Statutory Accounting Principles (E) Working Group
Hearing Agenda
May 22, 2025

ROLL CALL

Dale Bruggeman, Chair	Ohio	Steve Mayhew/Kristin Hynes	Michigan
Kevin Clark, Vice Chair	Iowa	Doug Bartlett	New Hampshire
Sheila Travis/Richard Russell	Alabama	Bob Kasinow	New York
Kim Hudson	California	Diana Sherman	Pennsylvania
William Arfanis/Michael Estabrook	Connecticut	Jamie Walker	Texas
Rylynn Brown	Delaware	Doug Stolte/Jennifer Blizzard	Virginia
Cindy Andersen	Illinois	Amy Malm/Levi Olson	Wisconsin
Melissa Gibson/Shantell Taylor	Louisiana		

NAIC Support Staff: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden
Note: This meeting will be recorded for minutes purposes.

REVIEW of NON-CONTESTED ITEMS

The following items are planned for limited discussion, as no comments opposing adoption were received. These items may be adopted in a single motion.

1. Ref #2023-24: Current Expected Credit Losses (CECL)
2. Ref #2025-04: Capital Structure Code
3. Ref #2025-06: AVR Line: Unrated Multi-Class Securities
4. Ref #2025-07: Dividend General Interrogatory Update

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-24 (Wil)	**Current Expected Credit Losses (CECL)**	**1 – Issue Paper (1a – 125 pages)**	**No Comments**	**2**

Summary:
On January 10, 2024, the Working Group adopted agenda item 2023-24: Current Expected Credit Losses (CECL) which rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments* and five other related ASUs. At the direction of the Working Group, this issue paper was drafted to maintain pre-CECL U.S. Generally Accepted Accounting Principles impairment and OTTI guidance for historical purposes. This agenda item was last exposed at the 2024 Summer National Meeting, and the comment period deadline has been extended multiple times since at industry's request. ***(The reference materials have been separately included as it is 125 pages and may not warrant printing.)***

Interested Parties' Comments:
Interested parties have no comment on this item.

Recommendation:
NAIC staff recommends that the Working Group adopt the exposed draft of *Issue Paper No. 171 – Current Expected Credit Losses* (CECL) along with minor edits to clarify that the issue paper is for historical reference only and should not be construed to provide statutory guidance. Additionally, given the document's size and its

function as a historic reference, we recommend that the issue paper be posted electronically on the website only, and not included in the 2026 AP&P manual.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2025-04 (Julie)	**Capital Structure Code**	**2 – Agenda item**	**No Comments**	**3**

Summary:
On March 24, 2025, the Working Group exposed, for a shortened comment deadline ending May 2, a proposal to delete the "capital structure code" reporting column in Schedule D-1-1: Long-Term Bonds – Issuer Credit Obligations (D-1-1) and Schedule D-1-2: Asset-Backed Securities (D-1-2) for year-end 2025. With exposure, information was requested from regulators on the use of these reporting codes and if there is a preference to retain the codes and instead expand, clarify and/or limit application to specific reporting lines to improve consistency and usefulness. This agenda item will not result in changes to the *Accounting Practices and Procedures Manual.*

Interested Parties' Comments:
Interested parties have no comment on this item. However, interested parties provided comments to the Blanks Working Group on 2025-11BWG which removes the capital structure code reporting column on Schedule D, Part 1, Sections 1 and 2.

Recommendation:
NAIC staff recommend that the Working Group adopt this agenda item supporting the deletion of the "capital structure code" reporting column from Schedule D-1-1: Long-Term Bonds – Issuer Credit Obligations (D-1-1) and Schedule D-1-2: Asset-Backed Securities (D-1-2) for year-end 2025. In the comment letter sent to the Blanks (E) Working Group, the "IPs had no comment" on this item.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2025-06 (Julie)	**AVR Line: Unrated Multi-Class Securities**	**3 – Agenda item**	**No SAPWG Comments**	**IP-4**

Summary:
On March 24, 2025, the Working Group exposed this agenda item proposing revisions to the Life/Fraternal Annual Statement Blank, AVR: Default Component – Basic Contribution, Reserve Objective and Maximum Reserve Calculation to remove the reporting line 8 "Unrated Multi-Class Securities Acquired by Conversion." (With the proposal, the line will be renamed to "intentionally left blank" to prevent renumbering in the AVR Schedule.) This agenda item will not result in changes to the *Accounting Practices and Procedures Manual.*

Interested Parties Comments:
Interested parties have no comment on this item. However, interested parties provided comments to the Blanks Working Group on 2025-12BWG which "removes" Line 8 – Unrated Multi-Class Securities Acquired by Conversion from AVR: Default Component – Basic Contribution.

Recommendation:

NAIC staff recommend that the Working Group adopt this agenda item, supporting the deletion of AVR: Default Component – Basic Contribution, Reserve Objective and Maximum Reserve Calculation reporting line 8 "Unrated Multi-Class Securities Acquired by Conversion."

The comments received at the Blanks (E) Working Group proposed to combine this item with another blanks proposal that would be effective Jan. 1, 2026. This IP comment is not supported as this AVR item is proposed to be removed for year-end 2025 reporting. There are no items that qualify for reporting in this line, therefore there is no need to wait to remove until 2026. If a company was planning to report amounts in this AVR line for 2025, then it would reflect incorrect reporting and should be corrected.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2025-07 (Jake)	**Dividend General Interrogatory Update**	**4 – Agenda item**	**No Comments**	**4**

Summary:

On March 24, 2025, the Working Group exposed this agenda item recommending to remove the Life/Fraternal General Interrogatories, Part 2, #14 disclosure as it is not consistently included across all annual statement blanks. This agenda item will not result in changes to the *Accounting Practices and Procedures Manual.*

Interested Parties' Comments:

Interested parties have no comment on this item. However, interested parties provided comments to the Blanks Working Group on 2025-08BWG which removes Life / Fraternal General Interrogatory #14 that reports total dividends paid to stockholders since organization of the reporting entity.

Interested Parties Comments to the Blanks (E) Working Group:

Ips have no comments.

Recommendation:

NAIC staff recommend adoption of this agenda item, which does not result in statutory accounting changes, with a recommendation that the Blanks (E) Working Group adopt their agenda item 2025-08BWG, which removes Life/Fraternal GI #14 in Part 2 of the General Interrogatories, as it is unnecessary and is not required under SSAP No. 72.

REVIEW of COMMENTS on EXPOSED ITEMS

The following items are open for discussion and will be considered separately.

1. Ref #2024-07: Reporting of Funds Withheld and Modco Assets
2. Ref #2025-05: Reinsurer Affiliated Assets
3. Ref #2025-08: Medicare Part D Prescription Drug Payment Plan Disclosures

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-07 (Jake)	**Reporting of Funds Withheld and Modco Assets**	**5 – Agenda item**	**Comments Received**	**IP-2 UHC-6**

Summary:
On March 24, 2025, the Working Group exposed, for a shortened comment deadline ending May 2, this agenda item, which proposes to add a new Schedule S, Part 8 in the Life/Fraternal annual statement for the reporting of assets associated with a funds withheld or modco arrangement. The Blanks (E) Working Group also exposed the new disclosure in agenda item 2025-05BWG at their spring meeting.

Interested Parties' Comments:
Interested parties support the revisions with the edits provided by the American Council of Life Insurers. Also, interested parties provided comments to the Blanks Working Group on 2025-05BWG which adds a new part to Schedule S to report reinsurance agreements with funds withheld and modified coinsurance.

UHC Comments:
We previously submitted comments with an example of certain Health reinsurance arrangements where there is no contractual requirement or purpose to identify specific assets for funds withheld.

The example provided is as follows: a Health insurer may have a Health reinsurance arrangement transferring only insurance risk whereby the terms of the agreement require funds to be withheld equal to the amount of ceded statutory reserves. The funds are withheld solely to permit statutory credit for a nonadmitted reinsurer. In this case, there is no investment risk being passed to the reinsurer and no specific assets separately identified. As such, the information proposed to be disclosed in the newly developed Schedule S exhibit would not be applicable to this type of Health reinsurance arrangement with these characteristics.

In the latest proposal, the new Schedule S exhibit and related disclosures are not required for the Health or P&C/Title blanks. We certainly support that guidance. However, we believe there is an unintended consequence and inconsistency in treatment whereby Health reinsurance arrangements for companies filing on the Life blank still remain in scope for the new Schedule S exhibit and disclosures.

Since you are excluding the new Schedule S exhibit and disclosures from the Health blank, it would make sense to also exclude Health reinsurance arrangements from the new Schedule S and related disclosures in the Life blank. Health reinsurance reported on the Life blank would have the same characteristics as those on the Health blank, namely, that investment risk is not transferred and there is no contractual requirement for an identification of specific assets supporting the reinsured business.

Since there is no contractual requirement or even a contractual purpose for identifying specific assets, how could the company provide meaningful information in the new Schedule S exhibit and related disclosures?

We respectfully request the Working Group limits the application of this guidance and Schedule S reporting requirement to Life reinsurance arrangements. Health reinsurance arrangements without contractual requirements to identify specific assets withheld should be excluded, regardless of the type of blank filed.

Interested Parties Comments to the Blanks (E) Working Group:
IPs have the following comments:

- Will other lines that are not historically part of an AVR but could be included in an agreement be added? These include, but not limited to, Cash, Cash Equivalents, Collateral loans, etc.
- References to 'Default Component' and 'Equity and Other Invested Asset Component' should be removed as these are utilized in AVR only.
- The Life/Fraternal RBC instructions (e.g., LR045-LR048 – Modco or Funds Withheld Reinsurance Agreements) provide directions to a company when a ceding company does not provide the details of the assets being ceded to an assuming company. Will there be similar language in the Annual Statement instructions for assumed blocks where an assuming insurer does not receive the asset details from the ceding insurer?
- If 2025-12BWG is adopted, will the '*Unrated Multi-Class Securities Acquired by Conversion*' line in this Schedule also be removed?

