal

- No prescribed organizational boundaries will have to be used in the calculation of GHG emissions
- Emissions data may be filed on a delayed basis

Assurance over Scope 1 and Scope 2 GHG emissions

- The Scope 1 and Scope 2 emissions disclosures made by accelerated and large accelerated filers will be subject to limited assurance by an independent provider beginning with the third fiscal year of reporting the emissions
  - Disclosures by large accelerated filers will subsequently be subject to reasonable assurance, beginning with the seventh fiscal year of reporting the emissions
- Assurance providers will need to be independent and have significant experience in measuring, analyzing, reporting or attesting to GHG emissions
  - Registrants will be required to make disclosures about the current assurance provider and any previously engaged providers who resigned, declined to stand for reappointment or were dismissed
  - Registrants that voluntarily obtain assurance on GHG emissions will also need to provide certain disclosures about the engagement and the provider
- The rules do not specify the attestation standards that will need to be used but establish criteria for the standards that will be acceptable (e.g., publicly available for no cost, widely used)

Key changes from the proposal

- New disclosures about certain previously engaged providers modeled on Item 4.01 (Changes in Registrant's Certifying Accountant) of Form 8-K
- Reasonable assurance required for large accelerated filers only

Disclosures in the audited financial statements

- Disclosures will be required for the most recently completed fiscal year and historical fiscal year(s) for which audited consolidated financial statements are included in the filing
  - Disclosures for historical fiscal years are required if previously disclosed or required to be disclosed
- Registrants will be required to disclose contextual information about all the disclosures (e.g., how each financial statement effect was derived and the policy decisions made to calculate them)
- Registrants will be required to disclose the following effects of severe weather events and other natural conditions, including aggregate amounts and where in the financial statements they are presented:

Required disclosure	Disclosure threshold
Incurred expenses and losses, excluding recoveries	1% of the absolute value of pre-tax income or loss
Capitalized costs and charges, excluding recoveries	1% of the absolute value of stockholders' equity or deficit
Any recoveries recognized	If a registrant is required to provide disclosures on incurred expenses and losses or capitalized costs and charges

Insurance-related considerations

- Existing SEC reporting for P&C insurers contains detailed reporting on catastrophe losses; however, the SEC's rule would require analysis on severe weather events and other natural conditions specifically
- Insurers will need to define these events and conditions and integrate with existing risk registers and definitions

Disclosures in the audited financial statements

- If carbon offsets or RECs are deemed a material component of the registrant's plans to achieve its disclosed climate-related targets, the registrant will be required to disclose:
  - The aggregate amounts, and where in the financial statements the amounts are presented, of (1) carbon offsets and RECs expensed, (2) carbon offsets and RECs capitalized and (3) losses incurred on the capitalized carbon offsets and RECs during the fiscal year
  - The beginning and ending balances of the capitalized carbon offsets and RECs
  - The registrant's accounting policy for carbon offsets and RECs
- The materiality of the carbon offsets or RECs to the financial statements is not relevant to whether the related disclosures are required
- Registrants will also be required to disclose whether and how the following items materially impacted the estimates and assumptions used in preparing the financial statements:
  - Exposures to risks and uncertainties associated with, or known impacts from, severe weather events and other natural conditions
  - Any disclosed climate-related targets or transition plans

Key changes from the proposal

- Reduced scope of the financial statement disclosure requirements

Transition dates based on filer status and type of disclosure

The rules will become effective 60 days after publication in the Federal Register, and companies will be required to comply with them in the fiscal years beginning (FYB) in the calendar years shown below:

Registrant type	Compliance dates				
	All disclosures, other than as noted in this table and end note[1]	Scope 1 and Scope 2 GHG emissions	Limited assurance	Reasonable assurance	Electronic tagging
Large accelerated filers	FYB 2025	FYB 2026	FYB 2029	FYB 2033	FYB 2026
Accelerated filers (other than SRCs and EGCs)	FYB 2026	FYB 2028	FYB 2031	N/A	FYB 2026
SRCs, EGCs and non-accelerated filers	FYB 2027	N/A	N/A	N/A	FYB 2027

[1] Compliance with quantitative and qualitative disclosure requirements for material expenditures and material impacts on financial estimates and assumptions that directly result from (1) activities to mitigate or adapt to the climate-related risks, (2) targets or goals and (3) transition plans will be required one year later (i.e., FYB 2026 for large accelerated filers, FYB 2027 for accelerated filers other than SRCs and EGCs, and FYB 2028 for SRCs, EGCs and non-accelerated filers).

4 European Union — Corporate Sustainability Reporting Directive (CSRD)

Overview

- The rules apply entities with securities listed on EU-regulated markets, large European undertakings, insurance entities and credit institutions operating in the EU, and non-EU companies exceeding certain thresholds
- First issued in July 2023, CSRD requires European Sustainability Reporting Standards (ESRS) to be issued by EU entities, as developed by the European Financial Reporting Advisory Group (EFRAG)
- Disclosures will be required in:
  - Managements report for the EU entity
  - Electronic reporting format
  - Not required in audited financial statements
  - EU subsidiary may submit a consolidated sustainability report if the requisite disclosures are included in a non-EU parent’s corporate sustainability report
- The threshold for disclosure is based on “double materiality,”
- The compliance dates depend on the size of the entity subject to the scope of CSRD requirements

Scope

- CSRD mandates that ESRS are required for the following entities:
  - Entities with securities listed on EU-regulated markets (except micro companies — less than 10 employees, revenue below (€900,000), assets below (€450,000)
  - "Large undertakings," or an entity that meets two of the following three criteria:
    - More than €50 million revenue
    - More than €25 million in balance sheet total
    - More than 250 employees on average
  - Insurance entities and credit institutions (unless micro companies)
  - Non-EU entity that generates €150 million revenue in the EU with at least one subsidiary in scope for CSRD
    - If no subsidiary in the EU, branches with more than €40 million revenue
- Application is based on an entity and consolidated basis

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Materiality

- CSRD requires scoping based on the concept of "double materiality,"
- Double materiality
  - Impact perspective — impact of climate or climate-related events pertaining to an entity's actual or potential, positive or negative impacts on people and the environment
  - Financial perspective — impact of climate or climate-related events that triggers or may trigger financial effects on cash flows, performance, financial position, cost of equity, or access to financing
- Materiality definition leverages that from IFRS
  - Based on the primary users of general purpose financial statements (existing and potential investors, lenders, creditors)

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Climate related disclosures and impact on financial statements

- Climate disclosures are required to be disclosed in managements report for the EU entity.
- Scope 1 and Scope 2 GHG Emissions
  - Required if general materiality thresholds are met.
  - ESRS mandated specific guidance on calculating GHG emissions.
  - Entities are required to consider the requirements of the GHG protocol.
- Climate related impacts to an entity's financial statements are required to be disclosed.
- Disclose in how climate-related risks and opportunities impacted performance, financial position, and cash flows.
- Disclose risks and opportunities for a material adjustment to existing assets and liabilities from climate-related events within the next reporting period.
- Disclose how climate related events impact performance and cash flows within:
  - Short term: one year
  - Medium term: five (5) years
  - Long term: greater than five (5) years

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Effective dates and assurance requirements

CSRD and the ESRS are effective for the following periods, with reporting in the following year based on the entity's size:

Entity type	Compliance dates	
	All disclosures as mandated by CSRD	Assurance requirements
Large, public interest entities subject to Non-financial reporting directive (NFRD)[1]	FY 2024	Limited assurance on year of adoption, with transition to reasonable assurance following reasonability study by EU
Other large entities not subject to NFRD	FY 2025	
Listed small and medium sized companies	FY 2026	
Non-EU companies subject to CSRD	FY 2028	

[1] EU Non-Financial Reporting Directive (NFRD) requires certain large companies to disclose non-financial and diversity information in their management reports, including:
- Public Interest Entities (PIEs): companies with securities traded on a regulated market in the EU
- Large Companies: companies with more than 500 employees on average during a fiscal year, a balance sheet total in excess of €20 million, and revenue in excess of €40 million

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5 California climate laws

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Executive summary: SB 253, SB 261 and AB 1305

SB 253

The California Climate Corporate Data Accountability Act (Senate Bill 253) requires both public and private companies doing business in California and generating over $1 billion in gross annual revenue to disclose their Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions to a California emissions reporting organization, on an annual basis, as well as to obtain third-party assurance.

SB 261

The California Greenhouse gases: climate-related financial risk (Senate Bill 261) requires both public and private companies doing business in California and generating over $500 million in gross annual revenue to disclose on a biennial basis on its website its climate-related financial risk and its measures adopted to reduce and adapt to climate-related financial risk, in alignment with the TCFD[1] recommendations.

AB 1305

The Voluntary carbon market disclosure (Assembly Bill 1305) requires entities operating in California and that make net zero emissions claims, carbon neutral or carbon neutral product claims or significant greenhouse gas emissions reduction claims in California to disclose information about those claims and the purchase or use of voluntary carbon offsets to achieve those claims.

The three climate disclosure bills were signed into law by Governor Newsom on **October 7, 2023.** The laws represent first-of-their-kind legislation in the United States

Link to SB 253 Climate Corporate Data Accountability Act
Link to SB 261 Greenhouse gases: climate-related financial risk
Link to AB 1305 Voluntary carbon market disclosure
[1] Task Force on Climate-Related Financial Disclosures

SB 253 reporting and assurance overview

In scope entities:	Companies† doing business in California and generating over $1B in gross annual revenue	
Disclosure requirements:	**Disclosure reporting dates:**	**Assurance compliance dates:**
Scope 1 emissions	Starting in 2026,* over prior fiscal year data	Limited — starting in 2026 Reasonable — starting in 2030
Scope 2 emissions	Starting in 2026,* over prior fiscal year data	
Scope 3 emissions	Starting in 2027, over prior fiscal year data, reporting within 180 days of Scope 1 and Scope 2 disclosures	Limited — starting in 2030** Reasonable — TBC**
Reporting criteria:	The Greenhouse Gas Protocol standards and guidance, including the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard and the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard††	

**Reporting on or by a date to be determined by the State Board*
***During 2026, the State Board shall review and evaluate trends in third-party assurance requirements for Scope 3 emissions. On or before January 1, 2027, the State Board may establish an assurance requirement for third-party assurance engagements of Scope 3 emissions. The assurance engagement for Scope 3 emissions shall be performed at a limited assurance level beginning in 2030. However, the State Board could modify these dates based on trends in third-party assurance for Scope 3 emissions.*
†A partnership, corporation, limited liability company or other business entity formed under the laws of this state, the laws of any other state of the United States or the District of Columbia, or under an act of the Congress of the United States
††Starting in 2033 and every five years thereafter, the state board may assess currently available GHG accounting and reporting standards and subsequently may adopt a globally recognized alternative accounting and reporting standard if it determines its use would more effectively further the goals of the regulation.

Link to SB 253 — Climate Corporate Data Accountability Act

SB 253 assurance provider requirements

- The third-party assurance provider shall have:
  - Significant experience in **measuring, analyzing, reporting or attesting** to the emission of greenhouse gases
  - Sufficient **competence** and **capabilities** necessary to perform engagements **in accordance with professional standards** and applicable legal and regulatory requirements
- The assurance provider shall further:
  - Be able to issue reports that are **appropriate** under the circumstances
  - Be **independent** with respect to the reporting entity and any of the reporting entity's affiliates for which it is providing the assurance report

In 2029, the State Board shall review and, on or before January 1, 2030, shall update as necessary, the qualifications for third-party assurance providers based on an evaluation:

- Trends of education over GHG emissions
- The qualifications of third-party assurance providers

Link to SB 253 — Climate Corporate Data Accountability Act

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SB 261 reporting overview

In scope entities:	Companies† doing business in California and generating over $500M in gross annual revenue*	
Disclosure requirements:	**Disclosure reporting dates:**	**Frequency**
Climate-related financial risk	On or before January 1, 2026	Biennially
Measures adopted to reduce and adapt to climate-related financial risk	On or before January 1, 2026	Biennially
Reporting criteria:	Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017) published by the Task Force on Climate-related Financial Disclosures (TCFD)** or equivalent reporting requirement††	

* Based on the prior fiscal year revenue from the date of reporting
** Or any successor thereto
† A partnership, corporation, limited liability company or other business entity formed under the laws of this state, the laws of any other state of the United States or the District of Columbia, or under an act of the Congress of the United States
†† Pursuant to a law, regulation or listing requirement issued by any regulated exchange, national government, or other governmental entity, including a law or regulation issued by the United States government, incorporating consistent disclosure requirements, including the International Financial Reporting Standards Sustainability Disclosure Standards, as issued by the International Sustainability Standards Board (ISSB)

Link to SB 261 Greenhouse gases: climate-related financial risk

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SB 261 reporting options

- Covered entities do not need to create a separate, stand-alone report to comply with this law and may use existing reporting to meet the requirements of SB 261.
- Reporting options include:
  - Reporting in alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (June 2017) published by the TCFD
  - Using mandatory reporting*, whether required by law, regulation or listing requirements, including the International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards**
  - Using voluntarily reporting* including under the IFRS Sustainability Disclosure Standards**

Consolidated reporting is permissible but not required.

If a subsidiary of a parent company qualifies as a covered entity, the subsidiary is not required to prepare a separate climate-related financial risk report.

