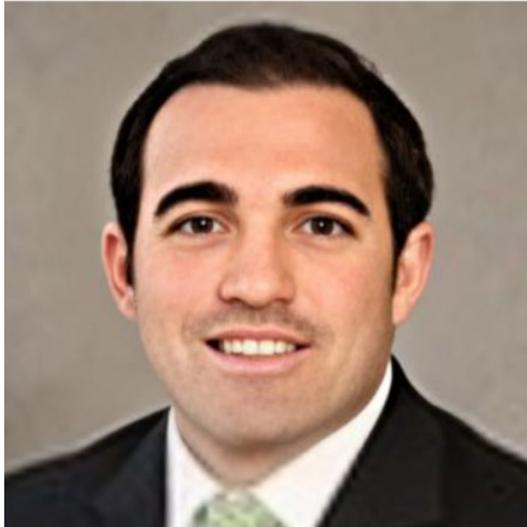




2022 Insurance Industry Accounting Update

September 2022

Presenting to you today



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Agenda

- SEC Update
 1. SEC Commissioners
 2. SEC Strategic Plan
 3. SEC top 10 staff comment topics
 4. SEC comment letter trends
 5. Pay versus Performance
 6. SEC climate disclosure proposal
- PCAOB Strategic Plan
- NAIC Update
- Questions

Update





01

SEC Commissioners

SEC Commissioners



| |
|---|
| Chair: Gary Gensler |
| Term ends |
| June 2026 |
| Background |
| <ul style="list-style-type: none"> • Professor at the MIT Sloan School of Management • Previously served as chair of the CFTC |



| |
|-------------------|
| Mark Uyeda |
| Term ends |
| June 2027 |

| |
|---|
| Background |
| <ul style="list-style-type: none"> • Career attorney with the SEC, joining the commission in 2006 • Previously an attorney in a private practice with O'Melveny & Meters LLP in Los Angeles, and Kirkpatrick & Lockhart LLP in Washington, D.C. |



| |
|-------------------------|
| Hester M. Peirce |
| Term ends |
| June 2025 |

| |
|---|
| Background |
| <ul style="list-style-type: none"> • Senior counsel U.S. Senate Committee on Banking, Housing, Urban Affairs |



| |
|-----------------------------|
| Caroline A. Crenshaw |
| Term ends |
| June 2024 |

| |
|---|
| Background |
| <ul style="list-style-type: none"> • Counsel to Commissioners Kara Stein and Robert Jackson • Career SEC staff attorney in OCIE and Division of Investment Management |



| |
|------------------------|
| Jaime Lizárraga |
| Term ends |
| June 2027 |

| |
|---|
| Background |
| <ul style="list-style-type: none"> • Senior Advisor to Speaker of the House Nancy Pelosi • Democratic staff of the House Financial Services Committee, and a presidential appointee at the U.S. Department of the Treasury and the SEC. |



02

Strategic Plan

SEC Draft FY22-26 Strategic Plan

- In August 2022, the SEC requested public comment on its draft strategic plan
- Comments should be received on or before September 29, 2022
- The draft plan was prepared in accordance with the Government Performance and Results Modernization Act of 2010, which requires federal agencies to outline their missions, planned initiatives, and strategic goals for a four-year period.
- The SEC has identified three primary strategic goals to advance its mission:
 - Protect working families against fraud, manipulation and misconduct
 - Develop and implement a robust regulatory framework that keeps pace with evolving markets, business models and technologies
 - Support a skilled workforce that is diverse, equitable and inclusive, and is fully equipped to advance agency objectives

THE SEC'S MISSION

Protect investors

**Maintain fair, orderly
and efficient markets**

**Facilitate capital
formation**

SEC Draft FY22-26 Strategic Plan

The draft plan outlines a number of initiatives to meet the three primary strategic goals:

Protect working families against fraud, manipulation and misconduct

- Develop methods and leverage technology to better manage and analyze data to prevent and detect improper behavior.
- Modernize disclosures to be more useful for investors e.g. climate risks, cybersecurity hygiene policies and people.
- Pursue enforcement and examination programs to identify and address risk and misconduct.

Develop and implement a robust regulatory framework that keeps pace with evolving markets, business models and technologies

- Ensure broad-based disclosure frameworks to enhance transparency in private markets and supervise global entities.
- Prepare for and develop agility to respond to evolving risks in the market, including pursuing new or appropriate authority from Congress where needed.
- Recognize and address changes driven by factors such as the pandemic, the rapid growth in crypto assets and digitization.

Support a skilled workforce that is diverse, equitable and inclusive, and is fully equipped to advance agency objectives

- Recruit and retain a high-quality, collaborative and diverse workforce to increase capabilities and promote diversity, equity and inclusion.
- Promote collaboration within and between SEC offices.
- Focus on the SEC's internal controls, risk management and data and information security.
- Invest in innovation by modernizing key systems, as well as managing and leveraging technology.



03

Top 10 SEC staff comment topics

Polling Question #1

Has your organization monitored the recent SEC comment letter trends and considered them in your own accounting practices and reporting?