IPs have the following editorial revisions:

- Consider renaming the header for clarification on what is included: REINSURANCE AGREEMENTS WITH FUNDS WITHHELD AND MODIFIED COINSURANCE AS OF DECEMBER 31, CURRENT YEAR
- The following category header should be modified as follows:
    - ~~INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF~~ SURPLUS NOTES AND CAPITAL NOTES
    - The instructions for Column 7 & 8, Column 9 & 10, and Column 11 & 12 should be 'Assumed' not 'Ceded'.

Recommendation:
NAIC Staff recommend that the Working Group adopt the draft of the new reporting schedule (included in Exhibit 1 of this Form A), which add a new part to the reinsurance Schedule S in the Life/Fraternal Annual Statement Blanks and Instructions, and recommend that the Blanks (E) Working Group move forward with the adoption of their corresponding agenda item 2025-05BWG. The adoption of this agenda item will not result in changes to statutory accounting. Below are the details of the responses to the comments received on the last exposure, with NAIC staff notes to incorporate industry comments.

Interested parties had no comments on the Spring 2025 exposure, noted support for the revisions that had been previously provided by the ACLI, which are included in the final version in Exhibit 1, and noted that they had provided comments to the Blanks (E) Working Group, which have been incorporated as described below:

IPs have the following comments:

- Will other lines that are not historically part of an AVR but could be included in an agreement be added? These include, but not limited to, Cash, Cash Equivalents, Collateral loans, etc. **NAIC staff response: Added a single line for cash and cash equivalents, and any other items will be caught in the "All Other Investments" section at the bottom of the schedule.**
- References to 'Default Component' and 'Equity and Other Invested Asset Component' should be removed as these are utilized in AVR only. **NAIC staff response: This has been updated in the modified Blanks proposal.**

- The Life/Fraternal RBC instructions (e.g., LR045-LR048 – Modco or Funds Withheld Reinsurance Agreements) provide directions to a company when a ceding company does not provide the details of the assets being ceded to an assuming company. Will there be similar language in the Annual Statement instructions for assumed blocks where an assuming insurer does not receive the asset details from the ceding insurer? **NAIC staff response: NAIC staff has added reference to what is currently included in the RBC instructions when there is a lag in information, to update the appropriate asset categories in the schedule which support the reported funds on deposit with reinsured companies on the assets page. This allocation should be to support the assets reported (reserve held). (See shaded text in Exhibit 1 of the agenda item and excerpted below).**
- If 2025-12BWG is adopted, will the '*Unrated Multi-Class Securities Acquired by Conversion*' line in this Schedule also be removed? **NAIC staff response: Yes, we will update this schedule for the adoption of 2025-12BWG.**

IPs have the following editorial revisions:

- Consider renaming the header for clarification on what is included: REINSURANCE AGREEMENTS WITH FUNDS WITHHELD AND MODIFIED COINSURANCE AS OF DECEMBER 31, CURRENT YEAR **NAIC staff response: This change has been made.**
- The following category header should be modified as follows:
  - ~~INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF~~ SURPLUS NOTES AND CAPITAL NOTES **NAIC staff response: This has been updated and included in the final version in Exhibit 1 of the agenda item.**
  - The instructions for Column 7 & 8, Column 9 & 10, and Column 11 & 12 should be 'Assumed' not 'Ceded'. **NAIC staff response: This has been updated and included in the final version in Exhibit 1 of the agenda item.**

Scope comments:
United Healthcare provided comments recommending that the scope of Schedule S, Part 8 be changed to include only assets supporting reinsurance contracts that transfer investment risk, which would impact health insurers that report using the life and health blank. At the Spring Meeting, the vice chair directed NAIC staff to research adding revisions to the exposure, which would clearly identify funds withheld and modco assets between those that transfer investment risk (and thereby result in an RBC adjustment) and those that do not transfer investment risk. He noted that one of the key objectives was to provide better detail which supported the RBC adjustments for such assets.

After research, NAIC identified that the schedule could not be easily divided to identify both categories of assets without revisions that would necessitate re-exposure. As the goal was to initially obtain information for 2025 reporting, the decision was made that the 2025 schedule should only identify the funds withheld / modco assets where investment risk is transferred. This result is similar to the recommendation from United Healthcare but is not targeted only at health entities. NAIC staff worked with the chair and vice chair of the Working Group to added a new first paragraph (excerpted below) which clarifies that this schedule is only required for contracts supported by funds withheld or modco assets where the reinsurance contract transfers investment risk.

The Working Group will determine in future discussions if the 2026 version of the schedule should be expanded to also include the funds withheld / modco assets which do not result in investment risk transfer.

Proposed additional instructions for Scoping and Lag:
This schedule reports the assets supporting modified coinsurance (MODCO) and other reinsurance transactions with funds withheld where the entire asset credit or variability in statement value risk associated with the assets supporting the business reinsured is transferred to the assuming company for the entire duration of the

reinsurance treaty. Only the portion of the assets used to support the ceded or assumed liabilities should be included, i.e. amounts in excess of the reserve should be excluded.

The ceding company is required to supply the assuming company with sufficient information in order for the assuming company to determine the amount of assets withheld under Modco or other funds withheld. An assuming company that has not received timely information shall follow the procedures in the Life Risk-Based Capital instructions for Modco or Funds Withheld Reinsurance Agreements (LR045, LR046, LR047 and LR048) to apply the Modco liability ratio by asset category. The allocated assets should support the portion of the funds held by or deposited with reinsured companies that represents the investment risk assumed as described above, that is, the estimated investment risk assumed should not be greater than the assets reported on the asset page.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2025-05 (Julie)	**Reinsurer Affiliated Assets**	**6 – Agenda Item**	**Comments Received**	**IP-3**

Summary:
On March 24, 2025, the Working Group received a referral from the Financial Analysis (E) Working Group related to funds withheld assets related to / affiliated with the reinsurer and exposed this agenda item proposing revisions to *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures* while concurrently sponsoring a blanks proposal to expand the restricted asset note disclosure to capture information, by investment schedule, of funds withheld assets that are related to the reinsurer. Additionally, the proposed revisions will require the restricted asset disclosure in all quarterly and annual financial statements.

Interested Parties Comments:
Interested parties understand that the intention of this proposal is to enhance reporting to identify investments in modified coinsurance (modco) and funds withheld (FWH) arrangements that are affiliated with the reinsurer and for the cedant to report this information.

We have concerns in two primary areas:

1) Potentially Misleading Disclosure: The cedant's disclosure of this information may imply that reinsurer-related party investments are inherently riskier than non-related party investments and that this risk is borne by the cedant. In modco and FWH arrangements, the investment risks and rewards are borne by the reinsurer as evidenced by the RBC instructions providing for the reduction in RBC for the cedant (and corresponding increase to the reinsurer) for modco and FWH assets.

2) Scope of Disclosures: The required disclosures would set an unusual precedent, requiring a cedant to report on related party transactions of an unrelated entity.

As a practical matter, operational challenges, such as the following, arise in obtaining such information for transactions with non-affiliated reinsurers:

- Investment Accounting Systems: It is unlikely that such information is currently captured within a cedant's investment accounting systems. Therefore, to comply with this requirement, especially for year-end 2025, cedants would likely have to manually prepare this disclosure.

- Knowledge of Reinsurer Affiliate Relationships: A cedant is unlikely to have full knowledge of a reinsurer's affiliate relationships. Thus, in most cases, the required information would need to be provided by the reinsurer.

- Application of US Statutory Accounting Guidance: This disclosure would require reinsurers, who are not otherwise subject to SAP to apply the statutory related party definition to their investment portfolios.

- Contractual Obligations: The reinsurer may not have a contractual obligation within the reinsurance agreement to report or disclose such information to the cedant.

Interested parties ask regulators to weigh the benefits of this new disclosure, including the pervasiveness of the issue regulators are trying to address, against the concerns and operational burdens noted above. We recommend the following two scope limitations, with the understanding that additional information or quarterly reporting could be implemented later:

- Reporting Frequency: Limit reporting frequency to annual. This would reduce the operational burden for cedants and reinsurers.

- Scope of Disclosure: Limit the scope of disclosure based on the level of judgment used in valuation (e.g., Level 3 assets as classified in the Fair Value Hierarchy in SSAP No. 100, *Fair Value*). This would address the primary source of concern in the specific example cited by NAIC staff, which is centered on the valuation of funds withheld assets.

Interested parties also provided comments to the Blanks Working Group on 2025-10BWG which updated Note 5L – *Restricted Assets* to identify assets held under Modco / Funds Withheld Agreements that are affiliated with the reinsurer and also updated the list of required quarterly disclosures to include Note 5L.

<u>*Recommendation:*</u>
NAIC staff recommend that the Working Group proceed with adoption of the revisions captured in this agenda item to both require the restricted asset note in all quarterly and annual financial statements and to incorporate a disclosure to identify funds withheld assets that are related to/affiliated with the reinsurer. No modifications are proposed to the disclosure based on the interested parties' comments. For clarity, with adoption, the entire restricted asset disclosure will be required in all quarterly and annual financial statements, including the reinsurer affiliated asset disclosure. This update to the data captured notes will be effective for year-end 2025 and the quarterly reporting will be initially required in the first quarter of 2026.

As a reminder, this disclosure was drafted in response to a FAWG referral. Per discussion with regulators, there is a general sense that the cedent should be aware if the assets under these arrangements are related to/affiliated with the reinsurer. Furthermore, if there are actions by the asset manager to liquidate previously allocated items and acquire investments from parties that are related/affiliated, the ceding entity should be aware of those actions timely for reporting in the quarterly financial statements.