* That includes climate-related financial risk disclosure information
** As issued by the International Sustainability Standards Board

Link to SB 261 Greenhouse gases: climate-related financial risk

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AB 1305 reporting overview

In scope entities	Entities operating in California that make (1) net zero emissions claims, (2) carbon-neutral or carbon-neutral product claims, or (3) significant greenhouse gas emissions reduction claims in California	Entities that market or sell voluntary carbon offsets within California

Disclosure requirements	• Information about how the claim was determined to be accurate or actually accomplished and how interim progress toward that goal is being measured (e.g., verification of the entity's emissions, identification of the entity's science-based targets and related verification, relevant sector methodology)
	• Whether there is independent third-party verification of the entity's data and claims
	• Information about any purchased or used voluntary carbon offsets in California, including:
	  • The name of the entity selling the offset and the offset registry or program
	  • The project identification number
	  • The project name as listed in the registry or program
	  • The offset project type (e.g., carbon removal, avoided emissions, combination of both)
	  • The site location of the offset project
	  • The specific protocol used to estimate emissions reductions or removal benefits
		• Details regarding the carbon offset project (e.g., including the specific protocol used to estimate emissions reductions or removal benefits, the location of the project, the project timeline, the date the project started or will start, the type of project, whether the project meets any established standards, whether the project has been independently verified, the annual number of emissions reduced or carbon removed)
		• Details about accountability measures if a project is not completed or does not meet the projected emissions reductions or removal benefits (e.g., what actions the entity will take in those situations)
		• The data and calculation methods needed to independently reproduce and verify the number of carbon offsets issued

Frequency and location	Annually on entity's website, starting in 2024	

Link to AB 1305 Voluntary carbon market disclosure

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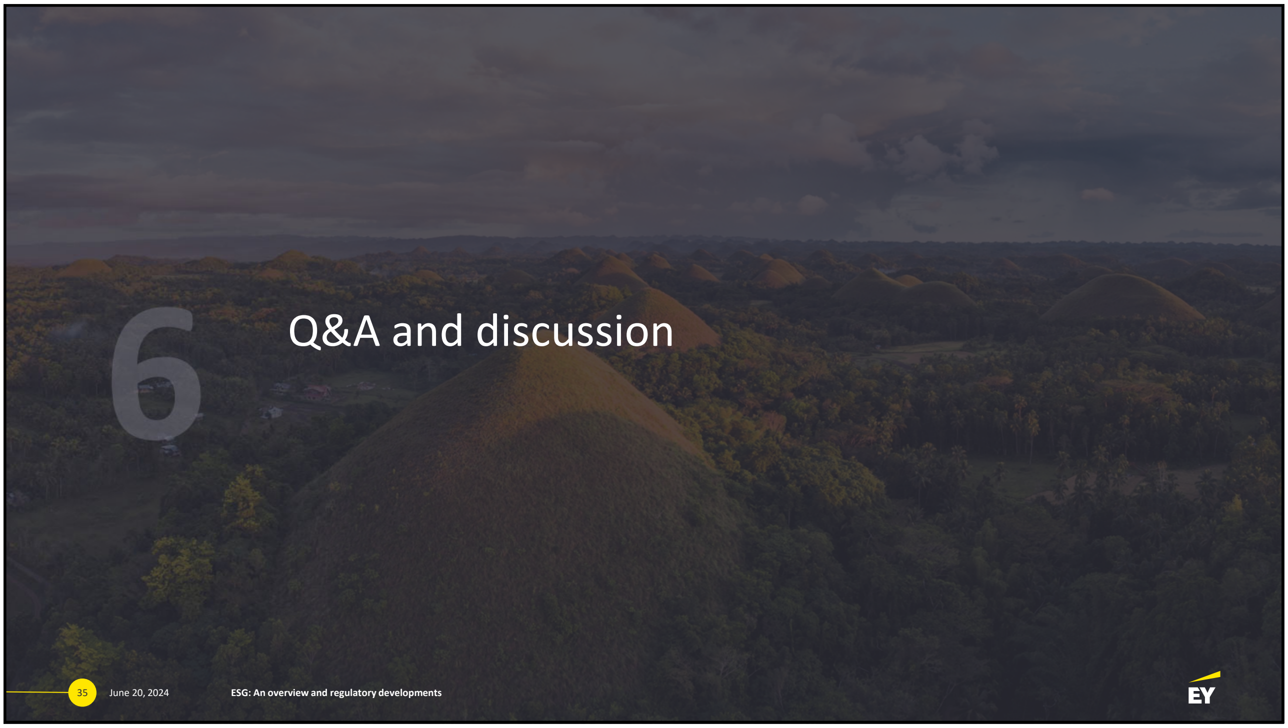
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Q&A and discussion
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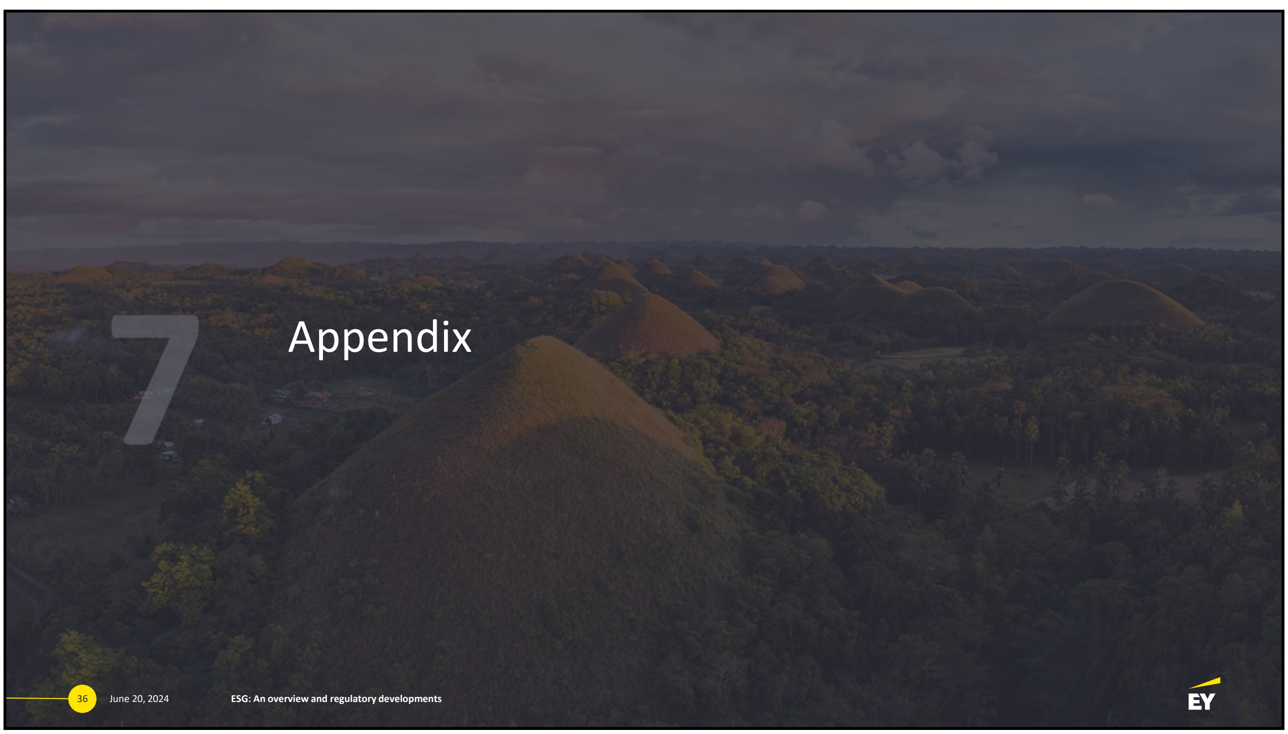
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Overview and significance of GHG emissions

Emissions are the release of gas into the atmosphere

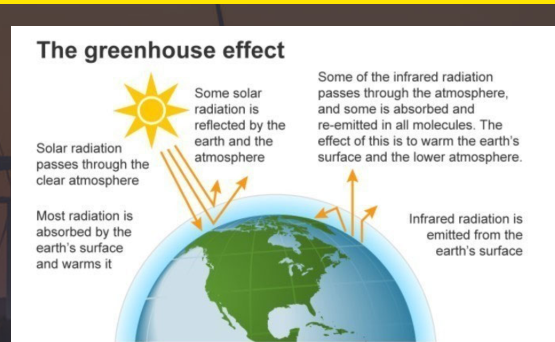
Certain gas emissions create a greenhouse effect in the atmosphere by trapping heat

This greenhouse effect causes the earth's surface and oceans to warm

For the purposes of this standard, GHGs are the six gases listed in the Kyoto Protocol:

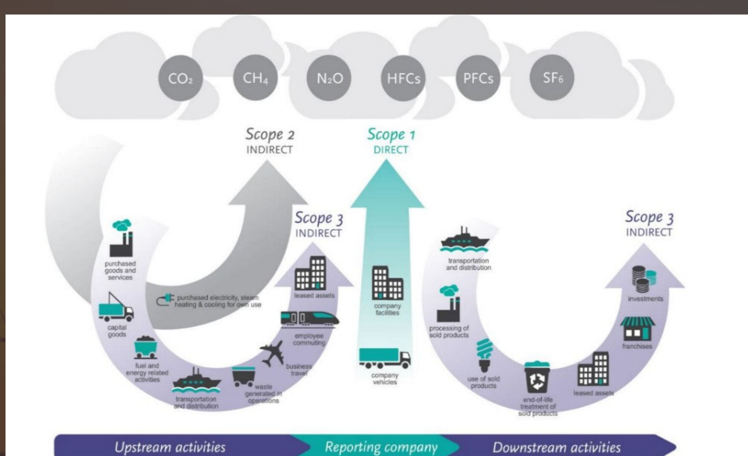
- Carbon dioxide (CO_2)
- Methane (CH_4)
- Nitrous oxide (N_2O)
- Hydrofluorocarbons (HFCs)
- Perfluorocarbons (PFCs)
- Sulfur hexafluoride (SF_6)

Gases other than carbon dioxide are often expressed in terms of carbon dioxide equivalents (CO_2e).



Source: https://www.eia.gov/energyexplained/energy-and-the-environment/greenhouse-gases.php

GHG emissions are categorized relative to the value chain



Overview of Scope 1, 2 and 3 emissions categories:

- **Scope 1 emissions** are direct emissions from owned or controlled sources (e.g., natural gas for heating and diesel for backup generators) and vehicle fleet fuel consumption.
- **Scope 2 emissions** are indirect emissions from owned or leased offices. This includes emissions that result from the generation of purchased electricity, steam, heat and cooling.
- **Scope 3 emissions** are all indirect emissions that occur in the value chain including both upstream (e.g., purchased goods and services, capital goods and business travel) and downstream (e.g., use of sold products, financed emissions).[1]

Source: Greenhouse Gas Protocol: FAQ — https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf

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Tax Update

Andy Seydel


ISCPA Insurance
Industry Conference
Tax Update
June 2024
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Building a better
working world

1


Agenda
1 Congress and elections
2 Tax policy
3 Corporate alternative minimum tax (CAMT)
4 FASB disclosure project update
EY
2

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Learning Objectives

- Review the current state of play in Washington and prospects of tax legislation
- Identify the impacts of Pillar Two and related tax accounting consequences
- Analyze the impacts of the CAMT and the recently issues accounting guidance on insurers statutory financial statements
- Interpret the recently issued ASU 2023-09 and measure its impact on financial reporting for income taxes

3

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Senate

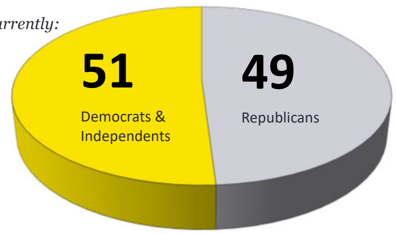
- **20 Democrats + 3** independents up for re-election
- Focus on **3 Democratic seats** in states won by Trump: Ohio, West Virginia, Montana
  - Ohio, Montana rated toss-ups, along with Arizona, Nevada*
  - WV rated solid R with Manchin retirement

- **11** Republicans up for re-election

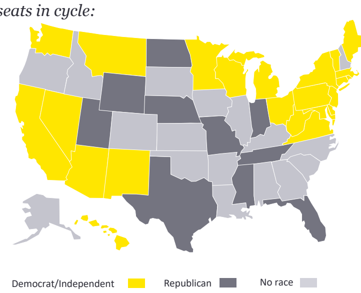
Retirements
- Ben Cardin (D-MD)
- Tom Carper (D-DE)
- Joe Manchin (D-WV)
- Debbie Stabenow (D-MI)
- Mitt Romney (R-UT)
- Mike Braun (R-IN), running for governor
- Kyrsten Sinema (I-AZ)

*Cook political report ratings

Currently:



2024 seats in cycle:



Up for re-election in 2024
- Tammy Baldwin (D-WI)
- Sherrod Brown (D-OH)
- Laphonza Butler (D-CA)
- Maria Cantwell (D-WA)
- Bob Casey (D-PA)
- Kirsten Gillibrand (D-NY)
- Martin Heinrich (D-NM)
- Mazie Hirono (D-HI)
- Tim Kaine (D-VA)
- Amy Klobuchar (D-MN)
- Bob Menendez (D-NJ)
- Chris Murphy (D-CT)
- Jacky Rosen (D-NV)
- Jon Tester (D-MT)
- Elizabeth Warren (D-MA)
- Sheldon Whitehouse (D-RI)
- John Barrasso (R-WY)
- Marsha Blackburn (R-TN)
- Kevin Cramer (R-ND)
- Ted Cruz (R-TX)
- Deb Fischer (R-NE)
- Josh Hawley (R-MO)
- Rick Scott (R-FL)
- Roger Wicker (R-MS)
- Angus King (I-ME)
- Bernie Sanders (I-VT)

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House

217 Republicans

4 vacancies –
Kevin McCarthy (CA), special election May 21
Bill Johnson (R-OH), special election June 11
Ken Buck (R-CO), special election June 25
Mike Gallagher (R-WI), no special election

212 Democrats

2 vacancies:
Brian Higgins (NY), special election April 30
Donald Payne Jr. (D-NJ), *deceased*

18 Republicans in districts Biden won in 2020

5 Democrats in Trump 2020-won districts

About half these seats are among the most competitive in 2024

Retirements
- Ken Buck (R-CO)
- Larry Bucshon (R-IN)
- Michael Burgess (R-TX)
- Jeff Duncan (R-SC)
- Kay Granger (R-TX)
- Mark Green (R-TN)
- Jake LaTurner (R-KS)
- Debbie Lesko (R-AZ)
- Blaine Luetkemeyer (R-MO)
- Patrick McHenry (R-NC)
- Cathy McMorris Rodgers (R-WA)
- Greg Pence (R-IN)
- Matt Rosendale (R-MT)
- Victoria Spartz (R-IN)
- Brad Wenstrup (R-OH)
- Earl Blumenauer (D-OR)
- Tony Cárdenas (D-CA)
- Anna Eshoo (D-CA)
- Dan Kildee (D-MI)
- Derek Kilmer (D-WA)
- Annie Kuster (D-NH)
- Kathy Manning (D-NC)
- Grace Napolitano (D-CA)
- Wiley Nickel (D-NC)
- Dutch Ruppersberger (D-MD)
- John Sarbanes (D-MD)
- Jennifer Wexton (D-VA)
- 17 other members running for other office

