INT 20-04 Discussion

5. Although a variety of structures have the potential to be impacted by the economic stimulus provisions, this interpretation is limited to investments specifically identified. Except for the specific inclusion of bank loans, this interpretation does not include investments captured in scope of *SSAP No. 26R—Bonds* or investments captured in the identified standards that are not predominantly impacted by underlying mortgage loans with forbearance or modification provisions in response to COVID-19. Investments in scope of this interpretation include:

a. *SSAP No. 26R—Bonds:* Bank loans in scope of SSAP No. 26R

b. *SSAP No. 37—Mortgage Loans:* All mortgage loans in scope of SSAP No. 37.

c. *SSAP No. 30—Common Stock:* SEC registered investments with underlying mortgage loans (e.g., mortgage-backed mutual funds).

d. *SSAP No. 43R—Loan-Backed and Structured Securities:* Securities in scope of SSAP No. 43R with underlying mortgage loans. This includes residential and commercial mortgage backed securities (RMBS & CMBS), and credit risk transfers (CRTs) issued through government sponsored enterprises (GSEs). Other investments in scope of SSAP No. 43R are also captured within this interpretation if the underlying investments predominantly reflect mortgage loan products.

e. *SSAP No. 48—Joint Ventures, Partnerships and Limited Liabilities Companies:* Investments in scope of SSAP No. 48 that have underlying characteristics of mortgage loans. These investments could include private equity mortgage loan funds.

Bank Loans

6. Bank loans, if meeting certain parameters, are in scope of *SSAP No. 26R—Bonds*. Bank loans per SSAP No. 26R, are defined as fixed-income instruments, representing indebtedness of a borrower, made by a financial institution. Bank loans can be issued directly by a reporting entity or acquired through an assignment, participation or syndication. The guidance in SSAP No. 26R states an other-than-temporary impairment shall be considered to have occurred it if is probable the reporting entity will be unable to collect amounts due according the contract terms of a debt security in effect at the date of issue/acquisition. The measurement of the impairment loss shall not include partial recoveries of fair value subsequent to the balance sheet date. The impairment guidance applicable to bank loans states that if it is probable or if repayment does not occur according to the terms of the original contract (i.e., payment timing and amounts), an impairment shall be considered to have occurred.

Mortgage Loans

7. Mortgage loans are in scope of *SSAP No. 37—Mortgage Loans* and reported on Schedule B: Mortgage Loans. The guidance in SSAP No. 37, paragraph 16, identifies that a mortgage loan shall be considered impaired when mortgage loan payments are not received in accordance with the contractual terms of the mortgage agreement. As such, a deference or modification of mortgage loan payments (whether interest or principal) would ordinarily trigger an impaired classification and require impairment assessment under SSAP No. 37. The guidance in SSAP No. 37 utilizes a valuation allowance to recognize unrealized losses from impairment assessments and permits subsequent reversals of unrealized losses reflected in the valuation allowance based on subsequent assessments. If an impairment is deemed other than temporary, the unrealized loss is realized without the potential for subsequent recoveries.

SEC Registered Funds with Underlying Mortgage Loans

8. The scope of

of the investment. The existing guidance already indicates that a depressed fair value below the carrying amount or the existence of operating losses are not necessarily indicators of a loss that is other than temporary.

INT 20-04 Consensus

11. The Working Group reached a consensus for limited time exceptions to defer assessments of impairment for bank loans, mortgage loans and investments which predominantly hold underlying mortgage loans, which are impacted by forbearance or modifications in response to COVID-19. These exceptions are applicable for the March 31 and June 30, 2020, (1st and 2nd quarter) financial statements and only in response to mortgage loan forbearance or modifications granted in response to COVID-19. As such, the exceptions provided in this interpretation are not applicable in the September 30, 2020, (3rd quarter) financial statements.

12. For modification programs designed to provide temporary relief for borrowers current as of December 31, 2019, the reporting entities may presume that borrowers are current on payments are not experiencing financial difficulties at the time of the modification for purposes of determining impairment status and thus no further impairment analysis is required for each loan modification in the program. The exceptions granted in this interpretation are detailed as follows:

a. *SSAP No. 26R—Bonds*: Provide a limited-time exception for assessing impairment under SSAP No. 26, paragraph 13, for bank loans with payments (either principal or interest) that have short-term deferrals or modifications in response to COVID-19. This interpretation shall not delay impairment assessments for reasons other than the short-term deferral or modification of interest or principal payments in response to COVID-19 and shall not delay recognition of realized losses if a reporting entity believes a bank loan is OTTI.

b. *SSAP No. 37—Mortgage Loans*: Provide a limited-time exception for assessing impairment under SSAP No. 37, paragraph 16, for mortgage loans with payments (either principal or interest) that have short-term deferrals or modifications in response to COVID-19. This interpretation shall not delay impairment assessments for reasons other than the short-term deferral or modification of interest or principal payments in response to COVID-19 and shall not delay recognition of realized losses if a reporting entity believes a mortgage loan is OTTI.

c. *SSAP No. 30R—Common Stock:* Provide a limited-time exception for assessing OTTI under SSAP No. 30, paragraph 10, and INT 06-

b.

with a decline that is considered other than temporary, or the reporting entity does not believe it is probable they will collect the carrying amount of the investment.

13. Subsequent to modifications or restructurings that impact original contractual terms of items in scope of this interpretation, future assessments of impairment shall be based on the modified terms.

14. As detailed in paragraph 11, the exceptions granted in this interpretation are applicable for the March 31 and June 30, 2020, (1st and 2nd quarter) financial statements and only in response to bank and mortgage loan forbearance or modifications granted in response to COVID-19. As the exceptions provided in this interpretation are not applicable in the September 30, 2020, (3rd quarter) financial statements, this interpretation will automatically expire as of September 29, 2020. This interpretation will be publicly posted on the Statutory Accounting Principles (E) Working Group's website. This interpretation will be automatically nullified on September 29, 2020, and will be included as a nullified INT in Appendix H – Superseded SSAPs and Nullified Interpretations in the "As of March 2021" *Accounting Practices and Procedures Manual*.

a. On August 17, 2020, the provisions in this INT were extended to be applicable for the September 30, 2020, (3rd quarter) financial statements. With this extension, this Interpretation will automatically expire as of December 30, 2020, (prior to the year-end 2020 financial statements). Subsequent consideration will occur to determine if an extension is needed beyond September 30, 2020.

INT 20-04 Status

15. On July 30, 2020, the Statutory Accounting Principles (E) Working Group exposed this interpretation for possible extension to September 30, 2020 (3rd quarter financial statements). If the extension were adopted, the proposed paragraph 14.a. would be incorporated into the INT. On August 17, 2020, the Statutory Accounting Principles (E) Working Group extended the provisions of this INT to be applicable for the September 30, 2020, (3rd quarter) financial statements, incorporating paragraph 14.a. into the INT.

16. The Statutory Accounting Principles (E) Working Group will subsequently review this interpretation to determine if an extension is needed to the effective date.

17. No further discussion is planned.