The comments provided to the Blanks (E) Working Group were mostly editorial/formatting to ensure the quarterly disclosure was in line with the annual format. Those comments also inquired about quarterly reporting, and the preliminary response was that the disclosure was intended to be required for quarterly reporting. If the SAPWG does not adopt to require quarterly disclosure, this information will be provided to the Blanks (E) Working Group so they can adjust their disclosure accordingly.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2025-08 (Julie)	**Medicare Part D Prescription Drug Payment Plan Disclosures**	**7 – Agenda Item**	**Comments Received**	**IP-5 AHIP/ BSBSA -8-9**

Summary:
On March 24, 2025, the Working Group exposed revisions to *SSAP No. 84—Health Care and Government Insured Plan Receivables* to add disclosures for Medicare Part D Prescription Payment Plan receivables. The disclosures are regarding aging of the Medicare prescription payment plan recoverables and also the amount of write offs that are included in claims and are proposed for initial data capture in the year-end 2025 financial statement notes. This agenda item was exposed concurrently with the Blanks (E) Working Group (proposal 2025-04BWG) to allow for initial reporting at 2025 year-end.

AHIP and the Blue Cross Blue Shield Association
SAPWG's 2025-08 and BWG's 2025-04BWG both address supplemental disclosures in the Annual Statement blanks. They are virtually identical in that regard, save for reference to disclosure "by debtor" in 2025-04BWG, a reference that NAIC staff has indicated to us was unintended. Assuming that reference is deleted, these two exposures would be identical, and the Trades support both.

BWG's 2025-14BWG proposes to add text to the Blanks Instructions relating to the MPPP disclosures that are covered by the prior paragraph. The Trades have no comments and support the proposed instructions as drafted.

Interested Parties Comments:
Interested parties have no comment on this item. However, interested parties provided comments to the Blanks Working Group on 2025-04BWG which adds a new part to Note to Financial Statements Note 28 – Health Care Receivables to include Medicare Part D Prescription Payments.

Interested Parties Comments to the Blanks (E) Working Group
IPs suggest reviewing the proposed Instruction and Illustration for grammar usage and consistent terminology. Examples include:

- In 28C(1) states 'Amounts of included in…'. IPs are unsure what is being requested (i.e., Amounts of what?).
- In 28C(1) uses 'current reporting period' and 'prior year', which seems inconsistent.

Recommendation:
NAIC staff recommend adoption of the exposed revisions which add disclosures about the Medicare Part D Prescription Payment Plan receivables to *SSAP No. 84—Health Care and Government Insured Plan Receivables* with a minor edit, which is slightly different from the suggestion from interested parties to the Blanks (E) Working Group. Interested parties suggested making the language on current reporting period and prior year consistent (Note 28C(1) which corresponds to SSAP No. 84, paragraph 25a). In reviewing the wording in the disclosure, which is mimicking the annual statement exhibit 3, there is not a need for the prior year information to be disclosed. So NAIC staff recommends deleting "prior year" in SSAP No. 84, paragraph 25a and Note 28C(1). This revision is illustrated in the agenda item.

With the adoption, the Working Group also should express support for adopting the 2025-04BWG with modifications of removing the word "of" and removing the "prior year" column in Note 28C(1).

The comment letters (10 pages) are included in Attachment 8.

Statutory Accounting Principles (E) Working Group
Meeting Agenda

A. Consideration of Maintenance Agenda – Pending List

1. Ref #2025-13: Residential Mortgage Loans Held in Statutory Trusts
2. Ref #2025-14: *ASU 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*
3. Ref #2025-15: *ASU 2025-02, SEC Updates*
4. Ref #2025-16: Status Section Updates
5. Ref #2025-17EP: Editorial Process – May 2025

Ref #	Title	Attachment #
2025-13 (Wil)	**Residential Mortgage Loans Held in Statutory Trusts**	**A – Form A**

Summary:
This agenda item was drafted in response to interested parties' comments on agenda item 2024-21: Investment Subsidiaries. Comments from interested parties noted that a significant part of the increase in investment subsidiaries is primarily due to increased usage of Delaware Statutory Trusts (DSTs). DSTs are distinct from common-law trusts as they are established under Delaware statutory trust laws, which allows for significant flexibility in structuring the trust. While holding real estate investments within a DST provides a number of structural and tax advantages, one of the most notable benefits is that it enables insurance companies to bypass the requirement of obtaining individual state lending licenses for each state where they hold residential mortgage investments.

This agenda item proposes to develop accounting and reporting guidance for qualifying trust structures, regardless of the state of domicile, that hold residential mortgage loans in scope of *SSAP No. 37—Mortgage Loans* and proposes reporting of these items on Schedule B - Mortgage Loans. Discussion on requirements in determining a "qualifying" trust and the reporting specifics are key items for which regulator feedback is specifically requested. Rather than retaining a generic reporting category that allows an RBC look-through without any parameters, which likely should have been eliminated when the concept of "investment subsidiaries" was deleted from SSAP No. 97 in 2005, the agenda item proposes to assess statutory trust structures holding residential mortgage loans and establish specific accounting and reporting guidance.

As previously identified, the existing reporting for "investment subsidiaries" does not provide any transparency to regulators, as there are very limited restrictions as to what can be captured in an investment subsidiary, potentially allowing companies to bypass SSAP accounting or admittance requirements, NAIC designation determinations or state investment limitations requirements, with look-through RBC based on company records. Further, the RBC measurement guidance refers to an "imputed statutory value" and there are no current provisions on how that value should be determined.

Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing categorized as a SAP clarification and expose this agenda item proposing to add qualifying investment trusts holding residential mortgage loans in scope of *SSAP No. 37—Mortgage Loans* for reporting on Schedule B – Mortgage Loans. Comments are specifically requested on the requirements for a qualifying trust as well as the proposed reporting.

A few key items to note:

- The proposal is specific to trusts that hold only residential mortgage loans. This is due to concerns about a lack of transparency if multiple types of mortgages are held in the same trust, and that industry has indicated these structures are specifically used for residential mortgage loans. Industry has also indicated that the value of the individual residential mortgages is often a lower dollar amount which results in a high volume of residential mortgage loans held in the trust.

- The agenda item proposes separate reporting of individual mortgage loans on Schedule B for residential mortgages held in trust consistent with the existing annual statement instructions for Schedule B. NAIC staff is aware that some reporting entities are already reporting these trusts as "participation agreements" on Schedule B, but it appears there is not consistency in presentation (some companies show aggregated by trust, whereas other companies show by individual mortgage loans). Comments are requested by regulators on this proposal to determine if individual loan reporting is the preferred reporting method, or if some kind of aggregate reporting method should be explored. One concern that has been raised with individual reporting is that the volume of residential mortgage loans could be quite high as individual residential mortgage loan values are generally quite low compared to the typical mortgage loans purchased by insurers. Alternatively, individual mortgage loan reporting is consistent with existing Schedule B instructions, which may be simpler for insurers to report using existing mortgage loan details, and there would be increased transparency.

- As noted after paragraph 6.b.iv., NAIC staff is requesting information on how foreclosed assets (real estate) would be reported when held in the trust. Presumably, these would be sold and the cash would be transferred to the reporting entity, but there will be ongoing / recurring real estate in the trust as foreclosures occur before they are sold and settled. NAIC staff also requests comments on whether any additional columns should be added to Schedule B for mortgages held in qualifying statutory trust.

Ref #	Title	Attachment #
2025-14 (Wil)	**ASU 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets**	**B – Form A**

<u>*Summary:*</u>

In February 2017 the Financial Accounting Standards Board (FASB) issued ASU *2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*, to clarify the scope of Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets, and to add guidance for partial sales of nonfinancial assets. Subtopic 610-20, which was issued in May 2014 as a part of *ASU 2014-09, Revenue from Contracts with Customers (Topic 606)*, provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. ASU 2017-05 also establishes a definition for the term "in substance nonfinancial asset" and guidance for making this determination.

The guidance provided by Subtopic 610-20 specifically carves out transfers of nonfinancial assets which are part of business combinations, leases, sale-leaseback transactions, securitizations of nonfinancial assets, and nonmonetary transactions. The nonfinancial assets within the scope of Subtopic 610-20 include intangible assets, land, buildings, use of facilities or utilities, or materials and supplies and may have a zero carrying value.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets as not applicable to statutory accounting. This item is considered not applicable as the ASU amends U.S. GAAP guidance on derecognition of nonfinancial assets, which is not an applicable concept for statutory accounting purposes. Topic 610 was established from ASU 2014-09, which has previously been determined to be not applicable to statutory accounting principles by the Working Group.

Ref #	Title	Attachment #
2025-15 (Wil)	**ASU 2025-02, SEC Updates**	**C – Form A**

Summary:
In March of 2025, FASB issued *ASU 2025-02, Liabilities (Topic 405), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 122*, which amends an SEC paragraph pursuant to the issuance of SEC Staff Accounting Bulletin (SAB) No. 122, which rescinds the interpretive guidance on accounting for obligations to safeguard crypto-assets held for platform users detailed in *ASU 2023-04, Amendments to SEC Paragraphs Pursuant to SAB No. 121*. It should be noted that *ASU 2023-04* was rejected by the Working Group through agenda item 2023-27, as such the deleted guidance does not exist within statutory accounting.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2025-02, Liabilities (Topic 405), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 122* as not applicable to statutory accounting. This guidance is not applicable as it eliminates SEC guidance which was rejected for statutory accounting purposes.

Ref #	Title	Attachment #
2025-16 (Robin)	**Status Section Updates**	**D – Form A**

Summary:
This agenda item is to provide updates to the Status Section on the cover page of the statements of statutory accounting principles (SSAPs). The two primary revisions are: 1) to change "substantively" revised to "conceptually" revised in the status section and to remove the issue paper references in the status section. Note that references to the issue papers will be maintained at the end of the SSAPs, typically in the effective date section regarding the revisions documented in the issue papers, so historical tracking will still be maintained.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose the following revisions described below. The revisions are proposed not to be tracked.

1. Make an edit in the "How to Use" document which changes substantive to conceptual, which is consistent with prior 2022 revisions in the *Accounting Practices and Procedures Manual*.
2. Remove the issue paper references in the status section.
3. Change "substantive or substantively" revised to "conceptual or conceptually" revised in the status section and also in the effective date section of the applicable statements, if appropriate. Note this does not intend to change the use of the word substantive in historical documents.
4. Revisions to remove a disclosure referencing a 2010 effective date of a disclosure in the status section of *SSAP No. 56—Separate Accounts*; as illustrated in the agenda. This wording is not needed in the status section, as this was a nonsubstantive revision, which is noted in paragraph 44 of the statement.