Dist.	Republican member in Biden district	Biden 2020 victory margin	2022 GOP member margin
OR-5	Lori DeRemer	+8.9	+2.4
CA-27	Mike Garcia	+12.4	+8.4
CA-40	Young Kim	+1.9	+14.4
CA-45	Michelle Steel	+6.2	+6.4
CA-13	John Duarte	+10.9	+.4
CA-22	David Valadao	+13	+3.4
AZ-1	Dave Schweikert	+1.5	+.8
AZ-6	Juan Ciscomani	+.1	+1.4
NE-2	Don Bacon	+6.3	+3
NY-17	Mike Lawler	+10.1	+.8
NY-4	Anthony D'Esposito	+14.5	+3.8
NY-3	George Santos	+8.2	+8.2
NY-1	Nick LaLota	+.2	+11.8
NY-22	Brandon Williams	+7.5	+1
NY-19	Marc Molinaro	+4.6	+2.2
NJ-7	Tom Kean	+3.9	+3.6
PA-1	Brian Fitzpatrick	+4.6	+10
VA-2	Jen Kiggans	+1.9	+3.4

Dist.	Democratic member in Trump district	Trump 2020 victory margin	2022 Democrat margin
AK-AL	Mary Peltola	+10.1	+9.8
ME-2	Jared Golden	+6.1	+6.2
OH-9	Marcy Kaptur	+2.9	+13
PA-8	Matt Cartwright	+2.9	+2.4
WA-3	Marie G. Perez	+4.2	+.8

Red n first column = race rated toss-up or lean other party by Cook Political report

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Key dates

- **January 31:** House passed Tax Relief for American Families & Workers Act
- **May 10:** FAA authorization/taxes expiration
- **July 15:** Republican national convention
- **August 19:** Democratic national convention
- **September 30:** End of fiscal year, government funding & farm bill expire
- **November 5:** Election Day

What's gotten done in this Congress:

- Debt limit suspended through Jan. 1, 2025 (in June 2023 Fiscal Responsibility Act)
- Government funding through Sept. 30, 2024 (in 2 funding bills, March 2024)
- National Security Supplemental: Ukraine, Israel, Taiwan-Indo, etc.
- Foreign Intelligence Surveillance Act (FISA) through April 20, 2026

Still pending:

- Federal Aviation Administration (FAA) reauthorization
- Tax Relief for American Families and Workers Act

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It's the economy …

No recession in two years before re-election bid

Recession	President (year)	Re-election?
No	Biden (2024)	?
No	Obama (2012)	Yes
No	Bush43 (2004)	Yes
No	Clinton (1996)	Yes
No	Reagan (1984)	Yes
No	Nixon (1972)	Yes
No	LBJ (1964)	Yes
No	Ike (1956)	Yes
No	Truman (1948)	Yes
No	FDR (1944)	Yes
No	FDR (1940)	Yes
No	FDR (1936)	Yes
No	Wilson (1916)	Yes

Recession in two years before bid

Recession	President (year)	Re-election?
Yes	Trump (2020)	No
Yes	Bush41 (1992)	No
Yes	Carter (1980)	No
Yes	Ford (1976)	No
Yes	Hoover (1932)	No
Yes	Coolidge (1924)*	Yes
Yes	Taft (1912)	No

*Coolidge was not technically running for re-election as president, since he had come to the presidency after the death of President Harding in 1923.

Source: Adrian Gray, AGC Research, and Mehlman Castagnetti.

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Audience Poll

Do you expect significant tax legislation to be enacted before the end of 2025?

A — Yes

B — No

EY

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Tax Relief for American Families and Workers Act of 2024

Approved by House 357-70 January 31

Business provisions	Child Tax Credit	Revenue offset	Additional provisions
• Retroactive to 2022 and extended through 2025: • Restoring Section 174 R&D expensing • Domestic R&D only • Prior parameters for Section 163(j) interest deductibility • Extension of 100% expensing through 2025	• Gradually increase refundable CTC amount from $1,600 to $2,000 • Use of earned income from the prior year to calculate credit	• Crackdown on Employee Retention Tax Credit (ERTC) • increased penalties • enhanced disclosure requirements • barring additional claims after January 31, 2024	• United States-Taiwan Expedited Double-Tax Relief Act (H.R. 5988) • Housing tax provisions • restore LIHTC 12.5% increase • tax-exempt bond financing requirement transition rule • Disaster relief: casualty losses for disaster areas declared since 2020

Senate Finance Committee Republicans have had a litany of complaints about the bill:

- Employee Retention Tax Credit (ERTC) crackdown offset
- Setting the precedent for 2025 TCJA expiring provisions to have revenue offsets at all
- The need to consider the entirety of tax measures that need to be in place, rather than a narrow set
- Clearing some tax items now because Republicans could win Senate control and have greater leverage for 2025 deal
- Lookback provision allowing the use of prior-year earnings to calculate the CTC
- Retroactive business tax provisions
- Aiding Democrats politically in an election year

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Expiration/change dates of TCJA provisions

Provision	2021	2022	2023	2024	2025	2026	Revenue	
TCJA "pre-cliffs"							Through 2025[1]	2024-2033[2]
Interest deduction based on EBITDA		EBIT					-$18.8b	
R&D expensing		Five-year amortization (15-year for foreign R&D)					-$8.5b	
100% expensing			Phased down in 20% increments				-$3.05b	-$325b
TCJA international provisions								
GILTI deduction at 50%						37.5% deduction		-$111b
FDII deduction at 37.5%						21.875% deduction		
BEAT rate: 10% (11% for banks/dealers)						12.5%/13.5% rate		-$14b
TCJA individual provisions								
Income tax rates 10%, 12%, 22%, 24%, 32%, 35%, 37%						10%, 15%, 25%, 28%, 33%, 35%, 39.6%		-$1.8t
Standard deduction $12,000/single, $24,000/married						$6,350/single, $12,700/married		-$1t
AMT exemption $126,500/ married, $81,300 single						$84,500/married, $54,300/single		-$1t
Child tax credit: $2,000, refundable to $1,400						$1,000, $1,000 refundability		-$592b
20% pass-through deduction						No deduction		-$548b
Higher Estate (currently $12,920,000) and Gift Tax Exemptions						$5.49m (pre-2018 $5m inflation adjusted)		-$126b

In effect

Not in effect

1 Joint Committee on Taxation (JCT), JCX-3-24, Estimated Revenue Effects of H.R. 7024, The Tax Relief For American Families and Workers Act of 2024, January 2024

2 Congressional Budget Office (CBO), Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues, Supplemental Data, May 2023

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Ways & Means Republican Tax Teams

Announced April 24 to study TCJA expirations

American Manufacturing	Working Families	American Workforce	Main Street	New Economy
1. V. Buchanan (R-FL) 2. Greg Murphy (R-NC) 3. J. Arrington (R-TX) 4. C. Tenney (R-NY) 5. N. Malliotakis (R-NY)	1. B. Fitzpatrick (R-PA) 2. N. Malliotakis (R-NY) 3. Blake Moore (R-UT) 4. Michelle Steel (R-CA) 5. Mike Carey (R-OH)	1. Darin LaHood (R-IL) 2. Mike Carey (R-OH) 3. B. Wenstrup (R-OH) 4. L. Smucker (R-PA) 5. B. Fitzpatrick (R-PA)	1. L. Smucker (R-PA) 2. Greg Steube (R-FL) 3. V. Buchanan (R-FL) 4. Adrian Smith (R-NE) 5. J. Arrington (R-TX) 6. B. Van Duyne (R-TX)	1. D. Schweikert (R-AZ) 2. B. Van Duyne (R-TX) 3. Greg Murphy (R-NC) 4. C. Tenney (R-NY) 5. Michelle Steel (R-CA)
Rural America	**Community Development**	**Supply Chains**	**US Innovation**	**Global Competitiveness**
1. Adrian Smith (R-NE) 2. M. Fischbach (R-MN) 3. Randy Feenstra (R-IA) 4. David Kustoff (R-TN) 5. Greg Steube (R-FL)	1. Mike Kelly (R-PA) 2. C. Tenney (R-NY) 3. Darin LaHood (R-IL) 4. Blake Moore (R-UT) 5. Mike Carey (R-OH)	1. Carol Miller (R-WV) 2. David Kustoff (R-TN) 3. Brad Wenstrup (R-OH) 4. Drew Ferguson (R-GA) 5. M. Fischbach (R-MN) 6. Randy Feenstra (R-IA)	1. Ron Estes (R-KS) 2. Michelle Steel (R-CA) 3. D. Schweikert (R-AZ) 4. Drew Ferguson (R-GA) 5. Kevin Hern (R-OK) 6. Greg Murphy (R-NC)	1. Kevin Hern (R-OK) 2. Blake Moore (R-UT) 3. Mike Kelly (R-PA) 4. Ron Estes (R-KS) 5. Carol Miller (R-WV) 6. Randy Feenstra (R-IA)

1= Chair, 2= Vice Chair

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What's at stake in 2024 elections: select tax issues

2025 TCJA expiring provisions

- President Biden supports extending provisions only for those with <$400,000 in income
- Democrats may propose tax increases on corporations and wealthy to pay for extensions
- TCJA 21% corporate rate, while not expiring, could be increased as a revenue offset
- Parameters of compromise in potential divided government currently unknown
- Lessons from the last fiscal cliff:
  - 2010 Bush tax cuts cliff punted until 2012; provisions extended, but not for high-income taxpayers

International tax system, OECD-led global tax agreement

- President Biden has proposed extensive international reforms
  - GILTI reform to comply with OECD Pillar Two (21%, country-by-country)
  - Replacing FDII with unspecified R&D incentives
  - Replacing BEAT with UTPR
- Biden Treasury wants to work with Congress to make system comply with Pillar Two
- Even divided government or narrow Democratic margin make international reform difficult
  - Democrats backed GILTI reforms in the 2021 BBBA, including country by country and a higher rate, but also supported positive reforms to turn GILTI more into a real minimum tax
  - The reforms and BBBA were not able to be enacted even with Democrats controlling WH, Senate, House
- Former President Trump could walk away from OECD agreement, which GOP opposes

Inflation Reduction Act (IRA) green energy credits

- Democrats tout Inflation Reduction Act (IRA) green energy credits as an accomplishment
- Escalating cost of energy credits make at least partial repeal appealing as revenue offset
- Limit, Save, Grow debt limit bill and GOP-only tax bill proposed repeal of some credits
- Credits for biodiesel, alternative fuel, aviation fuel, capture storage, solar and wind have backing of some Republicans and may be off limits in repeal proposals
- Regulations within 60-days-of-Senate-session period could be subject to CRA disapproval

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Potential tax positions of President Biden, former President Trump

	President Biden	Former President Trump
Corporate rate	28%	Reportedly inclined to seek to retain 21% TCJA rate but not push for lower (Bloomberg)
Individual taxes	– Top individual rate of 39.6% – opposes increases on people earning <$400,000 – opposes tax cuts for the wealthy – make wealthy and corporations pay their fair share	In addition to extension of TCJA, reportedly interested in a new middle-class tax cut, maybe through a payroll tax cut, increase in the standard deduction, or rate cut
Climate tax/IRA tax credits	Likely to continue to champion IRA tax credits, though may relax emissions requirements	Likely to try to roll back/tighten generous Biden guidance, ask Congress to repeal all or part of the IRA
International tax	– Increase GILTI rate to 15%, country-by-country, repeal QBAI, 5% haircut – Repeal FDII, provide other R&D incentives – Repeal BEAT, replace with UTPR	Likely to advocate continuation of TCJA provisions largely as-is
Global tax	Continue pushing for implementation of 2-pillared OECD global agreement	- Trump Treasury in December 2019 expressed support for a "GILTI-like Pillar 2 solution," but also concerns over Pillar 1, and pushed for safe harbor - WSJ said Trump has "hinted at confronting European nations over taxes on software, online subscriptions and other digital services"
Medicare	Current "gaps that allow some pass-through business owners to avoid Medicare taxes would be eliminated and Medicare tax rates would be increased"	Has vowed to defend entitlements but also noted on CNBC March 11 that, "There is a lot you can do in terms of entitlements, in terms of cutting…"
Social Security	– Reportedly discussing proposing new taxes on the wealthy to help fund Social Security benefits – 2020 campaign proposal to impose payroll taxes on incomes >$400,000, up to the Social Security wage base limit, which for 2024 is $168,600	Has repeatedly said he would not cut Social Security benefits
Tariffs	Retain certain existing tariffs from prior Administration	Across-the-board 10% tariff on all imports and possibly negotiate those down in return for country-specific concessions (WSJ)

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Select Biden Budget tax proposals

Individual

- **Billionaire's tax** minimum tax of 25% on income, inclusive of unrealized capital gains, for those with wealth over $100m
- Increase top **individual** rate to 39.6%
- **Medicare** tax rate on earned and unearned income >$400,000 from 3.8% to 5%
- Increase **NIIT** rate to 5% for income >$400,000
- Expand **NIIT** to ensure that **pass-through** income is subject to NIIT or SECA tax
- **Capital gains and dividends** taxed at ordinary rates for income >$1m
  - top marginal rate on long-term capital gains and qualified dividends of 44.6%
- Increase taxes on **carried interest**
- New $10,000 tax credits for **first-time homebuyers** and people who sell their starter homes

Corporate

- Increase corporate alternative minimum tax (**CAMT**) to 21% (from 15%)
- Expand **162(m)** executive comp. deduction limit to all compensation >$1 million to any employee
- Longer depreciation of, and higher fuel taxes on, **private jets**
- **Stock buyback** excise tax increased from 1% to 4%
- Raise **corporate** income tax rate to 28%
- Increase **Global Intangible Low Tax Income (GILTI)** rate to 21%, applied on per-country basis, and extend per country to all FTC baskets, including branches
- Repeal the GILTI **high-tax** exemption
- Apply the **Pillar 2 QDMTT** for US companies subject to the UTPR of other countries
- Repeal **Base Erosion and Anti-Abuse Tax (BEAT)** and replace it with **UTPR**
- Repeal **foreign derived intangibles income (FDII)** deduction, use revenue for other R&D incentives

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Major TCJA provisions: extension costs well over $3t/10yrs

May 2023 Congressional Budget Office (CBO) estimates projected that if extended over the 2024-2033 budget window:

- TCJA individual provisions would increase deficits $2.5 trillion
- estate and gift tax changes would increase deficits by $126 billion
- bonus depreciation would increase deficits by $325 billion
- business tax provisions would increase deficits by $150 billion
- other expiring tax provisions would increase deficits by $55b