- A. Yes
- B. On occasion
- C. Does not apply to us

Top 10 SEC staff comment topics

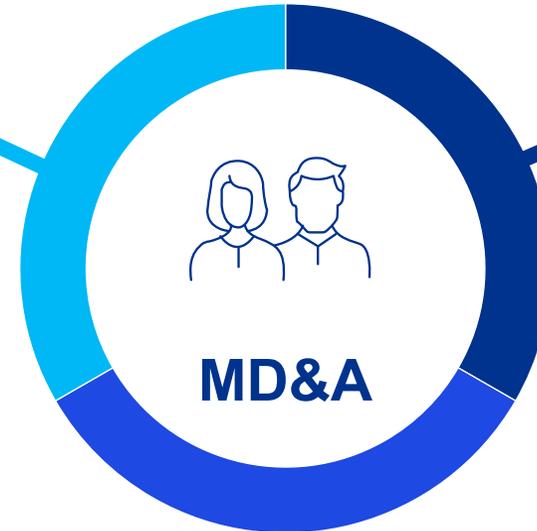
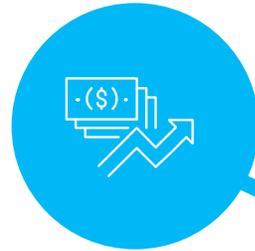
| Comment letter topic | Ranking | |
|------------------------------------|---------|------|
| | 2022 | 2021 |
| Management's discussion & analysis | 1 | 1 |
| Non-GAAP financial measures | 2 | 2 |
| Segment reporting | 3 | 4 |
| Climate change matters | 4 | N/A* |
| Revenue recognition | 5 | 5 |
| 8-K disclosures | 6 | 3 |
| Fair value measurements | 7 | 6 |
| Internal controls | 8 | 9 |
| Signatures/exhibits/agreements | 9 | 8 |
| Materiality | 10 | N/A* |

- *Not in top-10 in 2021
- Source: Audit Analytics – Comment letter taxonomy for SEC staff comment letters issued to registrants related to Forms 10-K, 10-Q and 8-K for the twelve months ended June 30, 2022 and 2021



Comment focus areas

Results of operations



Liquidity



Critical accounting policies



Results of operations

The staff has asked filers to clarify/discuss, in many cases in future filings, reasons for trends.



Completeness

The staff has asked filers to discuss material year-over-year changes in additional components of profitability.



Underlying factors

The staff has asked filers to include details of underlying drivers or metrics for identified trends (e.g., price, volume). This can include offsetting factors.



Quantifications

The staff has asked filers to quantify both reasons for the changes included in MD&A as well as the underlying factors.

Examples

Example comments



- We note your discussion of gross profit **only addresses** the impact of increased or decreased revenues. Given the significant changes we note in your cost of goods sold in the reported periods, in order to assist an investor's understanding, please revise future filings to **also address the impact of changes in your cost of goods sold** on your gross profit. Separately quantify and discuss factors responsible for changes in cost of goods sold, including the impact of material variances in components that offset each other within periods. Please consider providing a similar discussion at the segment level.
- Where you describe two or more business reasons that contributed to a material change in a financial statement line item between periods, please quantify in future filings, where possible, the extent to which each change contributed to the overall change in that line item. In addition, **where you identify intermediate causes of changes in your operating results, also describe the reasons underlying the intermediate causes**. For example, you disclose that net revenue was impacted by changes in units sold and average selling prices. Please quantify **the extent to which the overall change in revenues is attributable to each identified factor** and explain in reasonable detail the reasons driving fluctuations in each factor.



Examples (continued)

Example comments



- Please revise your discussion of results of operations to **quantify** significant changes in income statement line items. Where you describe two or more factors that contribute to a material change in a financial statement line item between periods including offsetting factors, please **quantify each** material factor that contributed to the overall change in that line item. Refer to Item 303 of Regulation S-K and Section III.D of SEC Release No. 33-6835.



Other focus areas

Results of operations



- Describe matters that are unusual or infrequent
- Provide insights into key financial metrics and link to operating results
- Include information amount segment results of operations, including segment expenses in addition to revenue and operating income

Liquidity



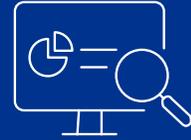
- Focus on sources and uses of cash and observed trends
- Discuss reasons for changes and expected future changes

Critical Accounting policies



- Provide insight as to what the uncertainties are and where the variability is
- Include both quantitative and qualitative information

Entity-wide disclosures



SEC comments on the absence of disaggregated revenue information

| Geographical | Major customers | Products and services | Consistency of information |
|--|---|---|---|
| <p>Consider disaggregated revenue by geographic region. Disclose separately revenues attributed to customer in your country of domicile.</p> | <p>Consider concentration of sales and major customers, and disclose amounts of revenue associated with each major customer if necessary.</p> | <p>Consider separately disclosing product revenue and service revenue by segment.</p> | <p>Consider disclosures made elsewhere within the respective filing, other filings, or public comments (e.g., earnings releases).</p> |

Other frequent comments

Aggregation of operating segments

- The staff has challenged whether there is adequate similarity of economics and other characteristics.
- The staff also considers other available information that is inconsistent with segment disclosures (e.g., earnings calls, press releases, website)

CODM – what information is reviewed?

- The staff has asked filers to clarify what information the CODM regularly reviews to assess performance and make resource allocation decisions.
- The comments occur frequently when more than one profitability measure is disclosed.

Disclosures – reconciling items

- The staff has challenged if sufficient details are provided for amounts that reconcile reportable segment measures of profit or loss to consolidated income before taxes.