The agenda item provides a chart of SSAPs where the status section is expected to be updated, but if additional items are identified as the Manual is prepared for publication, the same procedures would apply.

Ref #	Title	Attachment #
2025-17EP (Julie)	**Editorial Process – May 2025**	**E – Form A**

<u>*Summary:*</u>
This agenda item proposed editorial revisions to three SSAPs and one interpretation. The tracked changes showing the revisions are reflected in the agenda item, with a brief overview of each item below:

- ***SSAP No. 26—Bonds***: Update Disclosure 40.f. to Match Schedule D, Part 1A Maturity categories. Schedule D, Part 1A has maturity categories of 10-20 years and over 20 years. The disclosure in SSAP No. 26 only goes up to an after 10-year category.

- ***SSAP No. 41—Surplus Notes:*** Remove remaining reference to a "CRP" designation in paragraph 11. Whether the designation is required from a Credit Rating Provider or from the SVO is contingent on the Purposes and Procedures Manual of the NAIC Investment Analysis Office.

- ***SSAP No. 56—Separate Accounts:*** Delete Disclosure 32.d. The disclosure is no longer applicable with previously adopted revisions.

- ***INT 22-01: Freddie Mac When Issued K-Deal (WI Trust) Certificates:*** Remove old SSAP No. 43R—Loan-Backed and Structured Security terminology

<u>*Recommendation:*</u>
NAIC staff recommend that the Working Group move this agenda item to the active listing, categorized as a SAP clarification, and expose editorial revisions as illustrated within.

Comment deadline for items exposed is Monday, June 23.

Statutory Issue Paper No. 171

Current Expected Credit Losses (CECL)

STATUS
Exposure Draft – August 13, 2024, May 22, 2025

Historical Record of GAAP Impairment Guidance – Pre-CECL

Type of Issue:
Common Area

SUMMARY OF ISSUE

1. The purpose of this issue paper is to document for the historical record the Generally Accepted Accounting Principles impairment guidance which existed prior to the implementation of *Accounting Standards Update (ASU) 2016-13, Financial Instruments—Credit Losses* (CECL). This issue paper is not intended to serve as statutory accounting guidance and in no way should be referenced as the basis for any entries or financial activities under statutory accounting. Its sole purpose is to document the historical U.S. GAAP impairment guidance that existed prior to the implementation of CECL.

DISCUSSION

2. In January 2024, the Statutory Accounting Principles (E) Working Group rejected CECL for statutory accounting purposes and directed NAIC staff to prepare an issue paper documenting pre-CECL impairment guidance. Since many SSAPs adopted pre-CECL impairment guidance, the Working Group wanted to ensure that any guidance which was superseded by CECL was readily available for future use. Note that the ASC guidance included in this issue paper is in PDF format and have not been converted to NAIC format, as it is not NAIC content but rather sourced directly from the FASB Codification.

Actions of the Statutory Accounting Principles (E) Working Group

3. On December 1, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed this agenda item to reject ASU 2016-13, *ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04, Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, and *ASU 2020-03 Codification Improvements to Financial Instruments*, within *INT 06-07: Definition of Phrase "Other Than Temporary"* and fifteen applicable SSAPs. The Working Group also moved agenda item 2016-20, which was started to address CECL, to the disposed listing. The Working Group directed NAIC staff to research how best to maintain pre-CECL U.S. Generally Accepted Accounting Principles (U.S. GAAP) impairment guidance for posterity.

4. On December 11, 2023, the Working Group chair approved an accelerated comment deadline that was requested by industry after the December 1, 2023 meeting. As a result, the comment deadline for the Fall National Meeting exposure of agenda item 2023-24 was shortened from February 4, 2024 to December 29, 2023, to allow the Working Group the ability to formally reject CECL and other related ASUs in January 2024.

5. On January 10, 2024, the Working Group adopted, as final, the exposed revisions, to INT 06-07 and SSAP Nos. 2R, 5R, 22R, 26R, 32R, 34, 37, 39, 41R, 61R, 62R, 86, 103R, and 105R to reject ASUs 2016-13, 2018-19,

2019-04, 2019-10, 2019-11, and 2020-03 as not applicable to statutory accounting. The Working Group also reiterated its direction to NAIC staff to research and prepare a document to maintain pre-CECL U.S. GAAP impairment guidance for posterity. Note that portions of the Codification which were effected by CECL and were industry specific were not deemed necessary for historical record as these industry specific codifications are not appliable for statutory accounting. Additionally, only those portions of the codifications which were amended by CECL were retained.

6. Staff accumulated the historical U.S. GAAP impairment guidance for all Accounting Standard Codifications (ASCs) which are applicable to U.S. GAAP. As the Working Group's directive was to accumulate impairment guidance, only the subsequent measurement (Section 35) sections which were within the scope of CECL were pulled and maintained within this document. As a reminder, ASC codifications consist of a three-digit Topic, a two-digit Subtopic, a two-digit Section, and a two or three-digit Paragraph. For brevity, only the Topic and Subtopic numbers which were retained for this project are shown in the list below.

Effective Date

7. The rejection of CECL and its related ASUs for statutory accounting is effective December 31, 2023.

RELEVANT STATUTORY ACCOUNTING AND U.S. GAAP GUIDANCE

Statutory Accounting

- *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments*
- *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*
- *SSAP No. 22R—Leases*
- *SSAP No. 26R—Bonds*
- *SSAP No. 32R—Preferred Stock*
- *SSAP No. 34—Investment Income Due and Accrued*
- *SSAP No. 37—Mortgage Loans*
- *SSAP No. 39—Reverse Mortgages*
- *SSAP No. 41R—Surplus Notes*
- *SSAP No. 43R—Loan and Asset Backed Securities*
- *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*
- *SSAP No. 62R—Property and Casualty Reinsurance*
- *SSAP No. 86—Derivatives*
- *SSAP No. 103R—Transfer/Service of Financial Assets*
- *SSAP No. 105R—Working Capital Finance Investments*
- *INT 06-07: Definition of the Phrase "Other Than Temporary*

U.S. Generally Accepted Accounting Principles

- ASC 310, Receivables
    - 10 Overall
    - 20 Nonrefundable Fees and Other Costs
    - 30 Loans and Debt Securities Acquired with Deteriorated Credit Quality
    - 40 Troubled Debt Restructurings by Creditors
- ASC 320, Investments–Debt Securities
    - 10 Overall
- ASC 323, Investments–Equity Method and Joint Ventures

- 10 Overall
- ASC 325, Investments–Other
  - 40 Beneficial Interests in Securitized Financial Assets
- ASC 805, Business Combinations
  - 20 Identifiable Assets and Liabilities, and Any Noncontrolling Interest
- ASC 815, Derivatives and Hedging
  - 10 Overall
  - 25 Fair Value Hedges
  - 30 Cash Flow Hedges
- ASC 825, Financial Instruments
  - 10 Overall
- ASC 830, Foreign Currency Matters
  - 20 Foreign Currency Transactions
- ASC 860, Transfers and Servicing
  - 20 Sales of Financial Assets
- **CECL changes <u>not</u> applicable to this Issue Paper:**
  - 220-10 Comprehensive Income
  - 230-10 Statement of Cash Flows
  - 270-10 Interim Reporting
  - 321-10 Investments—Equity Securities
  - 460-10 Guarantees
  - 470-60 Debt —Troubled Debt Restructurings by Debtors
  - 606-10 Revenue from Contracts with Customers
  - 810-10 Consolidation
  - 815-20 Embedded Derivatives
  - 815-20 Hedging—General
  - 820-10 Fair Value Measurement
  - 835-10 Interest
  - 842-30 Leases
  - 842-50 Leases
  - 855-10 Subsequent Events
  - 942 Financial Services—Depository and Lending
  - 944 Financial Services—Insurance
  - 948 Financial Services—Mortgage Banking
  - 954 Health Care Entities
  - 958 Not-for-Profit Entities
  - 978 Real Estate

Current Expected Credit Losses Issue Paper Exhibit on GAAP guidance is 125 pages and is posted as a separate document from the combined materials.

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Capital Structure Code

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: This agenda item has been prepared to propose possible deletion of the "capital structure code" reporting column in *Schedule D-1-1: Long-Term Bonds – Issuer Credit Obligations* (D-1-1) and *Schedule D-1-2: Asset-Backed Securities* (D-1-2). This proposal would reflect a reporting change, and not a statutory accounting change, but it is being presented to the Statutory Accounting Principles (E) Working Group to ensure appropriate outreach to regulators on the proposed deletion. **This agenda item specifically requests information from regulators on the use of these reporting codes and if there is a preference to retain the codes and instead expand, clarify and/or limit application to specific reporting lines to improve consistency and usefulness.**

Since the inclusion of the codes, there have been many questions on how to allocate investments to the established codes and whether there is consistent allocation of codes across companies to similar investments. It has also been noted that the reporting codes are required for all investments on Schedule D-1-1 and Schedule D-1-2, and there are questions on whether the codes are still applicable to all reporting lines, or even necessary, with the expanded reporting added from the principles-based bond project.

Per the SVO, the capital structure codes along with the security identifier ISIN were originally added in 2015, sponsored by the Valuation of Securities (E) Task Force, and included in a Blanks (E) Working Group proposal along with a number of other edits. The rationale for the capital structure code inclusion was to derive a "Capital Structure Code Regulator Report." This report does not appear to have been generated by any group, the codes from Schedule D are not used in SVO assessments, and the Schedule D company-reported information may be misleading. The SVO has noted that although capital structure is an assessment element for investments they review, they do not use the company-reported Schedule D information but rather use information from outside data feeds, legal agreements and financial statements submitted with the filing.

As additional history, the original adoption of the capital structure code reporting component did not include any description or guidance for allocating investments to the different codes. In 2016, a subsequent blanks proposal was adopted to revise the code categories and include descriptions within the annual statement instructions with the intent to improve consistency in reporting. The original capital codes adopted in 2015 were identified as senior secured, senior unsecured, senior subordinated, junior subordinated and other. The 2016 revised codes currently reflected include senior secured, senior unsecured, subordinated and not applicable.