Individual	TCJA	Post-2025, current law	Revenue to extend (2024-2033)
Individual rates	10%, 12%, 22%, 24%, 32%, 35%, 37%	10%, 15%, 25%, 28%, 33%, 35%, 39.6%	-$1.8t
Standard deduction	$12,000/single, $24,000/married	$6,350/single, $12,700/married	-$1t
AMT exemption	$126,500/married, $81,300/single	$86,200/ married, $55,400/single	-$1.1t
Child tax credit	$2,000 credit, $1,400 refundability cap, higher income phaseout, other dependents	$1,000 credit, $1,000 refundability cap	-$592b
199A	20% deduction on pass-through income	No deduction	-$548b
Estate tax	Exemption $12.92m (inflation adjusted)	$5.49m (pre-2018 $5m)	-$126b
Personal exemptions	Reduced to $0, suspending the provision	Revert to pre-TCJA levels. adjusted	+$1.6t
Itemized deductions	SALT deduction $10,000; Mortgage interest deduction $750,000	SALT unlimited; Mortgage interest deduction $1 million	+$908b
Opportunity Zones	Capital gains deferral for investments	No tax benefits for OZ investments	-$67b
Excess business loss	Excess business loss deduction disallowed	After 2028, NOLs permitted	+$137b
Corporate			
Expensing	Through 2022, phased down in 20% increments	20% expensing through 2026	-$325b
163(j)	Beginning in 2022, deduction limitation based on EBIT rather than EBITDA		for extension through 2025, -$18.8b
174	Beginning in 2022, R&D expenditures must be amortized over 5 years (15 for foreign)		for extension through 2025, -$8.5b
GILTI	50% deduction (10.5% rate)	37.5% deduction (13.125% rate)	GILTI & FDII combined: -$111b
FDII	37.5% deduction (13.125% rate)	21.875% deduction (16.4% rate)	
BEAT	10%, or 11% for banks/dealers	12.5%, or 13.5% for banks/dealers	-$14b

Source: Congressional Budget Office (CBO), Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues, Supplemental Data, May 2023

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Top tax expenditures by revenue

Provision	2024	2024–33
Exclusion of employer contributions for medical insurance premiums and medical care	$231b	$3.4t
Exclusion of net imputed rental income	$152b	$1.9t
Defined contribution employer plans	$136b	$1.9t
Capital gains (except agriculture, timber, iron ore, and coal)	$114b	$1.6t
Deductibility of charitable contributions, other than education and health	$48b	$850b
Deductibility of mortgage interest on owner-occupied homes	$31b	$830b
Deductibility of nonbusiness State & local taxes other than on owner-occupied homes	$7b	$800b
Defined benefit employer plans	$69b	$760b
Capital gains exclusion on home sales	$58b	$750b
Self-Employed plans	$44b	$615b
Treatment of qualified dividends	$38b	$518b
Step-up basis of capital gains at death	$34b	$510b
Individual Retirement Accounts	$33b	$475b
Reduced rate on active income of controlled foreign corporations (normal tax method)	$47b	$467b
Deductibility of State and local property tax on owner-occupied homes	$6b	$450b

Source: White House FY2025 Budget, Analytical Perspectives, p. 248 - https://www.whitehouse.gov/wp-content/uploads/2024/03/ap_20_expenditures_fy2025.pdf

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Pressures on business taxes, now through 2026

2022

2026

174 R&D, 163(j) changes in effect in 2022; after 2022, 100% expensing phasedown
- Addressed in House GOP Build It in America Act
- Democrats won't support without Child Tax Credit expansion

Minimum tax takes hold in some countries
- Income Inclusion Rule and the Qualified Domestic Minimum Top-up Tax in effect in 2024 in some countries including EU, UK, Norway, Australia, South Korea, Japan, Canada

Digital Services Taxes (DSTs)
- DSTs could return if OECD Pillar One effort stalls

TCJA international tax changes in 2025
- GILTI deduction reduced to 37.5%
- FDII deduction reduced to 21.875%
- BEAT rate increased to 12.5% (13.5% for banks/dealers) and base expands with modifications to regular tax (i.e., the allowance for credits that reduces regular tax expands)

Undertaxed Profits Rule (UTPR)
- MNEs not otherwise subject to an IIR or QDMTT and operate in low-tax jurisdictions could be subject to UTPRs imposed by other countries in which they do business, ensuring that no operations escape Pillar Two.
- Transitional Safe Harbor rule prevents countries from applying UTPR top-up tax to Ultimate Parent Entities on their US profits prior to 2026, potentially putting pressure on the US to enact its own QDMTT in 2025.

GILTI push down
- Favorable rules for "pushing down" GILTI taxes to increase the ETR in jurisdiction in which an IIR or UTPR might apply expire at the end of 2025.

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OECD BEPS 2.0, Pillar One

allocate taxing rights to market jurisdictions

- **Amount A:** Augments arm's length principle for allocating profits within an MNE group with new taxing right for market jurisdictions through formulary approach to allocate more profits to such jurisdictions, in part to prevent DSTs; imposes dispute prevention, resolution measures
- **Amount B:** Framework for simpler, streamlined application of arm's length principle
- Implementation will require both a **Multilateral Convention (MLC)** and changes to domestic law by the participating countries. US congressional support for tax convention is in doubt.
- Most members of the Inclusive Framework agreed to refrain from imposing newly enacted **DSTs** or relevant similar measures, as defined in the MLC, on any company between January 1, 2024, and the earlier of December 31, 2024, or the entry into force of the MLC, provided that sufficient number of jurisdictions sign MLC before the end of 2023.
- **Draft MLC,** commentary released Oct. 11, 2023
- December 18, 2023, **commitment to finalize the text of MLC** by end of March 2024 slipped and the MLC's expected adoption and release have been delayed
- JCT March 5: If Pillar One in effect in 2021, $1.4 billion **loss in US Federal receipts**
  - Treasury Sec. Yellen said March 21 Pillar 1 will benefit US businesses "that have been hit with unfair and discriminatory tax burdens," and that internal Treasury revenue estimates do not align with JCT's estimates.
  - Also, "a Pillar 1 agreement would involve congressional action. It's not something that could be just signed into law and effective with an executive order… Pillar 2 also needs to be adopted by Congress."

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OECD BEPS 2.0, Pillar Two

15% global minimum tax

- Pillar Two: MNEs must pay 15% tax on profits in each jurisdiction. If top-up tax is owed, it is paid to:
  - the local jurisdiction under the Qualified Domestic Minimum Top-up Tax (**QDMTT**)
  - a direct or indirect parent jurisdiction under the Income Inclusion Rule (**IIR**), or
  - multiple jurisdictions through the Undertaxed Profits Rule (**UTPR**)
- Effective dates
  - IIR – 2024
  - QDMTTs – No earlier than 2024
  - UTPRs – No earlier than 2025
- Status of Pillar 2 admin guidance
  - February 2023 – First package
    - Rule order (QDMTTs come first)
    - GILTI push down rules
  - July 2023 – Second package
    - Transferable tax credits
    - QDMTT safe harbor rules
  - December 2023 – Third package
    - Application of the Transitional Country-by-Country Reporting Safe Harbor
    - Mechanism for allocating taxes arising in a CFC regime when some jurisdictions the MNE operates in are eligible for safe harbor
  - 2024 and beyond
    - Deferred taxes, pushdown, clarification of anti-hybrid rules, CAMT credits
- US Treasury hopeful for administrative guidance change to treatment of US R&D credit
  - Non-refundable R&D credit could put companies below 15%, subject to application of the UTPR by other countries
- Inclusive Framework working on additional guidance for the Pillar Two Global Anti-Base Erosion (GloBE) model rules, with expectations for a release in the coming weeks. Further developments from OECD also expected regarding the mechanism for exchanging GloBE information return information.

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OECD: Architecture of the Pillar Two Rules

The Anti Global Base Erosion (GloBE) Rules assess a top-up tax liability under

- a Qualified Domestic Minimum Top-up Tax (QDMTT)
- the Income Inclusion Rule (IIR)
- the Undertaxed Profits Rule (UTPR), where low-taxed income is not subject to an IIR

The STTR is a treaty-based rule for source jurisdictions to impose tax on certain related party payments (e.g., interest and royalties) subject to tax below a 9% minimum rate.

Qualified Domestic Minimum Top-Up Tax (local min tax rule)	Income Inclusion rule (IIR) (min tax rule)	Undertaxed Payment rule (UTPR) (backstop rule)
• Jurisdictions may introduce their own domestic minimum tax rule to preserve their primary right of taxation over their own income. • The rule would be included in domestic law, implemented and administered in a manner consistent with the GloBE Rules. • The domestic tax liability would increase the minimum tax rate of constituent entities (CEs) in the jurisdiction to at least the 15% minimum rate but variations in the tax base and substance carve out could result in a higher-than 15% ETR.	• Assessed on income of a multinational enterprise (MNE) (earned through a subsidiary or branch) taxed below the agreed 15% minimum rate on a jurisdictional basis. • Generally, the IIR is applied on a top-down approach, starting at the parent level, and works its way down the chain to a jurisdiction that has adopted an IIR. • The MNE would be subject to a "top-up" tax in the topco or ultimate parent entity (UPE) jurisdiction. • The rules apply to MNEs with annual consolidated revenue of €750M.	• Where income is not subject to the IIR, the UTPR applies to ensure entities pay their share of the IIR tax. • The UTPR increases the tax at the subsidiary level. • A formula, based on a jurisdiction's relative share of assets and employees, determines that amount of tax allocable to each jurisdiction. • A jurisdiction may assess the UTPR by either denying deductions or making an equivalent adjustment. • Failure to assess the UTPR by a jurisdiction results in a 0% UTPR allocation to that jurisdiction.

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Is 2025 When Worlds Collide? Pillar Two and Potential US International Tax Reform

- Potential issues to be addressed:
  - Favorable Pillar Two GILTI push down rules expire
  - Application of UTPRs to US MNEs’ domestic profits
  - Potential double tax created by GILTI and QDMTTs
- Potential solutions:
  - Making GILTI Pillar Two compliant
  - Turning GILTI into a real minimum tax
    - Repeal expense allocation
    - Eliminate FTC haircut
    - Allow FTC carryforwards
  - Replacing GILTI with an IIR
  - Replacing the CAMT with a QDMTT
  - Replacing the BEAT with a UTPR

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Corporate alternative minimum tax (CAMT)

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15% Corporate alternative minimum tax

- Section 10101 of Inflation Reduction Act — Corporate Alternative Minimum Tax (CAMT)
  - 15% of adjusted financial statement income
  - Effective for tax years beginning after December 31, 2022
  - CAMT paid can be carried forward and applied as a credit against regular tax in future years if regular tax exceeds the tentative minimum tax

CAMT = Tentative minimum tax − (Regular tax liability + BEAT liability)

Tentative minimum tax = 15% x AFSI − CAMT FTCs

Regular tax liability = Regular pre-credit liability − Regular FTCs

FTC = Foreign Tax Credits
AFSI = Adjusted Financial Statement Income

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15% Corporate alternative minimum tax

- IRC Section 56A — adjusted financial statement income (AFSI)
  - Applicable financial statement (AFS) references Section 451(b)(3)
  - AFSI – Adjustments to financial statement income or loss, include, but not limited to:
    - AFS covering different tax years
    - CFCs and disregarded entities (DREs)
    - Certain taxes
    - Tax depreciation under Section 168 & certain Section 197 amortization with respect to qualified wireless spectrum
    - Certain pension adjustments
  - Financial statement net operating losses — deduction equal to lessor of:
    - (1) the aggregate amount of financial statement net operating loss (NOL) carryovers to the tax year or (2) 80% of "adjusted financial statement income computed without regard to the deduction allowable under" Section 56A(d)
- Other considerations
  - Credits
    - Corporate AMT foreign tax credits
    - General business credits
    - Prior-year minimum tax liability
  - Treasury authority for additional guidance

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Interim guidance

- Notice 2023-7
  - AFSI and applicable corporation status resulting from certain transactions
  - Depreciation adjustments
  - Safe harbor/simplified method for determining applicable corporation status
  - AFSI adjustments for certain credits
  - Clarification on partnership distributive share in determining applicable corporation status
- Notice 2023-20
  - Covered variable contracts
  - Covered reinsurance agreements
  - Congressional "fresh start"
- Notice 2023-64
  - Definition of taxpayer and determining a taxpayer's AFS
  - General rules for determining AFSI
  - Consolidated groups
  - Determining AFSI with respect to certain foreign corporations
  - Adjustment for certain taxes
  - Depreciation adjustments
  - Qualified wireless spectrum
  - Duplications and omissions
  - Financial statement net operating losses
  - Determining applicable corporation status
  - CAMT FTC
- Notice 2024-10
  - Covered CFC Distributions

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SSAP 101 and CAMT — INT 23-03

- **INT 23-03**
  - Acknowledges difference between "new" CAMT and "old" pre-2018 CAMT.
    - Starting point is a financial statement measure rather than taxable income.
  - Applies to all reporting entities subject to the CAMT, regardless of whether or not part of a tax consolidated group.
  - Fundamental issue — for reporting entities that are included in a consolidated tax return, how to reflect the CAMT liability in a reporting entity's separate company financial statement?
    - Tax law does not provide for a separate company scope determination
  - Effective beginning with year-end 2023 financial statements.

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SSAP 101 and CAMT — INT 23-03

- Categories of reporting entities
  - Nonapplicable reporting entities
    - Do not reasonably expect to be an applicable corporation either as a member of a tax-controlled group or individually.
    - Further assessment of the CAMT is not required for current or deferred tax computations
    - If a company was applicable corporation in preceding tax year, shall reasonably expect to be an applicable corporation for the current tax year.
    - Applicable disclosures are required
  - Applicable reporting entities
    - Reasonably expect to be applicable corporations for the current tax year, either individually or as a member of a tax-controlled group.
    - Applicable reporting entities are required to consider CAMT in current and deferred tax computations in accordance with INT 23-03
  - Applicable reporting entities with tax sharing agreement exclusions
    - Reporting entities that qualify as an applicable corporation as a member of a tax-controlled group, and are party to a tax allocation agreement that is in effect, and:
      - The reporting entity is excluded from charges for any portion of the group's CAMT, and
      - The reporting entity is not allocated any portion of the group's CAMT credit carryover
    - Reporting entities with tax allocation agreement exclusions are not required to calculate or recognize CAMT in their current or deferred tax computations.

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SSAP 101 and CAMT — INT 23-03

- Valuation allowance considerations on CAMT credit deferred tax asset (DTA)
  - Consolidated Tax Return Group
    - Valuation of CAMT credit DTA considered at the consolidated tax return group level.
    - Reporting entity not required to reevaluate group level VA assessment at stand-alone level.
    - Reporting entity to continue to evaluate other DTAs on a stand-alone basis.
  - Separate Tax Return Filer
    - Required to complete a statutory valuation allowance analysis for all DTAs, including CAMT credit carryforward, on a stand-alone basis.
  - Accounting Policy Election
    - Option No. 1:
      - Disregard CAMT status when evaluating DTAs under the regular tax system.
      - A company would not recognize a valuation allowance if it is more likely than not it will have sufficient taxable income under the regular tax system to realize the deferred tax asset.
    - Option No. 2:
      - Consider CAMT status when evaluating DTAs under the regular tax system.
    - Accounting policy must be disclosed and applied consistently.