Disclosures – non-GAAP measures

- The staff has challenged whether a non-GAAP measure has been inappropriately included in the segment disclosure.



Examples

Example comments



- We note from your response to a prior comment that 2 of the X operating segments you identified met the criteria in FASB ASC 280-10-50-11 for aggregation into the X reportable segment. Provide us with a more detailed analysis of your consideration of the aggregation criteria. For example, your response states that [certain] operating segments provided services to one class/type of customer. Describe in greater detail how the needs of your customers differ and how you meet those needs with your various service offerings. As part of this analysis, tell us whether [various operating metrics] tend to be consistent for your service offerings.
- We note that you disclose X and X in your segment footnote. Please tell us if both of these measures are used by the CODM as the measure of segment profit or loss in assessing performance and deciding how to allocate resources and how you have considered the guidance in ASC 280-10-50-28 in determining the appropriate measure to disclose.

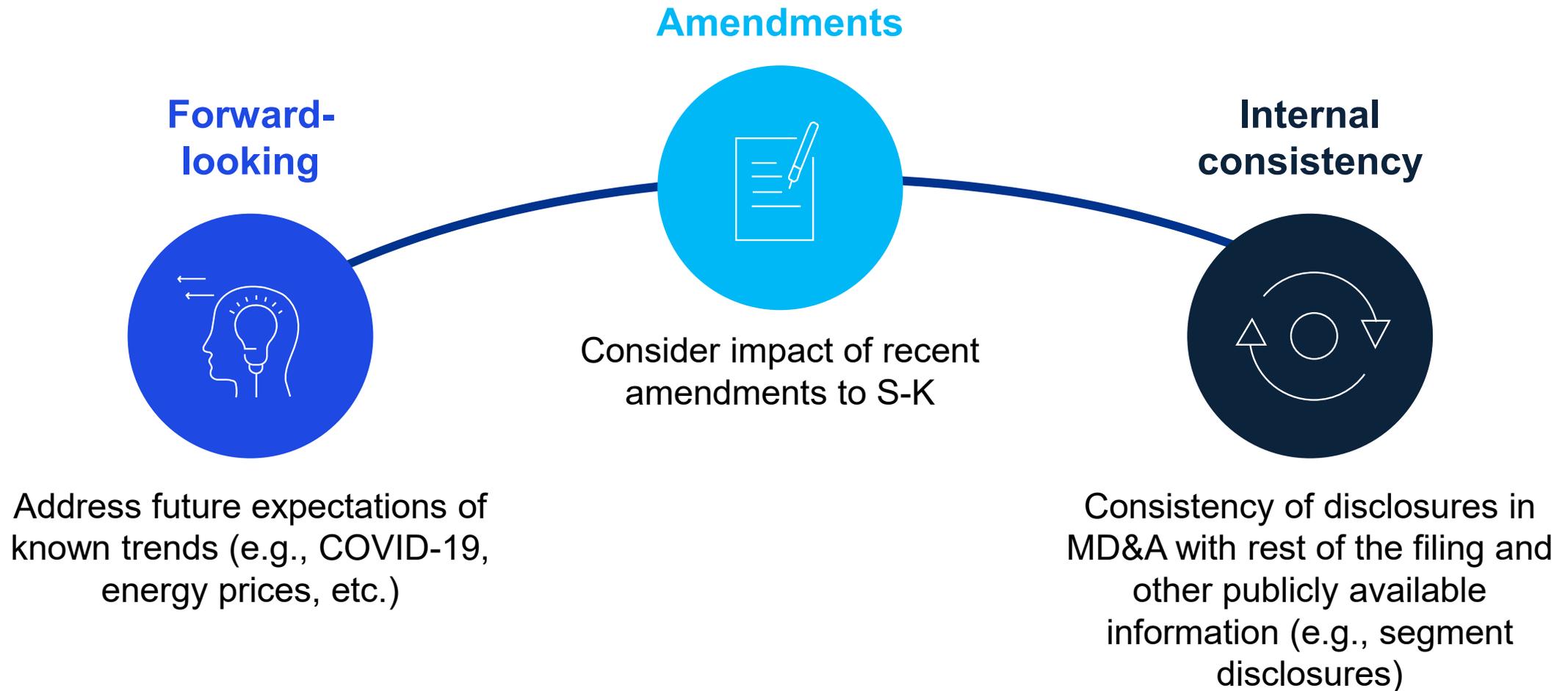




04

SEC comment letters-general trends and observations

Forward looking reminders



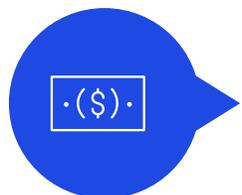
Staff comments on non-GAAP

Adjusted EBITDA



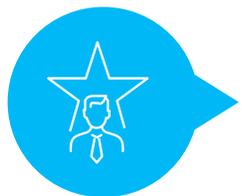
- Disclose why this non-GAAP measure provides useful information regarding business condition and results of operations of the business
- Clear, transparent, and in sufficient detail to understand all material components of the adjustment

Adjustments to GAAP Revenue



- Clear disclosure of how the adjustment is calculated and what exactly is in the adjustment
- Consider relabeling the measure to accurately reflect what it represents
- Other required non-GAAP disclosures

Prominence



- Discussion of non-GAAP results before any discussion of GAAP results
- In some cases, NO discussion of GAAP results was included