From a review of the year-end 2023 Schedule D-1 filing, 90% of securities (1.38 million) were coded with either a 1 (senior secured – 30%) or a 2 (senior unsecured – 60%). The data also shows that 3% of securities (43K) were coded with a 0, 5, or left blank – all of which are not viable options pursuant to the current Annual Statement Instructions. Although most reporting lines had evidence of all codes being utilized (including investments within the broad category of "U.S. Government" receiving instances of 3's and 4's) the bulk of code 3 (subordinated debt) was within the 2023 Schedule D-1 reporting lines for industrial and miscellaneous for RMBS, CMBS and LBSS, hybrid securities, and affiliated bonds involving CMBS or LBSS. Code 4, which reflects a "not applicable" response, was also used in most of the reporting categories. Code 4 is intended to be used when the other three codes wouldn't apply, such as for the SVO-Identified Bond ETF investments captured on Schedule D.

Existing Authoritative Literature:

<u>2024 Annual Statement Instructions:</u>

Column 34 – Capital Structure Code
Please identify the capital structure of the security using the following codes consistent with the SVO Notching Guidelines in the Purposes and Procedures Manual of the NAIC Investment Analysis Office:

Capital structure is sometimes referred to as rank or payment priority and can be found in feeds from the sources listed in the Issue and Issuer column.

As a general rule, a security is senior unsecured debt unless legal terms of the security indicate another position in the capital structure. Securities are senior or subordinated and are secured or unsecured. Municipal bonds, Federal National Mortgage Association securities (FNMA or Fannie Mae) and Federal Home Loan Mortgage Corporation securities (FHLMC or Freddie Mac) generally are senior debt, though there are examples of subordinated debt issued by Fannie and Freddie. 1st Lien is a type of security interest and not capital structure but could be used to determine which capital structure designation the security should be reported under. The capital structure of "Other" should rarely be used. Capital structure includes securities subject to *SSAP No. 26R—Bonds* and *SSAP No. 43R—Loan-Backed and Structured Securities*.

1. Senior Secured Debt
   Senior secured is paid first in the event of a default and also has a priority above other senior debt with respect to pledged assets.

2. Senior Unsecured Debt
   Senior unsecured securities have priority ahead of subordinated debt for payment in the event of default.

3. Subordinated Debt
   Subordinated is secondary in its rights to receive its principal and interest payments from the borrower to the rights of the holders of senior debt (e.g., for loan-backed and structured securities, this would include mezzanine tranches). (Subordinated means noting or designating a debt obligation whose holder is placed in precedence below secured and general unsecured creditors e.g., another debtholder could block payments to that holder or prevent that holder of that subordinated debt from taking any action.)

4. Not Applicable
   Securities where the capital structure 1 through 3 above do not apply (e.g., Line 1619999999 Exchange Traded Funds – as Identified by the SVO).

<u>2025 Annual Statement Instructions</u>:
The adopted revisions to the 2025 Annual Statement Instructions for the principles-based bond definition retained the column, with virtually identical guidance, but the instructions are captured separately for both *Schedule D-1-1: Long-Term Bonds – Issuer Credit Obligations* (D-1-1) and *Schedule D-1-2: Asset-Backed Securities* (D-1-2) with different column references.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing and expose, for a shortened comment deadline ending May 2, this agenda item with the proposal to possibly delete the "capital

structure code" reporting column in *Schedule D-1-1: Long-Term Bonds – Issuer Credit Obligations* (D-1-1) and *Schedule D-1-2: Asset-Backed Securities* (D-1-2) for year-end 2025. <u>This agenda item specifically requests information from regulators on the use of these reporting codes and if there is a preference to retain the codes and instead expand, clarify and/or limit application to specific reporting lines to improve consistency and usefulness</u>. Although NAIC staff does not desire to remove any investment information being utilized by regulators, this agenda item is consistent with the intent of the Blanks (E) Working Group charge to review and eliminate data elements to ensure reporting meets the needs of regulators. By removing unnecessary or unused data elements, industry can focus on other elements more beneficial to the needs of regulators.

If there is a desire to instead expand / clarify and/or limit application to specific reporting lines, feedback is welcome on guidance to improve consistency in reporting and/or identify if there are certain reporting lines on Schedule D-1-1 or Schedule D-1-2 for which the code should be applicable. The broad reporting lines effective in 2025 for D-1-1 and D-1-2 are illustrated below. (Categories are often divided between affiliated and unaffiliated.)

Schedule D-1-1: Issuer Credit Obligations
U.S. Government Obligations (Exempt from RBC)
Other U.S. Government Obligations (Not Exempt from RBC)
Non-U.S. Sovereign Jurisdiction Securities
Municipal Bonds – General Obligations (Direct & Guaranteed)
Municipal Bonds – Special Revenue
Project Finance Bonds Issued by Operating Entities
Corporate Bonds
Mandatory Convertible Bonds
Single Entity Backed Obligations
SVO-Identified Bond Exchange Traded Funds – Fair Value
SVO-Identified Bond Exchange Traded Funds – Systematic Value
Bonds Issued from SEC-Registered Business Development Corps,
Bank Loans – Issued
Bank Loans – Acquired
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans
Certificates of Deposit
Other Issuer Credit Obligations

Schedule D-1-2: Asset-Backed Securities
Financial Asset-Backed Securities – Self-Liquidating
Agency Residential Mortgage-Backed Securities – Guaranteed
Agency Commercial Mortgage-Backed Securities – Guaranteed
Agency Residential Mortgage-Backed Securities – Not/Partially Guaranteed
Agency Commercial Mortgage-Backed Securities – Not/Partially Guaranteed
Non-Agency Residential Mortgage-Backed Securities
Non-Agency Commercial Mortgage-Backed Securities
Non-Agency – CLOs/CBOs/CDOs (Unaffiliated)
Other Financial Asset-Backed Securities – Self-Liquidating
Financial Asset-Backed Securities – Not Self-Liquidating
Equity Backed Securities
Other Financial Asset-Backed Securities – Not Self-Liquidating
Non-Financial Asset-Backed Securities – Practical Expedient

Lease-Backed Securities – Practical Expedient
Other Non-Financial Asset-Backed Securities – Practical Expedient
Non-Financial Asset-Backed Securities – Full Analysis
Lease-Backed Securities – Full Analysis
Other Non-Financial Asset-Backed Securities – Full Analysis

Staff Review Completed by: Julie Gann, NAIC Staff—January 2025

Status:
On March 24, 2025, the Statutory Accounting Principles (E) Working Group exposed, for a shortened comment deadline ending May 2, a proposal to delete the "capital structure code" reporting column in Schedule D-1-1: Long-Term Bonds – Issuer Credit Obligations (D-1-1) and Schedule D-1-2: Asset-Backed Securities (D-1-2) for year-end 2025. This agenda item specifically requests information from regulators on the use of these reporting codes and if there is a preference to retain the codes and instead expand, clarify and/or limit application to specific reporting lines to improve consistency and usefulness. This agenda item will not result in changes to the *Accounting Practices and Procedures Manual.*

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/05-22-2025/2 - 25-04 - Capital Structure Code.docx

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: AVR Line: Unrated Multi-Class Securities Acquired by Conversion

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: NAIC staff received a question as to what should be captured in the AVR: Default Component – Basic Contribution, Reserve Objective and Maximum Reserve Calculation reporting line 8 "Unrated Multi-Class Securities Acquired by Conversion." This line is part of the AVR bond reporting lines in the schedule, following the bonds reported by NAIC designation. After review, NAIC staff does not believe this historical line should be retained in the AVR schedule as there should be no securities reported within this line under current statutory accounting concepts. NAIC staff notes that this guidance seems to date back to 1993, which is before the SVO incorporated the filing exempt concept for filings.

With the principles-based bond definition, only debt securities that qualify shall be reported as bonds. This includes reporting on Schedule D-1 as well as on the AVR schedule. (The AVR schedule cross-checks to the Schedule D-1 for bonds.) For all bond-qualifying securities, an NAIC designation pursuant to the *Purposes and Procedures Manual of the NAIC IAO* must be reported. In review of recent use of this AVR line, no reporting entities utilized this line in 2022 or 2023, but a reporting entity has recently contacted the NAIC indicating intent to report amounts in this line for 2024. Amounts reported in this line cause cross-check errors to the total amounts reported for bonds, and there are questions as to how the amounts are impacted with reserve factors, as all amounts are blocked on the schedule (no factors just XXX's in the schedule). If a reporting entity was to acquire securities previously held in an ABS structure, those assets shall be captured under the applicable SSAP and reported accordingly to the statutory accounting guidance of that SSAP.

This agenda item proposes to remove this line from the AVR schedule. This agenda item will not result in a change to statutory accounting and will be exposed separately by the Blanks (E) Working Group.

Existing Authoritative Literature:

2024 Annual Statement Instructions:

Line 8 — Total Unrated Mortgage-Backed/Asset-Backed Securities Acquired by Conversion

"Unrated Mortgage-Backed/Asset-Backed Securities Acquired by Conversion" are securities acquired through the conversion of a portion of the company's assets, on or after January 1, 1993, into securities for which the company does not obtain a rating from an NAIC recognized rating agency and for which there is no recourse liability.

For instructions for completing this line, refer to "Basic Contribution, Reserve Objective and Maximum Reserve Calculation for Unrated Mortgage-Backed/Asset-Backed Securities Acquired by Conversion."

BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS FOR UNRATED MULTI-CLASS SECURITIES ACQUIRED BY CONVERSION

Assets may be converted into securities backed by the underlying assets. Rated bond classes of these multi-class mortgage-backed/asset-backed securities should be assigned Asset Valuation Reserve (AVR) factors consistent with comparably rated bonds.

A company may hold an "Unrated Multi-Class Security Acquired by Conversion" defined as a security acquired through the conversion of a portion of the company's assets, on or after January 1, 1993, into securities for which the company does not obtain a rating from an NAIC recognized rating agency and for which there is no recourse liability.