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SSAP 101 and CAMT — INT 23-03

- Admissibility
  - INT 23-03 provides an exception to the general separate reporting entity guidance in SSAP No. 101 and SSAP No. 4, recognizing that the impact to ultimately utilize the allocated tax credits is dependent on the actions of other parties within the tax-controlled group.
  - CAMT credit admissibility is based on projections pursuant to SSAP No. 101, paragraph 11.b. and the related time frames.

ExDTA ACL RBC	Future Projections
>300%	Three Years
200% — 300%	One Year
<200%	Zero Years

  - Projections done at entity level (if a separate tax return filer) or tax-consolidated group level (if a member of such group).

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SSAP 101 and CAMT — INT 23-03

- A reporting entity with >300% exDTA ACL RBC is allowed to admit CAMT credit DTA if realizable within three years.
  - CAMT credit DTA can only be **additive** to non-CAMT DTAs already admitted under paragraph 11.b.i.
  - 15% of surplus limitation applies to total of non-CAMT DTAs and CAMT credit DTAs admitted under paragraph 11.b.
- A reporting entity with exDTA ACL RBC between 200% and 300% must reduce DTAs admitted under paragraph 11.b.i to the extent CAMT is reasonably expected to be incurred within the applicable period (one year).
  - In this case, CAMT can only **reduce** the amount of total admitted DTA under paragraph 11.b.i.
- A reporting entity with exDTA ACL RBC below 200% is not permitted to admit any DTAs under paragraph 11.b.
- Any CAMT credit DTA not admitted under paragraph 11.b. is eligible to be admitted under paragraph 11.c.

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SSAP 101 and CAMT — INT 23-03

- Transition guidance
  - Tax allocation agreements that are amended to incorporate the new CAMT may be considered in 2023 year-end financial statements if:
    - Applicable Form D requests have been approved by regulators and new agreement is executed on or before December 31, 2023.
    - Form D request(s) for tax allocation agreement has been filed prior to the end of 2023 to address CAMT for 2023 and subsequent years, and the domiciliary regulator has confirmed that they have no objections to using the new tax allocation agreement.
- Disclosures
  - Disclosure requirements contained in paragraphs 39–41 of INT 23-03
    - Status of reporting entity under three categories noted above
    - Accounting policy election
    - Material modifications to projection methodology
    - Valuation allowance
    - Tax planning strategies

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Audience Poll

INT 23-03 Allows for valuation of the CAMT credit DTA to be evaluated at the consolidated group level.

A True

B False

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Audience Poll

INT 23-03 Allows for valuation of the CAMT credit DTA to be evaluated at the consolidated group level.

A

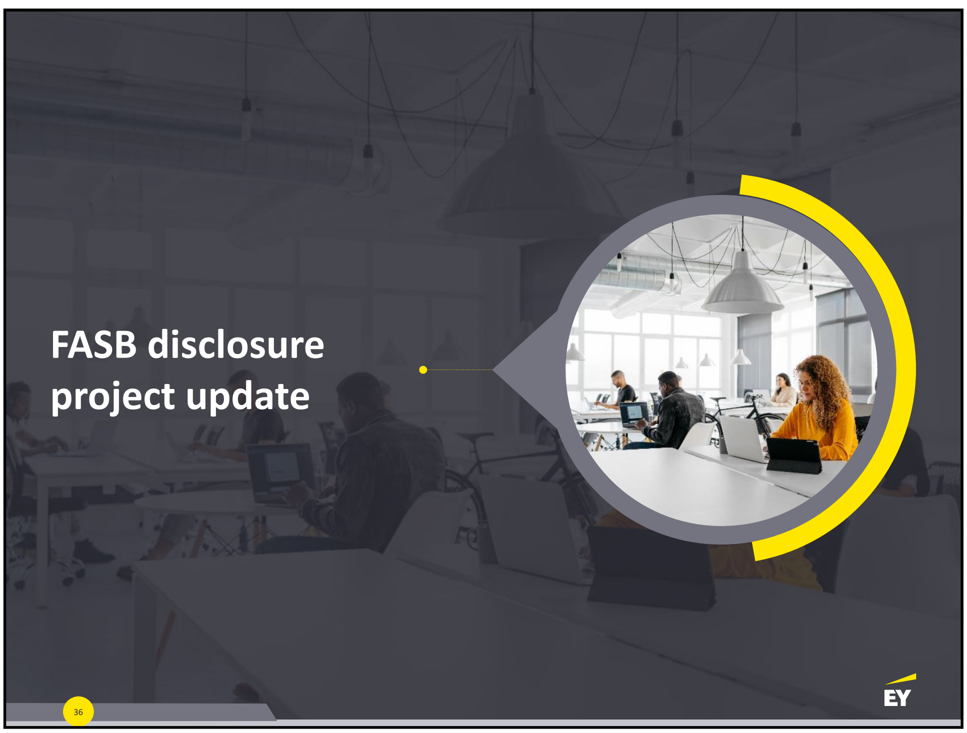
True

B

False

35

35



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Improvements to income tax disclosures (ASU 2023-09)
FASB – Final guidance

The guidance is intended to improve the transparency and decision-usefulness of income tax disclosures.

- Public business entities (PBEs) are required to disclose specific categories in the rate reconciliation and additional reconciling items in certain categories
- All entities are required to disclose income taxes paid (net of refunds received) on an annual basis:
  - Disaggregated by federal (national) in the country of domicile, state and foreign jurisdictions
  - Disaggregated by individual jurisdictions based on a quantitative threshold (5% of total income taxes paid, net of refunds received)
- All entities are also required to disclose additional income statement information:
  - Income/loss from continuing operations (CO) before income tax expense/benefit disaggregated between domestic and foreign
  - Income tax expense/benefit from CO disaggregated by federal (national), state and foreign
- The guidance eliminates certain other disclosure requirements

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Improvements to income tax disclosures (cont.)
FASB – Final guidance

- The guidance is effective for PBEs for annual periods beginning after 15 December 2024 and for all other entities for annual periods beginning after 15 December 2025
  - Entities can apply it prospectively for annual periods beginning after the effective date
  - Retrospective application to each period presented is permitted
  - Early adoption is permitted

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Improvements to income tax disclosures (cont.)
FASB – Final guidance

- PBEs are required to disclose the following in the rate reconciliation:
  - Information disaggregated by the specific categories below, with qualitative and quantitative disclosures:

State and local income tax, net of federal (national) income tax effect	**Foreign tax effects**	Effect of changes in tax laws or rates enacted in the current period	**Effect of cross-border tax laws**
Tax credits	Changes in valuation allowances	**Nontaxable or nondeductible items**	Changes in unrecognized tax benefits

  - Disclosure of the categories is subject to materiality assessment in accordance with US GAAP
  - Reconciling items within the bolded categories above require additional information to be disclosed based on a threshold of 5% of the amount computed by multiplying income (loss) from continuing operations by the applicable statutory federal (national) tax rate
  - Entities other than PBEs are required to provide qualitative disclosures about the nature and the effect of specific categories and individual jurisdictions

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Improvements to income tax disclosures (cont.)
FASB – Final guidance

- All reconciling items are required to be presented on a gross basis unless specific guidance permits net presentation
- Additional disclosures about certain categories include:
  - **State and local income tax, net of federal (national) income tax effect** – qualitative disclosure about the states and local jurisdictions that make up the majority (greater than 50%) of the state and local income tax category, starting with the jurisdiction that has the largest effect and adding jurisdictions in descending order until the aggregated effect is greater than 50%
  - **Foreign tax effect** – separate disclosure of reconciling items by jurisdiction and by nature, based on a quantitative threshold of 5%
    - Reconciling items within a jurisdiction greater than the 5% threshold are required to be disclosed even if the individual jurisdiction is below the threshold
  - **Effect of cross-border tax laws** – separate disclosure of reconciling items included in this category by nature, based on a quantitative threshold of 5%
    - Effects of certain cross-border tax laws (e.g., global intangible low-taxed income) and related foreign tax credits may be disclosed on a net basis

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Improvements to income tax disclosures (cont.)
FASB – Final guidance

- Additional required disclosures about certain categories include:
  - **Tax credits and nontaxable or nondeductible items** – Separate disclosure of reconciling items included in each of these categories by nature, based on a quantitative threshold of 5%
  - **Changes in valuation allowances** – Disclosure reflects valuation allowances initially recognized and subsequently adjusted in the reporting period
  - **Changes in unrecognized tax benefits** – Changes may be presented on an aggregated basis for all jurisdictions
    - An unrecognized tax benefit recorded for a tax position taken in the same reporting period, in the current annual reporting period, may be presented on a net basis in the category where the tax position is presented
  - **Other items that do not fall within any specific category** – Reconciling items are separately disclosed by nature, based on a quantitative threshold of 5%
- Additional disclosures of nature, effect and underlying causes of reconciling items are required if not otherwise evident

Improvements to income tax disclosures (cont.)
FASB – Final guidance

The example footnote disclosure is based on the FASB's illustration in the final standard.

	Current year		Prior year	
	Amount ($)	Percent (%)	Amount ($)	Percent (%)
US federal statutory tax rate	x	x	x	x
State and local income taxes, net of federal income tax effect[1]	x	x	x	x
Foreign tax effects				
Ireland				
Statutory tax rate difference between Ireland and United States	(x)	(x)	(x)	(x)
Changes in valuation allowances	(x)	(x)	(x)	(x)
Enacted changes in tax laws or rates	-	-	x	x
Other	x	x	(x)	(x)
Switzerland	(x)	(x)	(x)	(x)
Other foreign jurisdictions	(x)	(x)	(x)	(x)
Effect of changes in tax laws or rates enacted in the current period	-	-	(x)	(x)
Effect of cross-border tax laws				
Global intangible low-taxed income (GILTI)	x	x	x	x
Foreign-derived intangible income (FDII)	(x)	(x)	(x)	(x)
Base erosion and anti-abuse tax (BEAT)	x	x	x	x
Tax credits				
R&D tax credits	-	-	(x)	(x)
Energy-related tax credits	(x)	(x)	-	-
Other	-	-	(x)	(x)
Changes in valuation allowances	x	x	(x)	(x)
Nontaxable or nondeductible items				
Share-based payment awards	x	x	x	x
Goodwill impairment	x	x	x	x
Other	x	x	(x)	(x)
Changes in unrecognized tax benefits	(x)	(x)	x	x
Other adjustments	x	x	(x)	(x)
Effective tax rate	x	x	x	x

Example qualitative disclosure

[1] State taxes in California and New York made up the majority (greater than 50 percent) of the tax effect in this category.

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2024 Washington Political and Legislative Update

Scott McLucas

Washington Update

ISCPA Insurance Conference

Scott McLucas, Managing Director
Office of Government Affairs
KPMG LLP

—

June 20, 2024

Washington Update

Current Political Overview

Legislative Outlook for the rest of 2024

Politics of Current Regulatory Actions

2024 Elections

Current Political Overview

House of Representatives

- Speaker Mike Johnson (LA)
- Five vote margin
- Caucus politics

Senate

- 51-49 margin

Major Legislative Issues in 2024

- Government funding
- 12 Appropriations bills to complete
- FY 2025 National Defense Authorization Act (NDAA)

Major Legislative Issues in 2025

Tax Cuts and Jobs Act Expiring Provisions

Individual Provisions

- Lower individual tax rates/AMT
- Higher estate & gift tax exemption
- SALT limitation

Business Provisions

- Pass Through Deduction Section 199A (qualified business income)
- Disallowance of excess business losses
- R&D amortization

Politics of Tax Reform/Reconciliation

Regulatory Outlook for 2023

SEC

ESG Disclosures

- Legal Challenges to the SEC final climate rule
- Federal (Republican/Democratic Divide). Federal contractor compliance
- States (Red State/Blue State divide)
  - GFANZ anti-trust letters/hearings (18-22 AGs)
  - California rule (will others follow?)

CRA Issues

Congress Can Block Federal Agency Rules Via Legislation

CRA allows Congress to overturn rules by passing a joint resolution of disapproval in both chambers

- Resolutions are subject to presidential veto, so more likely to succeed when a new administration comes in and seeks to cancel its predecessor's regulations
- Agencies can't issue a similar rule after successful CRA challenge unless lawmakers pass a separate law allowing it

Tool was rarely used since enacted in 1996 until former President Donald Trump took office

- One Clinton administration rule was struck down via CRA during the George W. Bush administration
- Trump signed 16 resolutions overturning rules from the Obama administration
- President Joe Biden has overturned three rules from Trump

CRA-Covered Rules

- CRA applies only to final rules, not proposals; doesn't permit modification of a rule or partial invalidation
- Can also apply to agency guidance documents and other actions not subject to traditional rulemaking process
- Excludes executive orders, rules relating to agency personnel management

Source: "The Congressional Review Act (CRA): Frequently Asked Questions," Congressional Research Service

Regulatory Outlook for 2023

PCAOB

- **NOCLAR**

  Public comments
  Congress weighs in

- **Letter from Reps. McHenry/Wagner**
- **Second Comment Period/Roundtables**

2024 Political and Legislative Calendar

June 27th

First Debate

September 10th

Second Debate

September 30th

Government Funding Expires

Farm Bill/Flood/TANF

July/September

Conventions

November 5th

Election Day!