Words to watch for

Watch for words that may indicate a non-GAAP measure is being disclosed. Ensure compliance with Regulation S-K, Item 10(e) for all non-GAAP measures



Adjusted

Gross

Net

Free cash flow

Examples

Example comments



- We note your presentation of the non-GAAP measure adjusted net income available to common stockholders. Revise to present a tabular reconciliation of adjusted net income available to common stockholders to net income. Additionally, revise to disclose the reasons ***why you believe your presentation of this non-GAAP measure provides useful information to investors.*** Lastly, revise to disclose ***the purposes for which management uses this non-GAAP measure.***
- We note several instances where you provide an enhanced discussion of the drivers behind changes in certain non-GAAP measures, including free cash flow and adjusted operating segment income ***without a corresponding GAAP discussion.*** Please revise future filings to provide a similar discussion for your GAAP measures with equal or greater prominence.



Compliance and disclosure interpretations

| | |
|--------|--|
| 102.10 | More prominent non-GAAP measures |
| 100.01 | Exclusion of normal, recurring, cash operating expenses |
| 100.04 | Use of individually tailored performance metrics |
| 102.11 | Presentation of tax impacts of non-GAAP measures |
| Other | <ul style="list-style-type: none">• Per share performance measures• Free cash flow• Excluding only charges and not gains |

Reminder to consider the C&DI in MD&A disclosures

On the horizon

Potential sources of SEC comment letters – Focus areas



Amended requirements of Regulation S-K

- Human capital and other Reg S-K amendments



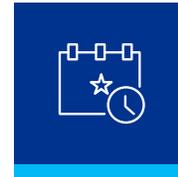
Cybersecurity

- Disclosures and timeliness of disclosure



COVID-19 disclosures

- Tailored to the company
- Risks and uncertainties
- DG Topic 9/9A



Current events

- Brexit considerations
- LIBOR phase-out
- Climate disclosures
- Cryptocurrency



Earnings per share

- Staff crack down on earnings manipulation
- Use of data analysis



Continued impact of new accounting standard adoption



05

Pay vs. performance

SEC Rule on Pay vs Performance Disclosures

In August 2022, the SEC published its final rule requiring disclosure linking executive compensation to financial performance

Overview

Registrants will disclose:

- Executive compensation and four specified financial performance measures (FPMs) in a tabular format for the five most recent years (the PvP table)
- Other disclosures
 - A description of the relationship between executive compensation and the four FPMs for the five most recent years
 - A separate listing of the three to seven most important FPMs used to link pay to performance in the current year

Applicability and effective date

- Applicable to registrants filing proxy or information statements requiring executive compensation disclosures. Scaled requirements for Smaller Reporting Companies.
- Foreign private issuers, registered investment companies and emerging growth companies are exempted
- Effective for years ending on or after December 16, 2022

PvP table

The PvP table includes the following pay and performance disclosures:

PAY

Who?

- Principal Executive Officer (individually)
- Other Named Executive Officers (as an average)

What?

- Total compensation as reported in the Summary Compensation Table
- Compensation actually paid (as defined by the rule)

PERFORMANCE

What?

- Total shareholder return (Registrant TSR)
- TSR of registrant's peer group (Peer group TSR)
- Net income
- Company-selected measure (CSM) (most important financial performance measure used to link pay to performance)

PvP table - Performance

Required 'performance' disclosures in the PvP table comprise four specified FPMs

| | |
|--|--|
| Registrant TSR <ul style="list-style-type: none">• Substantially similar to the definition of TSR in Reg S-K Item 201(e)• Disclosure is cumulative• Amount disclosed is based on a fixed investment of \$100 at the last trading day prior to first fiscal year presented | Peer group TSR <ul style="list-style-type: none">• Peer group is defined in the final rule• Peer group TSR applies the same calculation as Registrant TSR but is weighted according to market capitalization at the beginning of each period |
| Net income <ul style="list-style-type: none">• GAAP net income | Company-specific measure (CSM) <ul style="list-style-type: none">• The single most important additional FPM• Disclose the numerically quantifiable performance of the registrant under the CSM for each presented fiscal year• If the CSM is a non-GAAP FPM, include a reconciliation from the audited financial statements |

Polling Question #2

Is your organization prepared for the new Pay v Performance requirements from the SEC?

- A. Yes – we have a plan
- B. We understand the requirements and are developing our plan
- C. We have not considered yet
- D. Not sure
- E. Does not apply to us



06

Feedback on SEC climate disclosure proposal

Polling Question #3

How do you / does your organization feel about the recent SEC climate proposal?

- A. Very supportive – we are geared up and ready
- B. Generally supportive but would like to see more clarification and edits
- C. Generally unsupportive
- D. Does not apply to us