In such cases, the rating agency that rates a portion of the newly created security would establish the credit quality of the entire asset pool being securitized. The maximum reserve for the unrated security is the lesser of: (a) 100% of the maximum reserve for the entire pool associated with the unrated security as rated by an SVO approved rating agency, or (b) the book/adjusted carrying value of the unrated security. The reserve objective is equal to the maximum reserve. The basic contribution is equal to 33% of the maximum reserve.

This treatment does not occur when a reporting entity bears continuing actual or contingent liability arising from the securitization of any assets.

Any company which enters into such a transaction must prepare and include with its filed annual statement a schedule prepared in accordance with the following general guidelines to support the calculation of the reserve amounts to be reported on Page 29, Line 8.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions, for a shortened comment deadline ending May 2, to the Life/Fraternal Annual Statement Blank, AVR: Default Component – Basic Contribution, Reserve Objective and Maximum Reserve Calculation with a proposal to remove the reporting line 8 "Unrated Multi-Class Securities Acquired by Conversion." (This item is proposed to be effective for year-end 2025, but the blanks proposal is to rename the line "intentionally left blank" to prevent renumbering all lines in the AVR schedule.)

Staff Review Completed by: Julie Gann, NAIC Staff—February 2025

Status:
On March 24, 2025, the Statutory Accounting Principles (E) Working Group exposed revisions to the Life/Fraternal Annual Statement Blank, AVR: Default Component – Basic Contribution, Reserve Objective and Maximum Reserve Calculation to remove the reporting line 8 "Unrated Multi-Class Securities Acquired by Conversion." (With the proposal, the line will be renamed to "intentionally left blank" to prevent renumbering in the AVR Schedule.) This agenda item will not result in changes to the *Accounting Practices and Procedures Manual.*

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Dividend General Interrogatory Update

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☐	☒	☐
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: NAIC staff received a question related to how to disclose a dividend that was made using non-related party corporate bonds. It was noted that such property dividends are allowed under *SSAP No. 72—Surplus and Quasi-Reorganizations*, paragraph 13.i., but that the disclosure in the Life/Fraternal Annual Statement Blank, General Interrogatories, Part 2, GI #14 only includes lines for cash and stock dividends. NAIC staff noted that this disclosure was not included in any other annual statement blanks and was not clearly included as a required disclosure in SSAP No. 72, so it is the recommendation from NAIC staff that this this general interrogatory be removed from the Life/Fraternal Annual Statement Blank. This agenda item will not result in a change to statutory accounting and will be exposed separately by the Blanks (E) Working Group.

Existing Authoritative Literature:

SSAP No. 72—Surplus and Quasi-Reorganizations

13.i. Dividends to Stockholders

Dividends declared are charged directly to unassigned funds (surplus) on the declaration date and are carried as a liability until paid. The amount of the dividend is the cash paid if it is a cash dividend, the fair value of the assets distributed if it is property dividend, or the par value of the company's stock if it is a stock dividend. A stock dividend is recorded as a transfer from unassigned funds (surplus) to capital stock. Stock dividends have no effect on total capital and surplus while other forms of dividends reduce surplus. Forgiveness by a reporting entity of any debt, surplus note or other obligation of its parent or other stockholders shall be accounted for as a dividend. Dividends paid to related parties are subject to the requirements of SSAP No. 25;

Disclosures

22. The financial statements shall disclose the following:

a. The number of shares of each class of capital stock authorized, issued and outstanding as of the balance sheet date and the par value or stated value of each class;

b. The dividend rate, liquidation value and redemption schedule (including prices and dates) of any preferred stock issues;

c. Dividend restrictions, if any, and an indication if the dividends are cumulative;

d. The dates and amounts of dividends, or distributions paid. Note for each payment whether the dividend or distribution was ordinary or extraordinary.

---------- *Drafting Note: The rest of the paragraph is omitted for brevity*---------------

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): None

Staff Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose the recommendation to update the Life/Fraternal General Interrogatories, Part 2, #14 to remove this disclosure as it is not consistently included across all annual statement blanks. This agenda item will not result in changes to the *Accounting Practices and Procedures Manual.*

Staff Review Completed by: Jake Stultz, NAIC Staff – February 2025

Proposed revisions to Life/Fraternal General Interrogatories, Part 2:

~~14. Total dividends paid stockholders since organization of the reporting entity:~~
~~14.11 Cash $~~
~~14.12 Stock $~~

Status:
On March 24, 2025, the Statutory Accounting Principles (E) Working Group exposed recommendation to update the Life/Fraternal General Interrogatories, Part 2, #14 to remove this disclosure as it is not consistently included across all annual statement blanks. This agenda item will not result in changes to the *Accounting Practices and Procedures Manual.*

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/05-22-2025/4 - 25-07 - Dividend GI Update.docx

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Reporting of Funds Withheld and Modco Assets

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: During 2023, as a result of rising interest rates, the Statutory Accounting Principles (E) Working Group addressed the issue of net negative (disallowed) interest maintenance reserve for statutory accounting with *Interpretation (INT) 23-01 Negative (Disallowed) Interest Maintenance Reserve*, as a short-term solution. Later in 2023, the IMR Ad Hoc Group was formed to find a more permanent solution to address IMR for statutory accounting. During the IMR Ad Hoc Group's review process and discussions, it was noted that there were issues with identifying assets that are subject to funds withheld or modified coinsurance (modco) arrangements within the financial statements and reporting schedules. The intent of this agenda item is to make it easier to identify assets that are subject to a funds withheld or modco arrangements through updated reporting in the financials. This agenda item does not intend to change statutory accounting for these arrangements.

Funds withheld and modco arrangements are defined in the glossary to *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*:

- Funds withheld assets - "*Assets that would normally be paid over to a reinsurer but are withheld by the ceding entity to permit statutory credit for nonadmitted reinsurance, to reduce a potential credit risk, or to retain control over investments. Under certain conditions, the reinsurer may withhold funds from the ceding entity*."

- Modco arrangements - "*Indemnity life insurance that differs from coinsurance only in that the reserves are retained by the ceding entity, which represents a prepayment of all or a portion of the reinsurer's future obligation. Periodically an adjustment is made to the mean reserve on deposit with the ceding entity. This is usually done quarterly but may be done more frequently. If the reserve increases, the increase in mean reserve less interest on the mean reserve held at the end of the previous accounting period is paid by the reinsurer to the ceding entity. If the mean reserve decreases, the decrease and interest are paid by the ceding entity to the reinsurer. The appropriate interest rate is defined in the treaty*."

Although this issue of clarity of reporting of funds withheld and modco assets was raised as part of the IMR project, which is focused on life insurance, funds withheld also exist for property/casualty insurance, so this agenda item proposes to add this updated reporting to all the annual statement blanks.

The initial recommendation is to add a new part to the reinsurance Schedule S in the Life/Fraternal and Health annual statement blanks and Schedule F in the Property/Casualty and Title annual statement blanks. The new part would be similar in structure to Schedule DL and would include all assets held under a funds withheld arrangement and would include a separate signifier for modco assets.

Existing Authoritative Literature:
Funds withheld and modco arrangements are noted in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*. Funds withheld are also discussed in *SSAP No. 62—Property and Casualty Reinsurance* and Appendix A-785 Credit for Reinsurance.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): None

Staff Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose the recommendation to add a new part to the reinsurance Schedule S in the Life/Fraternal and Health annual statement blanks and Schedule F in the Property/Casualty and Title annual statement blanks, that is similar in structure to Schedule DL and would include all assets held under a funds withheld arrangement and would include a separate signifier for modco assets.

Staff Review Completed by: Jake Stultz, NAIC Staff—February 2024

Summer 2024 Updated Staff Recommendation:

NAIC staff recommend that the Working Group expose the draft of the new reporting schedules (included in Exhibit 1 of this Form A), which add a new part to the reinsurance Schedule S in the Life/Fraternal and Health annual statement blanks and Schedule F in the Property/Casualty and Title annual statement blanks and direct NAIC staff to continue working with interest parties on this proposal.

The Life RBC formula reflects a reduction in RBC charges for modco and funds withheld assets. This reduction is by asset type and often by asset designation. The fair value of the assets withheld is also reported in the reinsurance Schedules S and F as collateral. Accordingly, to accomplish both things, asset-by-asset identification is necessary. Therefore, some of the submitted comments regarding not being able to identify assets withheld which are not held in trust would indicate a disconnect. <u>Comments are requested regarding if the assets cannot be identified, then how are the numbers determined for the life risk-based capital charge reductions reported and the collateral fair value.</u>

Spring 2025 Updated Staff Recommendation:

NAIC staff recommend that the Working Group expose the draft of the new reporting schedule (included in Exhibit 1 of this Form A), which add a new part to the reinsurance Schedule S in the Life/Fraternal. After reviewing the comment letters received and discussions with interested parties, the updated draft of the schedule follows closely with the recommendations that were received. There is now only a new Schedule S, Part 8 for the Life/Fraternal Instructions and Blank, and these new disclosures will not be required for Health companies or for P&C and Title companies. Additionally, the new draft schedule includes aggregated data and follows closely with AVR reporting. A corresponding SAPWG sponsored blanks proposal was exposed by the Blanks (E) Working Group on March 6. The full Schedule S, Part 8 blank and instructions is included in Exhibit 1 below.

If Working Group members continue to support inclusion of comparable schedules in the P/C and Health blanks, NAIC staff can include those items in the exposure and direct their inclusion in the Blank proposal.

Status:

On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed a project which proposes to add a new part to the reinsurance Schedule S in the Life/Fraternal and Health annual statement blanks and Schedule F in the Property/Casualty (P/C) and Title annual statement blanks, which is similar in structure to Schedule DL and would include all assets held under a funds withheld arrangement and would include a separate signifier for modified coinsurance assets.