December 31st

Medicaid Policies and

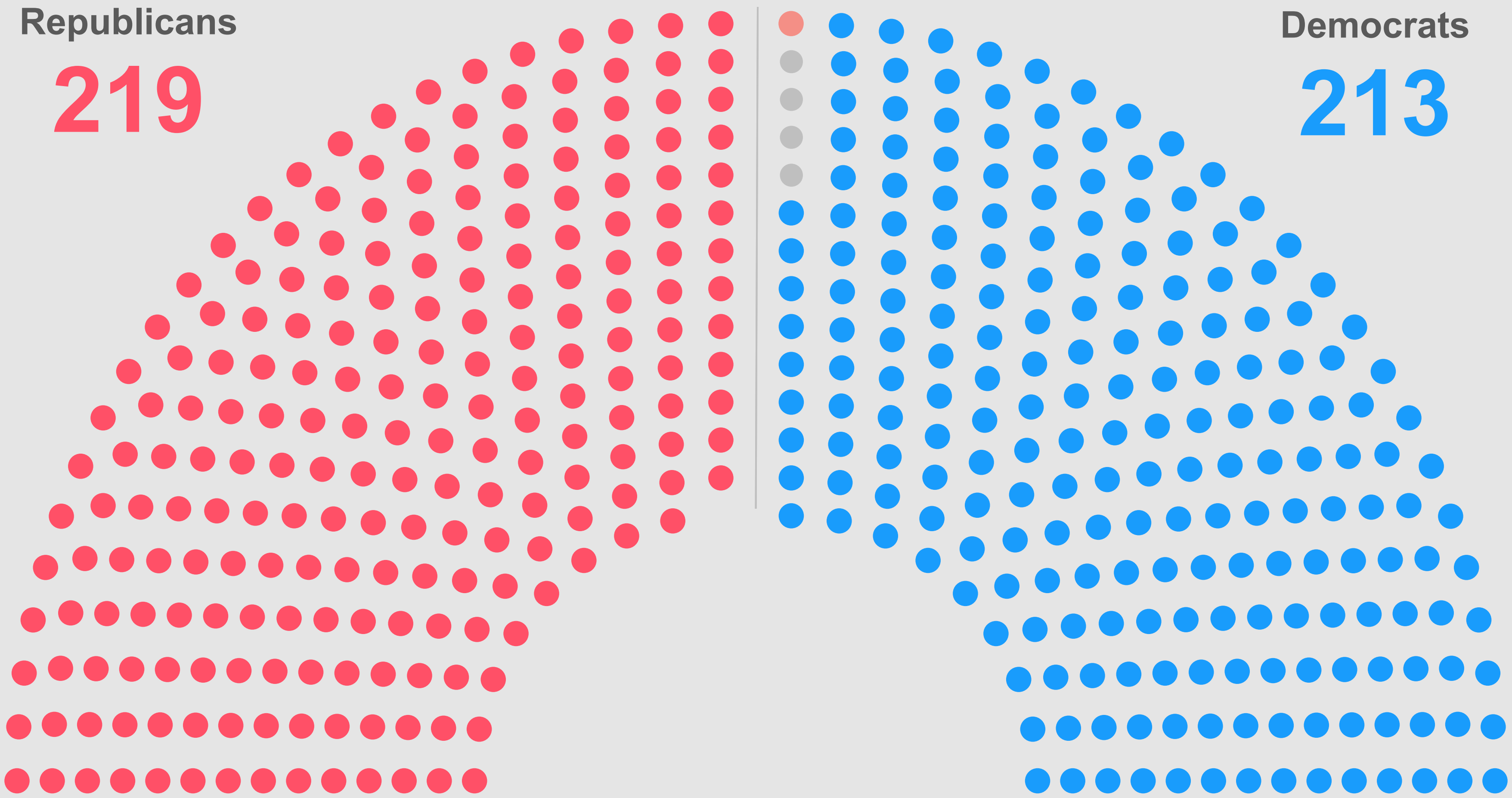
Health Care Extenders

NDAA

December 31st 2025

Tax Cuts and Jobs Act Expires

House Balance of Power for the 118th Congress



Notes: As of May 29. Light red seat represents CA-20 seat that Rep-elect Vince Fong won May 21. Grey seats represent OH-06 seat vacated Jan. 21 by Bill Johnson (R); CO-04 seat vacated March 22 by Ken Buck (R); WI-08 seat vacated April 24 by Mike Gallagher (R-Wis.), and NJ-10 vacancy caused by April 24 death of Donald Payne Jr. (D).

Bloomberg Government

- **Republicans will be looking to defend, broaden their narrow House majority in 2024**
  - Democrats likely need net gain of four seats
  - Narrow majority in current Congress will shift several times with departures, special elections
  - House races share the ballot with presidential campaign, Senate contests in key states
- **Keys to victory: 2022 close races, seats won in 2020 by other party's presidential candidate**
  - Five Democrats hold seats won by Donald Trump in the last election
  - 18 districts Republicans won in 2022 voted for Biden, including the district Tom Suozzi (D) won after former one-term Rep. George Santos (R) was expelled
  - Members have announced retirements, including some committee chairs, though few in competitive seats
- **Revised congressional maps have created opportunities for both parties**
  - New York's new map for 2024 election gives moderate boost to Democrats
  - New Alabama and Louisiana lines boost Black voting power – and Democrats
  - North Carolina Republican legislature implemented new map that could net GOP three to four seats and erase Democratic gains elsewhere

House Outlook

Democratic Advantages

Republicans have a five-vote majority

Redistricting will have an impact (NC, NY, AL, NM)

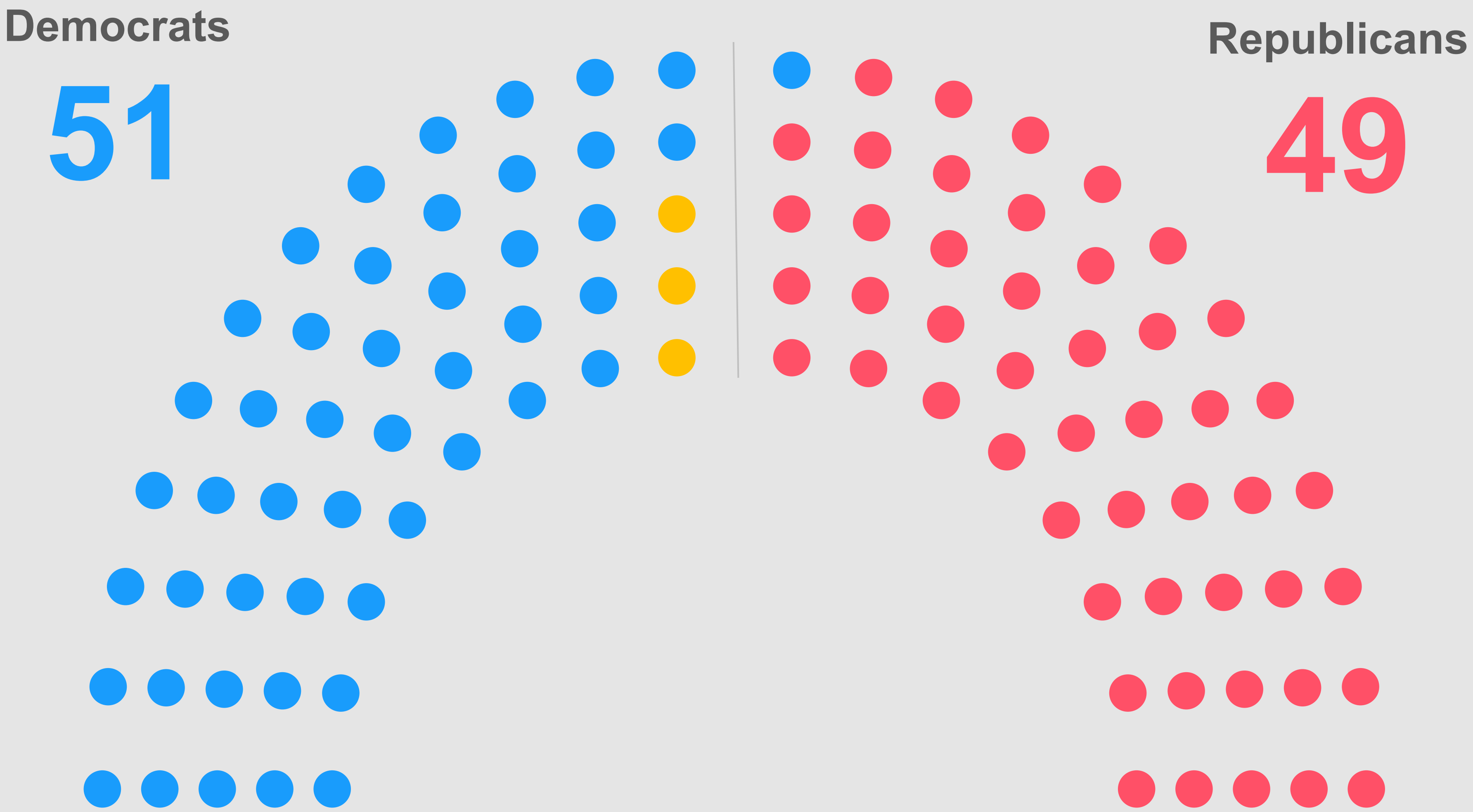
Tossup Seats (17R-12D)

Lean D (13-1), Lean R (6)

Likely R (12-3), Likely D (18-1)

Source: Cook Political Report

Senate Balance of Power for the 118th Congress

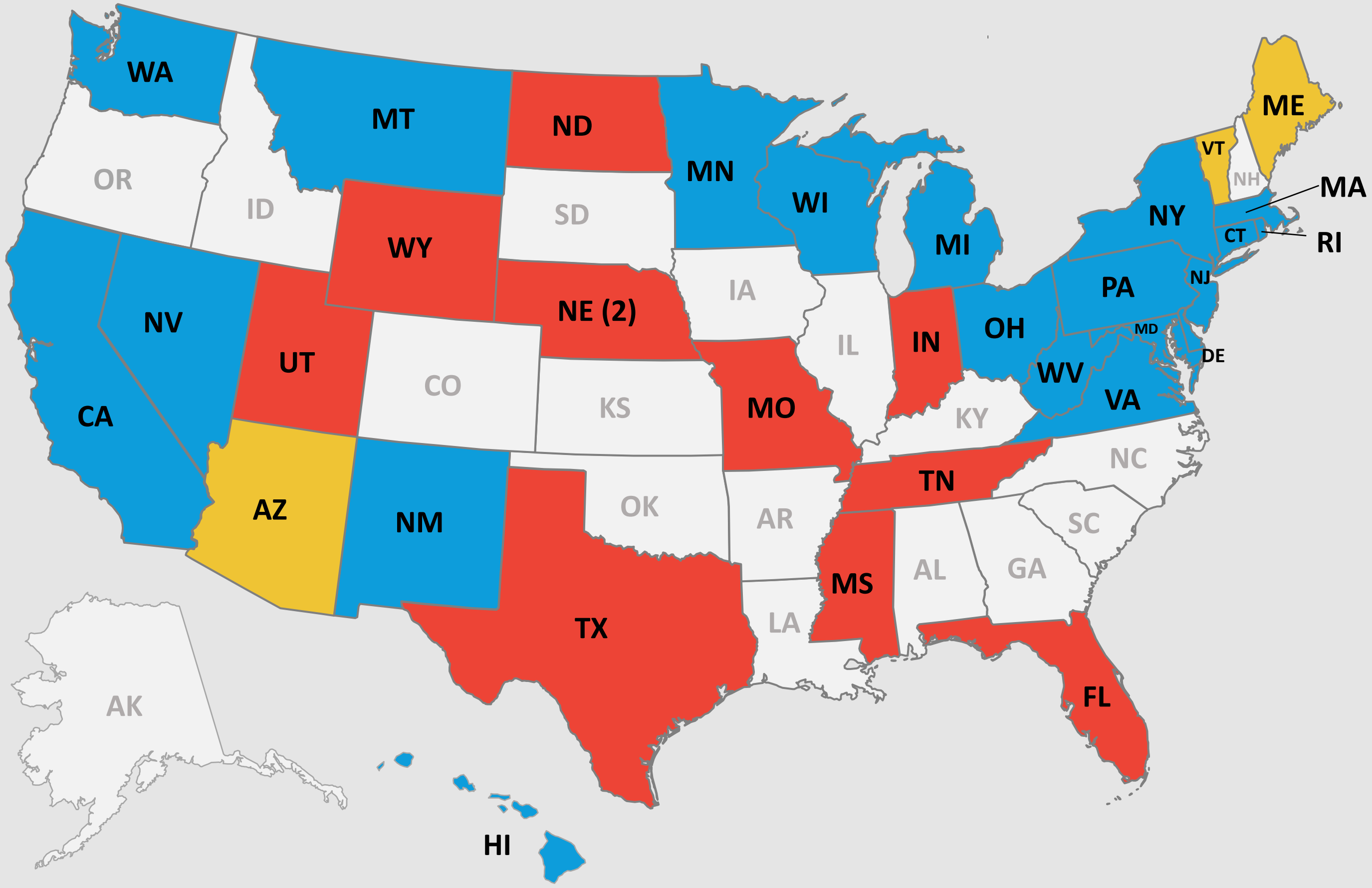


Note: Yellow dots are independents who are aligned with Democrats.

2024 Senate Races

Democrats defending more seats, including three in 2020 Trump states (Montana, Ohio, West Virginia)

Republican incumbent (11) Democratic incumbent (20) Independent incumbent (3)



Open Seats

- AZ: Kyrsten Sinema (I)
- CA: Laphonza Butler (D)
- DE: Tom Carper (D)
- IN: Mike Braun (R)
- MD: Ben Cardin (D)
- MI: Debbie Stabenow (D)
- UT: Mitt Romney (R)
- WV: Joe Manchin (D)

Note: Nebraska will have two races in 2024, including a special election triggered by the resignation of Ben Sasse (R).
Source: Bloomberg Government, Tracking Departures in the 118th US Congress

Cook Report Forecasts Three Toss-up Races So Far

- Nonpartisan race rater said 13 Democratic seats, nine Republican seats are “solid” for incumbent party
- Larry Hogan’s entry into Maryland Senate race shifted contest to “Likely” from “Solid”

Likely Democratic (1)

- Maryland – Open (D)

Lean Democratic (3)

- Michigan – Open (D)
- Pennsylvania – Casey (D)
- Wisconsin – Baldwin (D)

Toss-up (4)