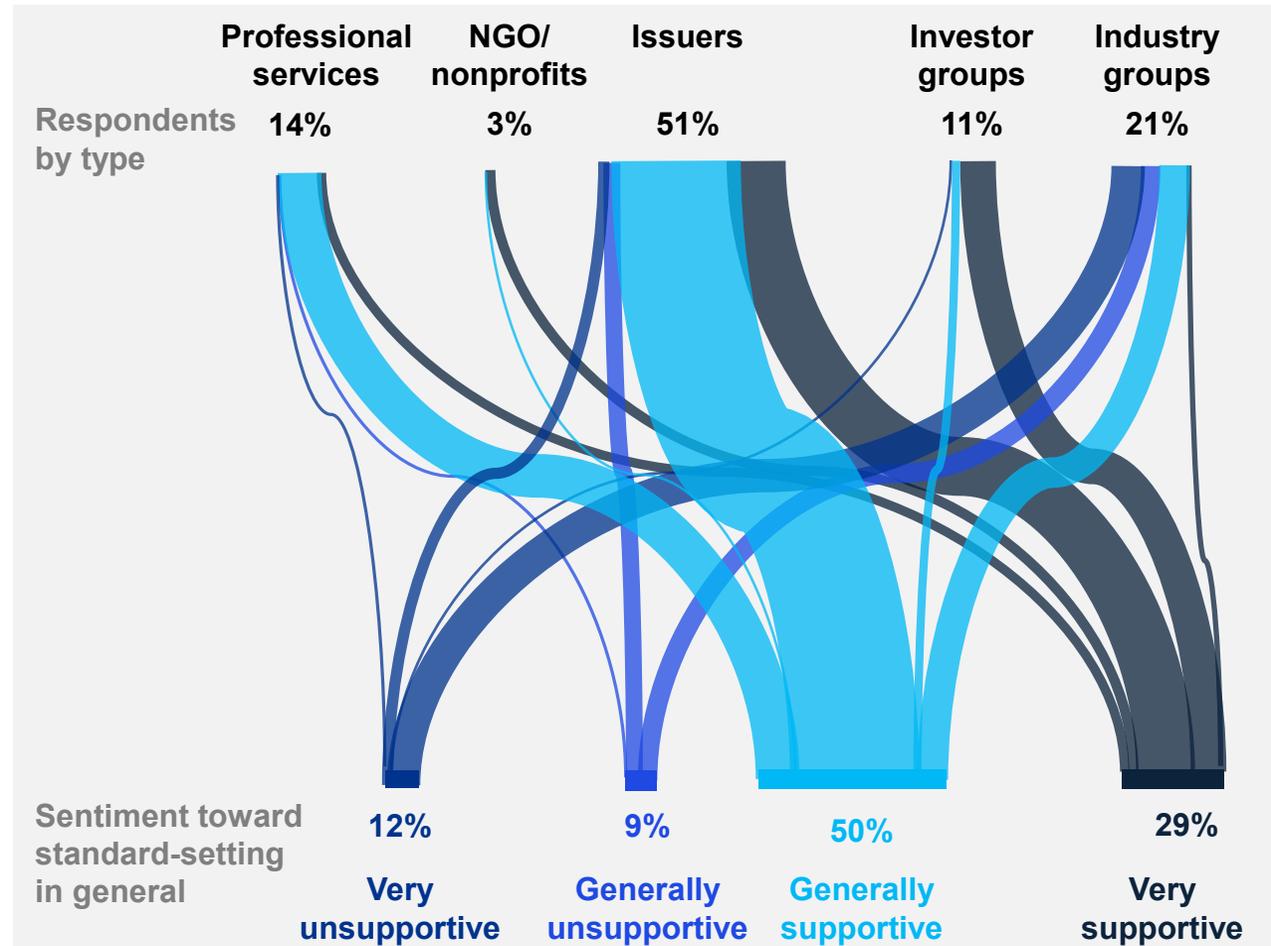
1/4 – Standard-setting in general

General standard-setting support

- This diagram shows the relative strength of support for climate standard-setting (in general) by type of respondent.
- Respondents who were ‘very supportive’ were more concentrated in professional services and the technology industry.
- Respondents who did not support climate standard-setting were not concentrated in any specific industries.

But concerns about the proposal

- The level of support for climate-related standard-setting in general should not be read as wholesale support for the SEC’s specific proposal.
- As we outline in the following slides, concerns were raised in all areas of the proposal.