On August 13, 2024, the Statutory Accounting Principles (E) Working Group exposed this agenda item which proposes to add a new part to the reinsurance Schedule S in the Life/Fraternal and Health annual statement blanks and Schedule F in the Property/Casualty and Title annual statement blanks as illustrated on the following pages. In response to comments submitted that indicated that non-trust assets could not be identified, the Working Group also specifically requested comments asking if the assets cannot be identified, then how are the numbers determined for the life risk-based capital charge reductions reported and the collateral fair value?

On March 24, 2025, the Statutory Accounting Principles (E) Working Group exposed an updated draft of Schedule S, Part 8 for only the Life/Fraternal blank. After reading the comments and holding discussions with interested parties, NAIC staff has removed Schedule F, Part 7 from the proposal, and will also not include a new Schedule S, Part 8 on the Health blank. The updated draft is consistent with the recommendations from interested parties, and more closely aligns with AVR reporting. A corresponding SAPWG sponsored blanks proposal was exposed by the Blanks (E) Working Group on March 6. The full Schedule S, Part 8 blank and instructions is included in Exhibit 1 of the agenda item. With the exposure, NAIC staff was directed to research adding subtotals or a reconciliation to identify the funds withheld and modco assets reported which will feed into the RBC adjustments. This agenda item will not result in changes to the *Accounting Practices and Procedures Manual*.

May 2025 Updated Staff Recommendation:

NAIC Staff recommend that the Working Group adopt the draft of the new reporting schedule (included in Exhibit 1 of this Form A), which add a new part to the reinsurance Schedule S in the Life/Fraternal Annual Statement Blanks and Instructions, and recommend that the Blanks (E) Working Group move forward with the adoption of their corresponding agenda item 2025-05BWG. The adoption of this agenda item will not result in changes to statutory accounting. Below are the details of the responses to the comments received on the last exposure, with NAIC staff notes to incorporate industry comments.

Interested parties had no comments on the Spring 2025 exposure, noted support for the revisions that had been previously provided by the ACLI, which are included in the final version in Exhibit 1, and noted that they had provided comments to the Blanks (E) Working Group, which have been incorporated as described below:

IPs have the following comments:

- Will other lines that are not historically part of an AVR but could be included in an agreement be added? These include, but not limited to, Cash, Cash Equivalents, Collateral loans, etc. **NAIC staff response: Added a single line for cash and cash equivalents, and any other items will be caught in the "All Other Investments" section at the bottom of the schedule.**
- References to 'Default Component' and 'Equity and Other Invested Asset Component' should be removed as these are utilized in AVR only. **NAIC staff response: This has been updated in the modified Blanks proposal.**
- The Life/Fraternal RBC instructions (e.g., LR045-LR048 – Modco or Funds Withheld Reinsurance Agreements) provide directions to a company when a ceding company does not provide the details of the assets being ceded to an assuming company. Will there be similar language in the Annual Statement instructions for assumed blocks where an assuming insurer does not receive the asset details from the ceding insurer? **NAIC staff response: NAIC staff has added reference to what is currently included in the RBC instructions when there is a lag in information, to update the appropriate asset**

categories in the schedule which support the reported funds on deposit with reinsured companies on the assets page. This allocation should be to support the assets reported (reserve held). (See shaded text in Exhibit 1).

- If 2025-12BWG is adopted, will the '*Unrated Multi-Class Securities Acquired by Conversion*' line in this Schedule also be removed? **NAIC staff response: Yes, we will update this schedule for the adoption of 2025-12BWG.**

IPs have the following editorial revisions:

- Consider renaming the header for clarification on what is included: REINSURANCE AGREEMENTS WITH FUNDS WITHHELD AND MODIFIED COINSURANCE AS OF DECEMBER 31, CURRENT YEAR **NAIC staff response: This change has been made.**
- The following category header should be modified as follows:
  - ~~INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF~~ SURPLUS NOTES AND CAPITAL NOTES **NAIC staff response: This has been updated and included in the final version in Exhibit 1.**
  - The instructions for Column 7 & 8, Column 9 & 10, and Column 11 & 12 should be 'Assumed' not 'Ceded'. **NAIC staff response: This has been updated and included in the final version in Exhibit 1.**

Scope comments:
United Healthcare provided comments recommending that the scope of Schedule S, Part 8 be changed to include only assets supporting reinsurance contracts that transfer investment risk, which would impact health insurers that report using the life and health blank. At the Spring Meeting, the vice chair directed NAIC staff to research adding revisions to the exposure, which would clearly identify funds withheld and modco assets between those that transfer investment risk (and thereby result in an RBC adjustment) and those that do not transfer investment risk. He noted that one of the key objectives was to provide better detail which supported the RBC adjustments for such assets.

After research, NAIC identified that the schedule could not be easily divided to identify both categories of assets without revisions that would necessitate re-exposure. As the goal was to initially obtain information for 2025 reporting, the decision was made that the 2025 schedule should only identify the funds withheld / modco assets where investment risk is transferred. This result is similar to the recommendation from United Healthcare but is not targeted only at health entities. NAIC staff worked with the chair and vice chair of the Working Group to added a new first paragraph (See Exhibit 1 below) which clarifies that this schedule is only required for contracts supported by funds withheld or modco assets where the reinsurance contract transfers investment risk.

The Working Group will determine in future discussions if the 2026 version of the schedule should be expanded to also include the funds withheld / modco assets which do not result in investment risk transfer.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/05-22-2025/5 - 24-07 - Modco Reporting.docx

Exhibit 1, Draft Schedule S, Part 8 Instructions and Blanks

Note: Exhibit 1, which included the original draft changes to the Annual Statement Instructions and Blanks from the prior exposure has been removed from this version for clarity. The Spring 2025 exposure is only a new Schedule S, Part 8 for the Life/Fraternal Blanks.

Life/Fraternal Instructions

SCHEDULE S – PART 8

REINSURANCE AGREEMENTS WITH FUNDS WITHHELD AND MODIFIED COINSURANCE AS OF DECEMBER 31, CURRENT YEAR

This schedule reports the assets supporting modified coinsurance (MODCO) and other reinsurance transactions with funds withheld where the entire asset credit or variability in statement value risk associated with the assets supporting the business reinsured is transferred to the assuming company for the entire duration of the reinsurance treaty. Only the portion of the assets used to support the ceded or assumed liabilities should be included, i.e. amounts in excess of the reserve should be excluded.

The ceding company is required to supply the assuming company with sufficient information in order for the assuming company to determine the amount of assets withheld under Modco or other funds withheld. An assuming company that has not received timely information shall follow the procedures in the Life Risk-Based Capital instructions for Modco or Funds Withheld Reinsurance Agreements (LR045, LR046, LR047 and LR048) to apply the Modco liability ratio by asset category. The allocated assets should support the portion of the funds held by or deposited with reinsured companies that represents the investment risk assumed as described above, that is, the estimated investment risk assumed should not be greater than the assets reported on the asset page.

If a reporting entity’s detail lines report any of the following required categories, it shall report the subtotal amount of the corresponding category, with the specified subtotal line number appearing in the same manner and location as the pre-printed total line and number.

Column 1 & 2 – Ceded General Account Assets

Report the FWH and MODCO ceded amounts for the reporting entity’s general account.

Column 3 & 4 – Ceded Guaranteed Separate Account Assets

Report the FWH and MODCO ceded guaranteed amounts for the reporting entity’s separate account.

Column 5 & 6 – Total Ceded Assets

Report the Total Ceded Assets for the reporting entity’s general and separate account.

Column 5 should equal Column 1 plus Column 3
Column 6 should equal Column 2 plus Column 4

Column 7 & 8 – Assumed General Account Assets

Report the FWH and MODCO assumed general account amounts by the reporting entity.

Column 9 & 10 – Assumed Guaranteed Separate Account Assets

Report the FWH and MODCO assumed guaranteed separate account amounts by the reporting entity.

Column 11 & 12 – Total Assumed Assets

Report the Total Assumed Assets by the reporting entity.

Column 11 should equal Column 7 plus Column 9
Column 12 should equal Column 8 plus Column 10

ANNUAL STATEMENT BLANKS –LIFE/FRATERNAL

SCHEDULE S PART 8

REINSURANCE AGREEMENTS WITH FUNDS WITHHELD AND MODIFIED COINSURANCE AS OF DECEMBER 31, CURRENT YEAR

		Ceded General Account Assets		Ceded Guaranteed Separate Account Assets		Total Ceded Assets		Assumed General Account Assets		Assumed Guaranteed Separate Account Assets		Total Assumed Assets	
		1	2	3	4	5	6	7	8	9	10	11	12
		FWH B/ACV	Modco B/ACV	FWH B/ACV	Modco B/ACV	FWH B/ACV Col 1+3	Modco B/ACV Col 2+4	FWH B/ACV	Modco B/ACV	FWH B/ACV	Modco B/ACV	FWH B/ACV Col 7+9	Modco B/ACV Col 8+10
	LONG-TERM BONDS												
1	Exempt Obligations												
2.1	NAIC Designation Category 1.A												
2.2	NAIC Designation Category 1.B												
2.3	NAIC Designation Category 1.C												
2.4	NAIC Designation Category 1.D												
2.5	NAIC Designation Category 1.E												
2.6	NAIC Designation Category 1.F												
2.7	NAIC Designation Category 1.G												
2.8	Subtotal NAIC 1 (2.1+2.2+2.3+2.4+2.5+2.6+2.7)												
3.1	NAIC Designation Category 2.A												
3.2	NAIC Designation Category 2.B												
3.3	NAIC Designation Category 2.C												
3.4	Subtotal NAIC 2 (3.1+3.2+3.3)												
4.1	NAIC Designation Category 3.A												
4.2	NAIC Designation Category 3.B												
4.3	NAIC Designation Category 3.C												
4.4	Subtotal NAIC 3 (4.1+4.2+4.3)												
5.1	NAIC Designation Category 4.A												
5.2	NAIC Designation Category 4.B												
5.3	NAIC Designation Category 4.C												
5.4	Subtotal NAIC 4 (5.1+5.2+5.3)												
6.1	NAIC Designation Category 5.A												
6.2	NAIC Designation Category 5.B												
6.3	NAIC Designation Category 5.C												
6.4	Subtotal NAIC 5 (6.1+6.2+6.3)												
7	NAIC 6												
8	Total Long-Term Bonds (Sum of Lines 1+2.8+3.4+4.4+5.4+6.4 +7)												
	PREFERRED STOCKS												
9	Highest Quality												
10	High Quality												
11	Medium Quality												
12	Low Quality												
13	Lower Quality												
14	In or Near Default												
15	Affiliated Life with AVR												
16	Total Preferred Stocks (Sum of Lines 9 through 15)												