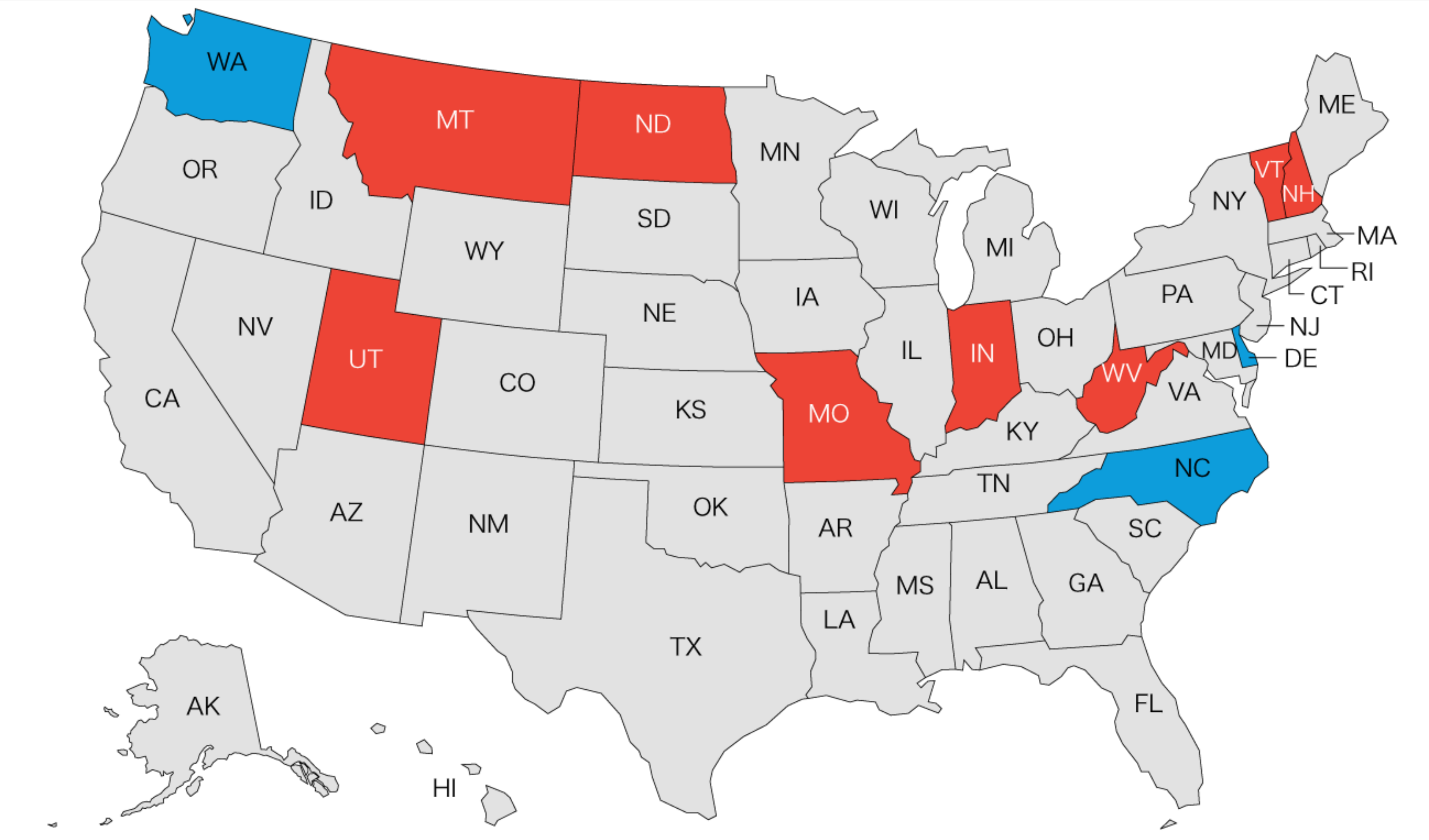
- Arizona – Open (I)
- Montana – Tester (D)
- Nevada – Rosen (D)
- Ohio – Brown (D)

Likely Republican (2)

- Florida – Scott (R)
- Texas – Cruz (R)

Source: Cook Political Report with Amy Walter, rankings released April 3, 2024

2024 Governor Races



Governor's Races

Republicans have a 27/23 advantage in Governor's seats

8 Republican seats open in 2024, 3 Democratic seats

Democratic Pickups? New Hampshire and Vermont

Republican Pickup? North Carolina

Source: Ballotpedia/Cook Political Report

Generic Ballot

Republicans +1.3%

November 2022 Republicans +2.8
(*gained 9 seats)

November 2020 Democrats +6%*
(*lost 14 seats)

Source: Real Clear Politics

Election Issues

GOP Issues

Biden disapproval, inflation/economy, immigration, global crises, campus unrest

Democratic Issues

Abortion, improving economy, Trump disapproval, student loan forgiveness

Presidential Race in 2024

- Will it still be Biden?
  - Concerns about health
- Will it still be Trump?
  - Concerns about legal cases

Biden vs Trump Polls (current)

Biden 44.8% Trump 45.2%

Trump +.4%

(Trump +4.8% with other candidates)

Biden led +8.1 June 2020

Source: Real Clear Politics

Biden/Trump Approval Ratings

Biden 39.6% June 2024

Trump 42.8% (favorable) June 2024

By way of Comparison for Incumbents

Trump 42 % June 2020

Obama 47.9% June 2016

Bush 47.5% June 2004

Source: Real Clear Politics/538

Biden vs Trump Battleground

Nevada Trump +5.3

Georgia Trump +4.8

Arizona Trump +4.4%

Michigan Trump +.3

Pennsylvania Trump +2.3

Wisconsin Trump +.1%

Source: Real Clear Politics

Democratic Preferences are Declining in Key

Black Voters Democrats 66% GOP 19%
-11% for Dems

Hispanic Voters Democrats 47% GOP 35%
-20% for Dems

Young Voters Democrats 24% GOP 18%
-20% for Dems

Source: February Gallup Poll

Right Track/Wrong Track

June 2024

Right Track 25.2%

Wrong Track 64.8%

Source: Real Clear Politics

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Principles Based Bond Project

Kevin Clark

Department of Insurance and Financial Services

Principles-Based Bond Project

Kevin Clark, CPA
Chief Accounting and Reinsurance Specialist
Iowa Insurance Division
Vice Chair of SAPWG

1

Objectives

- Provide context and background on the development of the principles-based bond definition (“PBBD”).
- Present on commonly asked implementation questions and answers.
- Questions are encouraged!
- This will not be a presentation of the principles themselves. The NAIC will be rolling out a free educational webinar imminently.
- Will be posted on SAPWG webpage: https://content.naic.org/committees/e/statutory-accounting-principles-wg

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PBBD Timeline

August 2019	October 2020	2020-2023	August 2023	Jan 1, 2025
Agenda item created Focus on 43R CFOs as initial focus Later expanded to all 43R Proposed to utilize SEC / CFR definition for ABS	Industry submits 67-page comment letter opposed IA submits comment letter proposing principles-based definition of a bond with initial draft language SAPWG instructs a small group to work on further developing IA draft	Small group of regulators, NAIC staff and industry reps meet regularly to build out definition Definition is exposed for comment through several iterations SSAP edits and blanks changes are developed	New SSAP 26 and 43 guidance is adopted.	New standard become effective.

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3

3

Fields of Opportunities

STATE OF IOWA

KIM REYNOLDS
GOVERNOR

ADAM GREGG
LT. GOVERNOR

DOUG OMMEN
COMMISSIONER OF INSURANCE

October 6, 2020

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500 Kansas City, MO 64106-2197

RE: Ref #2019-21 – SSAP No. 43R, Loan-backed and Structured Securities

Dear Mr. Bruggeman:

The Iowa Insurance Division (the "Division") would like to make comment regarding the ongoing discussions of Reference #2019-21 – SSAP No. 43R, Loan-backed and Structured Securities. The Working Group has exposed Issue Paper No. 1XX in regards to this topic which has received extensive commentary from interested parties.

The impetus for this project was to review the scope of SSAP 43R to determine whether certain types of investments with unique characteristics should be reported as loan-backed and structured securities within the scope of SSAP 43R. This was in response to the identification of such investments by regulators and the SVO and concerns raised that some may not be of the character that regulators would expect to be reported as bonds on Schedule D-1. When defining the project as a SSAP 43R scoping project, it was expected that all of the investments identified were being reported in scope of SSAP 43R.

It has since been identified that there is diversity in practice in how these investments are classified, and that some companies believe that many of the investments identified for evaluation in this project are within the scope of SSAP 26R. The appropriate classification between SSAP 26R and SSAP 43R is an important topic, and the Working Group should consider whether there are clarifications needed to address the differences in interpretation. However, this issue is secondary to the primary purpose of this project, which is to determine whether investments with certain unique characteristics should qualify as bonds for Schedule D-1 reporting.

It has been identified that the definition of a bond under current statutory accounting principles is broad and includes, "any securities representing a creditor relationship, whereby there is a fixed schedule for one or more future payments." Given the broad definition, it is possible for an insurer to acquire any asset through a debt-issuing trust or special purpose vehicle and report it as a Schedule D-1 bond, even if that asset would be otherwise inadmissible if held directly, and even if there is no economic substance to the trust. In other words, the insurer could be in an identical economic position to holding the inadmissible asset directly and still qualify for Schedule D-1 reporting.

In most cases, securitizations serve a bona fide economic purpose and can create high-quality bonds out of a pool of otherwise non-investable assets through overcollateralization and the prioritization of payments to debtholder classes. However, the current guidance is too broad to distinguish between those with economic substance and those without, leaving the reporting of these assets susceptible to abuse.

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Therefore, the Division recommends that the Working Group focus its efforts on developing a principles-based definition for those assets that qualify for Schedule D-1 bond treatment as the initial step for this project. To facilitate this discussion, the Division has included as Appendix A of this letter, a draft definition that we believe serves as a good starting point for identifying those principles. This draft is intended to facilitate the discussions of the Working Group and industry and we look forward to hearing feedback on both the draft and the proposed direction of the project.

Once the Working Group has reached consensus regarding those assets that qualify for Schedule D-1 bond reporting, there may be certain characteristics that, while they do not impair qualification as a bond, may warrant separate identification on Schedule D-1. This, along with clarification of the classification between SSAP 26R and SSAP 43R and review of the accounting and measurement methodologies will be important secondary objectives of the project. But it is first necessary to answer the question of what qualifies as a bond, before these secondary objectives can be fully addressed.

Sincerely,

Kevin Clark, Chief Accounting Specialist, Iowa Insurance Division

Carrie Mears, Chief Investment Specialist, Iowa Insurance Division

Appendix A

Introduction

The following draft definition provides a basis for distinguishing between the two types of bonds which have been identified through discussions to date. Those are issuer obligations and asset backed securities. It clarifies that issuer obligations are those backed by the credit of an operating entity. A debt security that is issued by an entity whose purpose is the pass-through of collateral cash flows is not an issuer obligation.

The definition of asset backed securities specifies that they involve the securitization of **financial** assets. When an insurer invests in a securitization of assets, it is important that the nature of those assets lend themselves to the production of cash flows. Therefore, the securitization of non-financial assets should receive bond treatment only in instances where the nature of the assets lends itself to the production of cash flows. Those specific instances should be separately identified for Schedule D-1 qualification, as is currently the case with lease-backed securities and equipment trust certificates.

The definition of asset backed securities also stipulates that an asset backed security redistributes the risk of the underlying collateral such that the investor is in a different position than if the underlying collateral were held directly. Under this definition, an entity that simply passes through the proceeds of the underlying collateral has done nothing to alter the nature of the investment, has no economic substance, and should therefore be looked through to determine the appropriate accounting.

Finally, it introduces the concept that a key characteristic of a bond and what makes it a debt investment, rather than an equity-like investment, is that it represents a senior or priority interest in the assets of the issuer. This is true for issuer obligations as well as asset backed securities. Therefore, in order for something to meet the definition of a bond, there must be a more-than-insignificant subordinated interest present, or said another way, overcollateralization. The residual position is akin to an equity investment, and should not qualify for Schedule D-1 reporting.

Principles-based Definition of a Bond to be Reported on Schedule D, Part 1: (New Elements in Red)

1. Bonds shall be defined as any securities representing a creditor relationship, whereby there is a fixed schedule for one or more future payments, and which qualify as Issuer Obligations or Asset Backed Securities.

2. Issuer Obligations represent the debt of operating entities, which have a purpose other than the pass through of investment proceeds. Examples of issuer obligations include (SSAP 26R examples):

   a. U.S. Treasury securities;(INT 01-25)

   b. U.S. government agency securities;

   c. Municipal securities;

   d. Corporate bonds, including Yankee bonds and zero-coupon bonds;

   e. Convertible bonds, including mandatory convertible bonds as defined in paragraph 11.b;

   f. Fixed-income instruments specifically identified:

      i. Certifications of deposit that have a fixed schedule of payments and a maturity date in excess of one year from the date of acquisition;

      ii. Bank loans issued directly by a reporting entity or acquired through a participation, syndication or assignment;

      iii. Hybrid securities, excluding: surplus notes, subordinated debt issues which have no coupon deferral features, and traditional preferred stocks.

      iv. Debt instruments in a certified capital company (CAPCO) (INT 06-02)

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3. Asset backed securities represent debt issued through the securitization of financial assets. There are two defining characteristics that must be present in order for a security to meet the definition of an asset backed security:

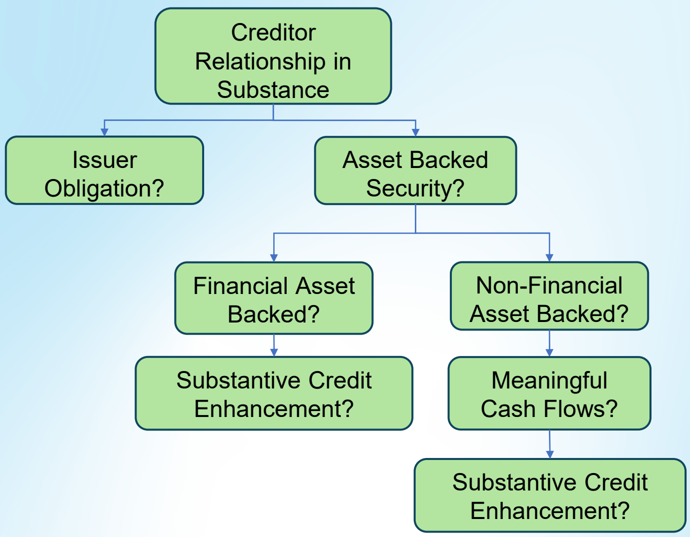
   a. The financial assets collateralizing the debt issuance are expected to be the primary source of cash flows for repayment of the debt;

   b. The securitization of the financial assets collateralizing the debt issuance redistributes the credit risk of the underlying financial assets, such that the creditor is in a different position than if the underlying collateral were held directly.

   Asset backed securities are typically issued from a trust or special purpose vehicle, though the presence or lack of a trust or special purpose vehicle is not a definitive criterion for determining that a security meets the definition of an asset backed security.

4. Inherent in the definition of a bond, whether represented by an issuer obligation or asset backed security, is the notion that the creditor has a senior interest in the assets of the issuer. The most subordinated interest, sometimes referred to as the first-loss position, represents the interest of an equity holder, rather than a creditor. Therefore, in order to meet the definition of a bond, a more-than-insignificant subordinated interest must be present.