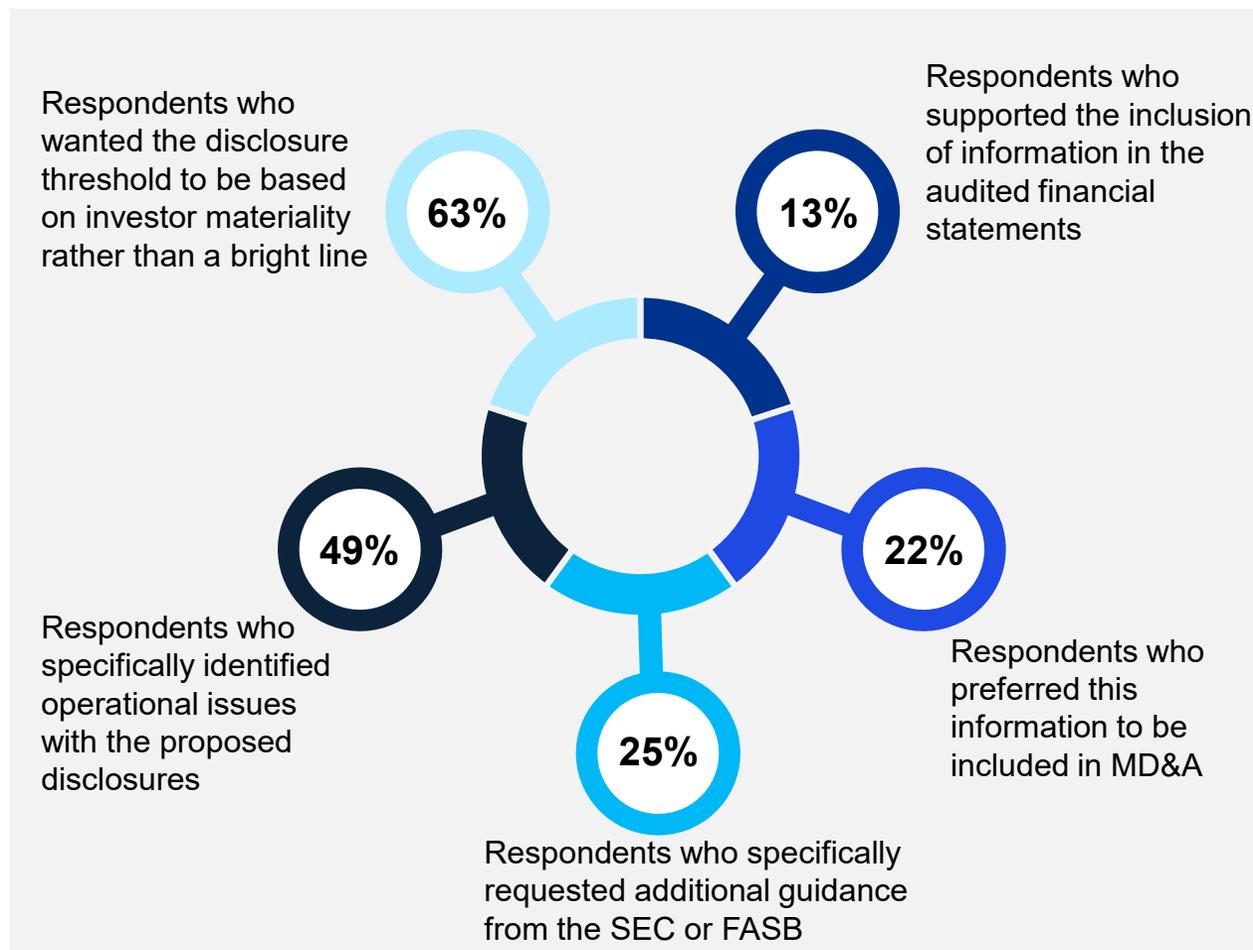
2/4 – Financial statement disclosures

Operability was primary concern

- Some respondents who did not support information being included in the audited financial statements nonetheless made suggestions to improve the operability of the disclosures if the SEC proceeds.
- In that case, their responses were captured in the other results (e.g. wanting investor materiality to be used).
- Of the 80 respondents (53%) who specifically discussed whether there were operational issues with the proposal, 74 (93%) believed there were.

Bright-line sentiment

- The majority of respondents who supported a bright-line threshold (including the SEC's proposed 1%) were investor groups (including advisers) and nonprofits.



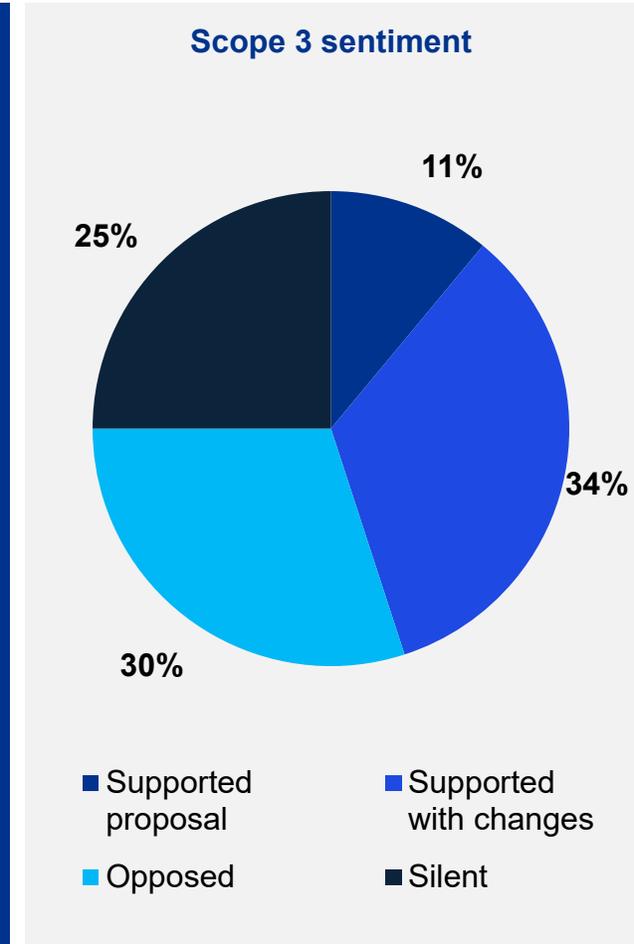
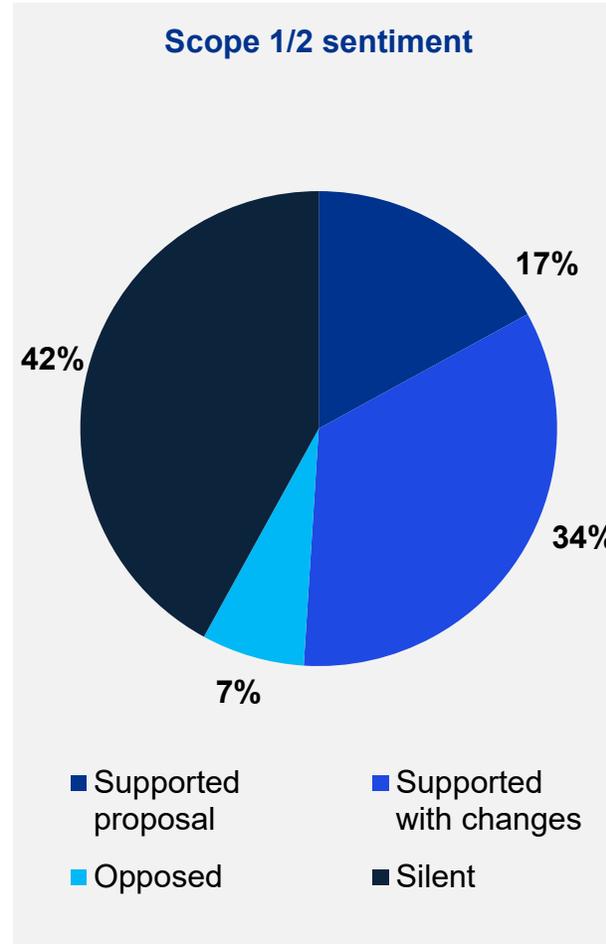
3/4 – GHG emissions disclosures

Organizational boundary

- 43 respondents (28%) requested changes to the SEC’s proposed organizational boundary.
- Of those who requested changes, 35 (81%) requested alignment with the GHG Protocol.

Methodologies

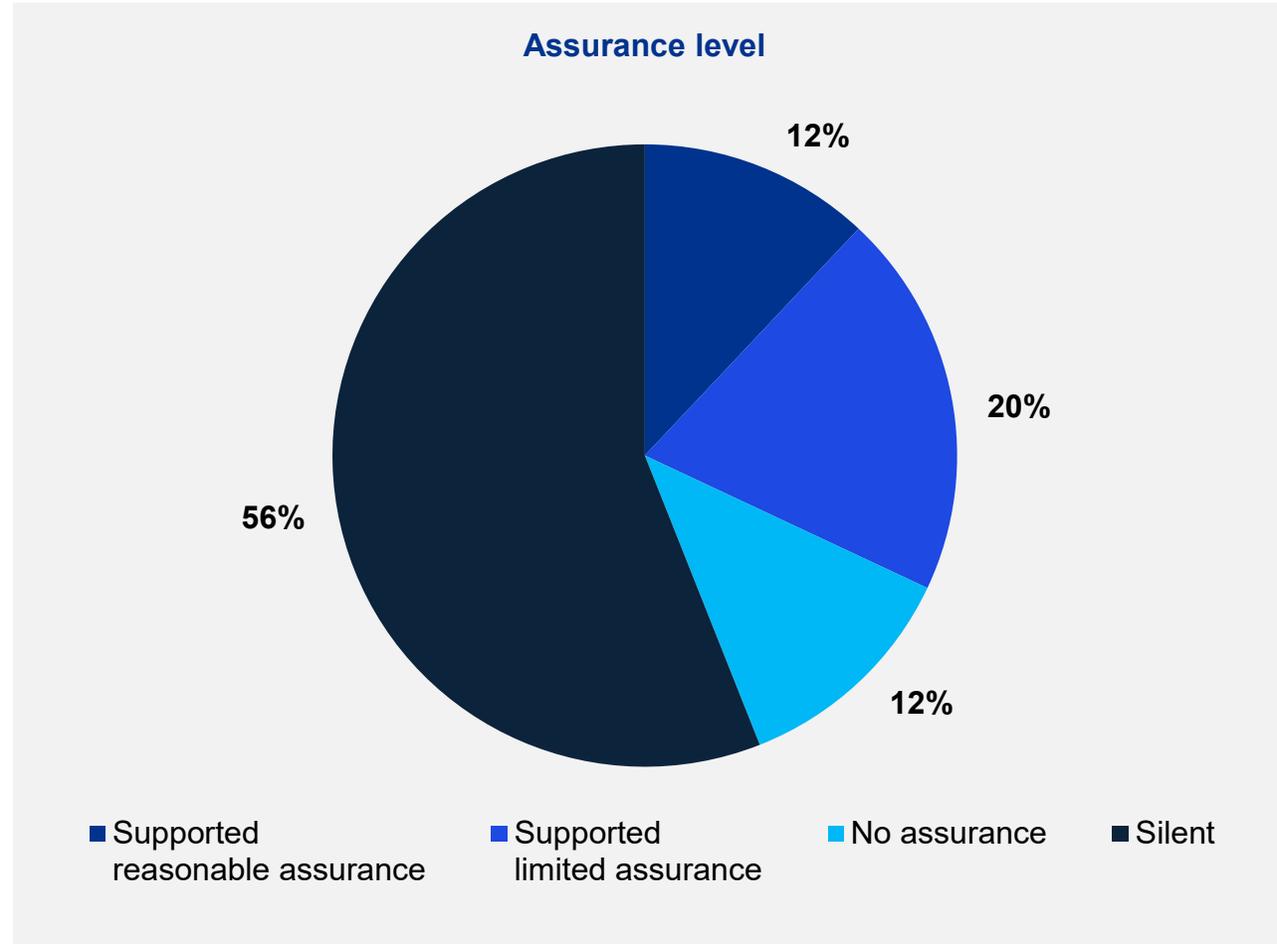
- 39 respondents (26%) requested changes related to measurement methodologies in general.
- Of those who requested changes, 21 (54%) requested that the GHG Protocol be used. Other respondents suggested that the SEC consider alignment with existing requirements of the EPA or simply existing practices.