Bond Principles Flowchart



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AICPA Small Group

- Formed to bring forth implementation and interpretation questions and provide more clarity when possible.
- Includes several SAPWG members, industry and audit firm representatives.
- Topics discussed or on the agenda for future discussion include:
  - Non-contractual cash flows and the meaningful practical expedient
  - What forms of overcollateralization may be considered and how to disclose
  - How to classify various types of Municipal Securities between ICO and ABS
  - Do foreign governments qualify as operating entities
  - When are non-bond debt securities non-admissible under SSAP 21R.
  - Team / League Deals
  - Synthetic / Referenced Collateral Pools
  - Hybrid Securities
  - IOs & POs
  - Certain CMBS (i.e. SASBs)

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Key Theme 1 - Implementation Considerations

- The PBBD is focused on the substance of an investment, rather than legal form.
- While there are only a few key concepts involved in the PBBD, each involves significant judgment to apply.
- This combined with the vast spectrum of investment designs creates practical challenges, particularly at initial transition as there is no grandfathering.
- The transition guidance requires best efforts at implementation, which should not be viewed as exhaustive efforts.
- Reasonable scoping / stratification may be applied to identify groups of assets requiring little or no detailed review, groups that can be evaluated at a higher level, or those requiring detailed analysis.
- Accounting policies may also be developed to facilitate more efficient classification, both at transition, and on an ongoing basis.

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Question #1 – Use of Ratings

Questions: If a security is rated by the NRSROs investment grade at origination, can we make the assumption that it has substantive credit enhancement? Can we use credit quality or percentage of balloon payment to either categorize bonds or tag them for further analysis? That is, if a company writes their accounting policy to use these as initial screens to determine if a bond, will this be acceptable to the NAIC and regulators?

- Keep in mind the purpose of each concept. The purpose of the substantive credit enhancement concept is to ensure the investor is in a different economic position than owning the underlying collateral directly.
- Outside of the practical expedient for meaningful cash flows, there are no rule-based cutoffs based on ratings or balloon percentage.
- The bond definition is clear that an NAIC designation (or CRP rating) is not standalone evidence of substantive credit enhancement. An NAIC designation is based on credit quality of the issuer, which does not necessarily mean that the investor is in a different economic position than owning the collateral directly.
- However, we expect and support insurers' developing accounting policies to facilitate efficient investment classification. CRP ratings or balloon percent may be useful data points for this purpose.

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Example #1 – CLO Portfolio

- CLOs are a securitization of corporate loans, which are clearly financial assets.
- A company can intuitively conclude that the requirements for Financial Asset Backed Securities apply, meaning it must be a creditor relationship and have substantive credit enhancement (meaningful cash flows is N/A)
- Through discussions with front office portfolio managers, it is determined that the company's CLOs are a relatively standard and homogenous population, and that it is unlikely that any contain non-debt variables that would call the creditor relationship into question.
- It is also identified that the form of credit enhancement involved in CLOs is the subordination of junior tranches, the residual tranche in particular.
- Based on the company's understanding of rating agency methodologies, it develops an accounting policy that concludes that the level of subordination needed to receive a rating for debt tranches of a CLO would be expected to meet or exceed the company's view of what is considered substantive, such that they conclude that all CLO debt tranches with a CRP rating are in a different economic position than owning the underlying loans directly.

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Example #2 – Balloon Payment

- A company periodically invests in railcar lease-backed securities and wants to develop an accounting policy to facilitate efficient evaluation under the bond definition.
- Leased railcars are non-financial assets and must be a creditor relationship, have substantive credit enhancement and produce meaningful cash flows.
- Through discussions with front office portfolio managers, it is determined that the company's railcar ABS are a relatively standard and homogenous population, and that it is unlikely that any contain non-debt variables that would call the creditor relationship into question.
- It is also identified that the form of credit enhancement involved is overcollateralization through the combination of lease cash flows and residual value of the railcars, generally far in excess of what is needed to service the debt. Similar to the CLO example, the company concludes that railcar ABS with an investment grade or above CRP rating would consistently have overcollateralization meeting the company's standard for substantive credit enhancement.
- Additionally, the company concludes that there are **not sufficient contractual cash flows to meet the meaningful cash flow practical expedient**, as the lease terms are generally shorter than the term of the debt. However, there exists a robust re-leasing market such that, even accounting for lost utilization from re-leasing, lease cash flows are generally **expected** to amortize all but a relatively small amount of principal, which the residual value of the railcars would be expected to far exceed even in stressed conditions. Based on this analysis, **the company develops a policy whereby if the expected balloon payment is less than 20% of the principal, railcar ABS are deemed to have meaningful cash flows**.

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Key Theme 2 – Municipals Classification

- The PBBD is focused on the substance of an investment's specific design.
- The naming convention of an investment does not provide auto-in / auto-out classification as a bond.
- Initial assessment as ICO or ABS depends on the source of payment, whether it comes from an operating entity (backed by the general creditworthiness of the operating entity) or from an ABS Issuer (generated from cash flows of dedicated collateral).
- Municipals have been identified as an area where this determination can be ambiguous and could benefit from additional guidance from regulators.
- This is a subject of ongoing conversation with the small group.

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Question #2 - Municipals

<u>Question:</u> How should various types of municipal securities be classified? ICO? ABS?

- Determination of ICO or ABS depends on the source of payment, whether it comes from an operating entity (backed by the general creditworthiness of the operating entity) or from an ABS Issuer (generated from cash flows of dedicated collateral).
- Specific guidance in SSAP No. 26 provides guidance for municipal securities and project finance bonds as ICOs if certain terms are met:

  7c – Municipal securities issued by the municipality or supported by cash flows generated by a municipally-owned asset or entity that provides good or services (e.g., airport, toll roads, etc.)

  7f – Project finance bonds issued by operating entities.

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Example #2 – Municipal Types

- **General Obligation Bonds -** Bonds are backed by the "full faith and credit" of the government issuer, which has the power to tax residents to pay bondholders.
  - A – Primary source of repayment from an operating entity (governmental entity) – Clearly ICO under 7c.
- **Tax Revenue Bonds** - Repaid from certain dedicated tax revenues, such as sales taxes, gasoline or tobacco taxes, hotel or tourist taxes, special tax assessments or incremental property taxes.
  - A – Less clear. Still backed by governmental taxing authority, though isolated to a single taxing source, generally without additional recourse to other assets or revenues. A reporting entity could reasonably conclude that the bond is ultimately repaid by the taxing authority of an operating entity, thus having the substance of an ICO under 7c.

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Example #2 – Municipal Types… cont'd

- **Special Revenue Bonds** - Bonds are not backed by the government's taxing power but by revenues from a specific project or source, such as highway tolls, water and sewer, electric utility, lease fees, or usage charges. Payment of interest and repayment of principal on the bonds therefore depends on the adequacy of the revenues (gross or net of operating expenses) derived from the project.
  - A – Both Paragraph 7c and 11 contemplate debt securities used to finance municipal operating projects as ICO. The municipality is walling off a particular revenue source to facilitate more efficient financing of such projects, but ultimately, the primary purpose is to raise debt capital to fund a municipality's operations. Some focus has been put on the mention of operating expenses in Paragraph 11, but whether the revenue used to repay the bond is gross or net of expenses should not be viewed to change the classification determination.
- **Housing Bonds** – comes in many versions, but generally involves a municipality facilitating the financing of special-interest housing, with mortgage loans and/or rental payments providing the source of repayment.
  - A – These are not repaid through taxing authority of the municipality or revenue of an operating project. While the municipality may sponsor the housing program, it acts as a facilitator of sourcing debt financing, which is ultimately repaid by cash flows generated by the underlying collateral. ABS criteria applies.

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Key Theme 3 – Guaranteed Investments

- The PBBD distinguishes between ICO and ABS based on the primary purpose of the issuer / primary source of repayment. A direct obligation of a government entity will be considered ICO, while a security for which the primary source of repayment is from collateral cash flows, with a secondary guarantee from a government entity will be considered under the ABS criteria.
- The most common example is Agency MBS, where the mortgages provide the primary source of cash flows, and the Agency provides secondary guarantee.
- Agency MBS would be considered under the Financial ABS criteria, which simply requires substantive credit enhancement.
- A reporting entity could reasonably conclude that an agency guarantee is always a substantive credit enhancement, thus limiting the review needed for its Agency MBS portfolio.

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Key Theme 3 – Guaranteed Investments - Reporting

- The ABS reporting lines include lines for Agency MBS, broken out by Fully Guaranteed (which are exempt from RBC) and Not Fully Guaranteed.
- Investments should only be reported as U.S. Government or as Agency Guaranteed if <u>fully and unconditionally guaranteed</u> as to the timely payment of principal and interest by the full faith and credit of the U.S. government.
- The provisions on whether something is fully guaranteed is captured in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*.
- Revisions are being incorporated to the "Agency Commercial Mortgage-Backed Security – Fully Guaranteed" reporting line to capture other ABS structures that qualify as fully guaranteed. These are not currently expected to be prevalent. If such ABS are prevalent, consideration could be given to expanded reporting.

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Question #3 – SBA/SBIC Investments

Question: Are Small Business Administration (SBA) or Small Business Investment Company (SBIC) securitizations/participation certificates considered ICO or ABS? How should these guaranteed investments be reported?

- SBA participation certificates are issued to fund small business loans which provide the primary source of repayment of the certificates and backed by the full faith and credit of the United States.
- This would be an ABS structure subject to bond reporting per those provisions.
- If fully guaranteed (per the terms in the Purposes and Procedures Manual), report as Agency Guaranteed CMBS. If not fully guaranteed, should be reported as agency non-guaranteed.
- Revisions are being incorporated to clarify this reporting. NAIC staff does not believe these structures are prevalent enough to warrant an additional 'guaranteed' reporting line. Comments are requested on the prevalence of these structures.

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Question #4 – Other Agency Securities

Question: How should Seasoned Credit Risk Transfers / Freddie Mac Multifamily Securities (FREMF), which are tied to a mortgage reference pool of reperforming loans with senior tranches that receive a 100% P&I guarantee from a Government Sponsored Enterprise (GSE)be reported?

- This would be an ABS structure subject to bond reporting per those provisions.
- Not all seasoned credit risk transfers issued by Freddie Mac are fully guaranteed to the payment of principal and interest.
- If fully guaranteed (per the terms in the Purposes and Procedures Manual), report as Agency Guaranteed CMBS. If not fully guaranteed, should be reported as agency non-guaranteed.

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Key Theme 4 – Meaningful Cash Flows

- When the underlying collateral in an ABS are non-financial assets, those assets must produce fixed-income cash flows – as codified with the meaningful cash flow concept.
- An infinite variety of underlying assets could potentially meet this requirement. Additionally, the same type of non-financial asset that has no means of producing cash flow in one structure may have a means of producing meaningful cash flows in another.
- The underlying collateral does not need to qualify as an admitted asset.
- If the non-financial assets provide contractual cash flows to cover all interest and at least 50% of the principal on the debt security, it qualifies for the practical expedient. If less than this, or if expected cash flows are non-contractual, it may produce meaningful cash flows, but requires more fulsome analysis.

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Question #5 – Art Securitization – Lease Payments

Question: An SPV is formed to issue debt and purchase multiple pieces of art in a true sale. The art is leased to reputable museums. Cash flows received from the lease payments is applied to the SPV's debt service and is sufficient to cover all interest and amortize at least 50% of the principal. The proportion of the initial loan to art value is 50% and the security has an AA CRP rating.

- This would be subject to the criteria for non-financial ABS structures requiring substantive credit enhancement and meaningful cash flows for bond reporting.
- Substantive Credit Enhancement: The structure includes credit enhancement in the form of 50% overcollateralization in the form of the art value before considering the value of the contractual lease payments. The company should also consider any potential depreciation in value of the art (but should not assume appreciation) over the term of the loan. In this case, the value would have to decline at least 75% to not cover the remaining principal at maturity. Based on this, the company could reasonably conclude that it is in a substantively different economic position than owning the leased art directly.
- Meaningful Cash Flows: As the contractual cash flows supports all interest and at least 50% of the principal, the practical expedient for meaningful cash flows is met.

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Question #6 – Art Securitization – No Lease

Question: An SPV is formed to issue debt and purchase multiple pieces of art in a true sale. Debt investors are secured at 50% LTV, **but there are no regularly scheduled cash flows coming into the SPV in early years to service debt**. The debt will PIK for a period of time, until the art appreciates, and can be sold. At sale, the proceeds will be used to pay interest and a portion of principal. This will continue until all debt (P&I) has been paid.

- This would be subject to the criteria for non-financial ABS structures requiring substantive credit enhancement and meaningful cash flows for bond reporting.
- Substantive Credit Enhancement: Similar to the prior example, a company may conclude that the 50% overcollateralization is substantive enough to put the holder of the investment in a substantively different position than owning the art directly.
- Meaningful Cash Flows: This structure does not qualify as a bond as it fails the meaningful cash flow requirement. This structure requires the sale of artwork or refinancing of the financing to make debt payments. As such, risk of non-payment is solely based on valuation risk and does not provide for fixed income cash flows.
- Investment shall be reported on Schedule BA. If the company determined there was substantive credit enhancement, it would be reported on the line titled "Debt Securities That Do Not Qualify as Bonds Solely to a Lack of Meaningful Cash Flows" and nonadmitted as the collateral is art, which would be nonadmitted if held directly. See Key Theme 5.

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Key Theme 5 – Schedule BA Classification

- An investments that fails the bond definition is reported on Schedule BA based on which principle listed below it fails first:

1) **Debt Securities That Do Not Reflect a Creditor Relationship in Substance**
   - NAIC Designation Assigned by the Securities Valuation Office (SVO)
   - NAIC Designation Not Assigned by the Securities Valuation Office (SVO)
2) **Debt Securities That Lack Substantive Credit Enhancement**
   - NAIC Designation Assigned by the Securities Valuation Office (SVO)
   - NAIC Designation Not Assigned by the Securities Valuation Office (SVO)
3) **Debt Securities That Do Not Qualify as Bonds Solely to a Lack of Meaningful Cash Flows**
   - NAIC Designation Assigned by the Securities Valuation Office (SVO)
   - NAIC Designation Not Assigned by the Securities Valuation Office (SVO)

- Debt securities that are reported on Schedule BA may be designated by the SVO and receive a bond-like RBC charge. Those not filed with the SVO will receive the default Schedule BA charge.

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QUESTIONS?

- Additional Discussion Topics?
- Small Group Formed to Address Questions.

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Hot Topics Panel

Mike Downing, Kelli Eddy, Scott Jean, and Patti Martin (Moderator)

IOWA SOCIETY OF CPAs

Insurance Industry Conference | June 20, 2024

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