4/4 – GHG emissions attestation

Split in attestation sentiment

- 66 respondents (44%) weighed in on the proposed attestation requirements.
- Respondents supporting limited assurance generally felt that reasonable assurance is not necessary. However, some respondents in this category requested ‘at least’ limited assurance.
- Many respondents believed that pushing out the effective date of implementation would allow issuers to better prepare for attestation.



Polling Question #4

How does your organization feel about its ability to comply with the proposed climate disclosures?

- A. Ready to go
- B. We have started to plan but have a lot left to think about
- C. We have not started to plan
- D. Does not apply to us

Strategic Plan



PCAOB 5 Year Strategic Plan

Draft submitted for comments – August 2022

Mission

The PCAOB regulates the audits of public companies and SEC-registered brokers and dealers in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

Goals

- 1) Modernize Standards**
- 2) Enhance Inspections**
- 3) Strengthen Enforcement**
- 4) Improve Organizational Effectiveness**

NAIC Update



Accounting guidance effective for 2022

Loan Backed Structured Securities- SSAP No. 43R

- To clarify that residual tranches or interests are recorded at the lower of amortized costs or fair value and reported on Schedule BA
- SAPWG adopted revisions to SSAP No. 43R to update NAIC designation and designation category guidance for RMBS and CMBS.

Cryptocurrency – general interrogatory

- Adopted new general interrogatory addressing information about cryptocurrencies that are directly held or permitted for the remittance of premiums
- No change to statutory accounting

Accounting guidance effective for 2022 (continued)

Related Party Reporting – SSAP Nos. 26 and 43R

- The SAPWG adopted revisions to SSAP Nos. 25 and 43R to clarify the identification and reporting of affiliated transactions and add disclosures in the Annual Statement investments schedules to identify investments held involving related parties. The revisions include:
 1. clarification that an insurer should evaluate whether investments are considered affiliates based on direct or indirect control, which includes but is not limited to control through a servicer or other controlling arrangement; and
 2. an additional electronic code column in Schedules B, D, DB, BA, DA, E2 and DL for all investments to identify whether the investment involves a related party and its role in the investment transaction, regardless of whether the related party meets the definition of an affiliate.

Accounting guidance exposed or discussed

| Exposure | Related SSAP's | Description |
|--|---|--|
| Schedule D-1 Project – Bond Definition | SSAP No. 26R SSAP No. 43R | Exposure includes the principles-based bond definition, draft issue paper, and proposed revisions to reflect the bond definition in SSAP No. 26R—Bonds and SSAP No. 43R—Asset Backed Securities. |
| Schedule D-1 Project – Bond Reporting Lines/Descriptions | <ul style="list-style-type: none">• SSAP No. 26R• SSAP No. 43R | Exposed proposed reporting changes to improve transparency and granularity. The first document includes proposed reporting lines and descriptions. The second document proposes a new Schedule D-1 (resulting with a D-1-1 and a D-1-2) with new columns and reporting instructions to separate and capture information specific to issuer creditor obligations and asset-backed securities. |

Accounting guidance exposed or discussed (continued)

Schedule D-1 Project - Proposed bond definition

SAPWG exposed revisions to SSAP Nos. 26R and 43R that would define investments that are eligible to be reported as a bond on Schedule D-1.

The proposed changes:

- Exposed proposed reporting changes to improve transparency and granularity.
- Change to reporting lines and descriptions.
- New Schedule D-1 (resulting with a D-1-1 and a D-1-2) with new columns and reporting instructions to separate and capture information specific to issuer creditor obligations and asset-backed securities.

Accounting guidance exposed or discussed (continued)

| Exposure | Related SSAP's | Description |
|--|----------------------------|---|
| Leasehold Improvements after Lease Termination | SSAP No. 19 SSAP No. 73 | Exposed revisions clarify that except for limited exclusions provided in SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities, all remaining leasehold improvements shall be immediately expensed at the termination of a lease. |
| Fair Value Hedging – Portfolio Layer Method | SSAP No. 86 | Exposed revisions incorporate guidance from ASU 2022-01, Fair Value Hedging – Portfolio Layer Method and certain guidance from ASU 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities to incorporate concepts for the portfolio layer method and partial term hedges for recognized assets. |

Accounting guidance exposed or discussed (continued)

| Exposure | Related SSAP's | Description |
|---|---|---|
| Troubled Debt Restructuring and Vintage Disclosures | SSAP No. 36 | Exposed revisions reject ASU 2022-02: Troubled Debt Restructurings and Vintage Disclosures for statutory accounting. These revisions update the relevant literature guidance as the adopted statutory guidance will now reflect superseded U.S. GAAP. |
| Review of INT 03-02 | <ul style="list-style-type: none">• SSAP No. 61R• SSAP No. 62R• SSAP No. 63 | Exposure proposes to nullify Interpretation 03-02: Modification to an Existing Intercompany Pooling Arrangement |

Polling Question #5

Which change will be most impactful to your company?

- A. Schedule D-1 project
- B. Related party reporting
- C. None of the above

Questions?





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