SCHEDULE S PART 8 (Continued)
REINSURANCE AGREEMENTS WITH FUNDS WITHHELD AND MODIFIED COINSURANCE AS OF DECEMBER 31, CURRENT YEAR

		Ceded General Account Assets		Ceded Guaranteed Separate Account Assets		Total Ceded Assets		Assumed General Account Assets		Assumed Guaranteed Separate Account Assets		Total Assumed Assets	
		1	2	3	4	5	6	7	8	9	10	11	12
		FWH B/ACV	Modco B/ACV	FWH B/ACV	Modco B/ACV	FWH B/ACV Col 1+3	Modco B/ACV Col 2+4	FWH B/ACV	Modco B/ACV	FWH B/ACV	Modco B/ACV	FWH B/ACV Col 7+9	Modco B/ACV Col 8+10
	SHORT-TERM BONDS												
17	Exempt Obligations												
18.1	NAIC Designation Category 1.A												
18.2	NAIC Designation Category 1.B												
18.3	NAIC Designation Category 1.C												
18.4	NAIC Designation Category 1.D												
18.5	NAIC Designation Category 1.E												
18.6	NAIC Designation Category 1.F												
18.7	NAIC Designation Category 1.G												
18.8	Subtotal NAIC 1 (18.1+18.2+18.3+18.4+18.5+18.6+18.7)												
19.1	NAIC Designation Category 2.A												
19.2	NAIC Designation Category 2.B												
19.3	NAIC Designation Category 2.C												
19.4	Subtotal NAIC 2 (19.1+19.2+19.3)												
20.1	NAIC Designation Category 3.A												
20.2	NAIC Designation Category 3.B												
20.3	NAIC Designation Category 3.C												
20.4	Subtotal NAIC 3 (20.1+20.2+20.3)												
21.1	NAIC Designation Category 4.A												
21.2	NAIC Designation Category 4.B												
21.3	NAIC Designation Category 4.C												
21.4	Subtotal NAIC 4 (21.1+21.2+21.3)												
22.1	NAIC Designation Category 5.A												
22.2	NAIC Designation Category 5.B												
22.3	NAIC Designation Category 5.C												
22.4	Subtotal NAIC 5 (22.1+22.2+22.3)												
23	NAIC 6												
24	Total Short-Term Bonds (17+18.8+19.4+20.4+21.4+22.4+23)												
	DERIVATIVE INSTRUMENTS												
25	Exchange Traded												
26	Highest Quality												
27	High Quality												
28	Medium Quality												
29	Low Quality												
30	Lower Quality												
31	In or Near Default												
32	Total Derivative Instruments												
33	Total (Lines 8+ 16+ 24+ 32)												

SCHEDULE S PART 8 (Continued)

REINSURANCE AGREEMENTS WITH FUNDS WITHHELD AND MODIFIED COINSURANCE AS OF DECEMBER 31, CURRENT YEAR

		Ceded General Account Assets		Ceded Guaranteed Separate Account Assets		Total Ceded Assets		Assumed General Account Assets		Assumed Guaranteed Separate Account Assets		Total Assumed Assets	
		1	2	3	4	5	6	7	8	9	10	11	12
		FWH B/ACV	Modco B/ACV	FWH B/ACV	Modco B/ACV	FWH B/ACV Col 1+3	Modco B/ACV Col 2+4	FWH B/ACV	Modco B/ACV	FWH B/ACV	Modco B/ACV	FWH B/ACV Col 7+9	Modco B/ACV Col 8+10
	MORTGAGE LOANS												
	In Good Standing:												
34	Farm Mortgages – CM1 – Highest Quality												
35	Farm Mortgages – CM2 – High Quality												
36	Farm Mortgages – CM3 – Medium Quality												
37	Farm Mortgages – CM4 – Low Medium Quality												
38	Farm Mortgages – CM5 – Low Quality												
39	Residential Mortgages – Insured or Guaranteed												
40	Residential Mortgages – All Other												
41	Commercial Mortgages – Insured or Guaranteed												
42	Commercial Mortgages – All Other – CM1 – Highest Quality												
43	Commercial Mortgages – All Other – CM2 – High Quality												
44	Commercial Mortgages – All Other – CM3 – Medium Quality												
45	Commercial Mortgages – All Other – CM4 – Low Medium Quality												
46	Commercial Mortgages – All Other – CM5 – Low Quality												
	Overdue, Not in Process:												
47	Farm Mortgages												
48	Residential Mortgages – Insured or Guaranteed												
49	Residential Mortgages - All Other												
50	Commercial Mortgages - Insured or Guaranteed												
51	Commercial Mortgages - All Other												
	In Process of Foreclosure:												
52	Farm Mortgages												
53	Residential Mortgages - Insured or Guaranteed												
54	Residential Mortgages - All Other												
55	Commercial Mortgages - Insured or Guaranteed												
56	Commercial Mortgages - All Other												
57	Total Schedule B Mortgages (Sum of Lines 34 through 56)												

SCHEDULE S PART 8

REINSURANCE AGREEMENTS WITH FUNDS WITHHELD AND MODIFIED COINSURANCE AS OF DECEMBER 31, CURRENT YEAR

REINSURANCE AGREEMENTS WITH FUNDS WITHHELD AND MODIFIED COINSURANCE AS OF DECEMBER 31, CURRENT YEAR

		Ceded General Account Assets		Ceded Guaranteed Separate Account Assets		Total Ceded Assets		Assumed General Account Assets		Assumed Guaranteed Separate Account Assets		Total Assumed Assets	
		1	2	3	4	5	6	7	8	9	10	11	12
		FWH B/ACV	Modco B/ACV	FWH B/ACV	Modco B/ACV	FWH B/ACV Col 1+3	Modco B/ACV Col 2+4	FWH B/ACV	Modco B/ACV	FWH B/ACV	Modco B/ACV	FWH B/ACV Col 7+9	Modco B/ACV Col 8+10
	COMMON STOCK												
58	Unaffiliated Public												
59	Unaffiliated Private												
60	Federal Home Loan Bank												
61	Affiliated Life with AVR												
	Affiliated Investment Subsidiary:												
62	Fixed Income Exempt Obligations												
64	Fixed Income Highest Quality												
64	Fixed Income High Quality												
65	Fixed Income Medium Quality												
66	Fixed Income Low Quality												
67	Fixed Income Lower Quality												
68	Fixed Income In or Near Default												
69	Unaffiliated Common Stock Public												
70	Unaffiliated Common Stock Private												
71	Real Estate												
72	Affiliated-Certain Other (See SVO Purposes & Procedures Manual)												
73	Affiliated - All Other												
74	Total Common Stock (Sum of Lines 58 through 73)												
	REAL ESTATE												
75	Home Office Property (General Account only)												
76	Investment Properties												
77	Properties Acquired in Satisfaction of Debt												
78	Total Real Estate (Sum of Lines 75 through 77)												
	OTHER INVESTED ASSETS INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF BONDS												
79	Exempt Obligations												
80	Highest Quality												
81	High Quality												
82	Medium Quality												
83	Low Quality												
84	Lower Quality												
85	In or Near Default												
86	Total with Bond Characteristics (Sum of Lines 79 through 85)												

SCHEDULE S PART 8 (Continued)

REINSURANCE AGREEMENTS WITH FUNDS WITHHELD AND MODIFIED COINSURANCE AS OF DECEMBER 31, CURRENT YEAR

REINSURANCE AGREEMENTS WITH FUNDS WITHHELD AND MODIFIED COINSURANCE AS OF DECEMBER 31, CURRENT YEAR

		Ceded General Account Assets		Ceded Guaranteed Separate Account Assets		Total Ceded Assets		Assumed General Account Assets		Assumed Guaranteed Separate Account Assets		Total Assumed Assets	
		1	2	3	4	5	6	7	8	9	10	11	12
		FWH B/ACV	Modco B/ACV	FWH B/ACV	Modco B/ACV	FWH B/ACV Col 1+3	Modco B/ACV Col 2+4	FWH B/ACV	Modco B/ACV	FWH B/ACV	Modco B/ACV	FWH B/ACV Col 7+9	Modco B/ACV Col 8+10
	INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF PREFERRED STOCKS												
87	Highest Quality												
88	High Quality												
89	Medium Quality												
90	Low Quality												
91	Lower Quality												
92	In or Near Default												
93	Affiliated Life with AVR												
94	Total with Preferred Stock Characteristics (Sum of Lines 87 through 93)												
	INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF MORTGAGE LOANS												
	In Good Standing Affiliated:												
95	Mortgages – CM1 – Highest Quality												
96	Mortgages – CM2 – High Quality												
97	Mortgages – CM3 – Medium Quality												
98	Mortgages – CM4 – Low Medium Quality												
99	Mortgages – CM5 – Low Quality												
100	Residential Mortgages – Insured or Guaranteed												
101	Residential Mortgages – All Other												
102	Commercial Mortgages – Insured or Guaranteed												
	Overdue, Not in Process Affiliated:												
103	Farm Mortgages												
104	Residential Mortgages – Insured or Guaranteed												
105	Residential Mortgages – All Other												
106	Commercial Mortgages – Insured or Guaranteed												
107	Commercial Mortgages –- All Other												
	In Process of Foreclosure Affiliated:												
108	Farm Mortgages												
109	Residential Mortgages – Insured or Guaranteed												
110	Residential Mortgages – All Other												
111	Commercial Mortgages – Insured or Guaranteed												
112	Commercial Mortgages – All Other												
113	Total Affiliated (Sum of Lines 95 through 112)												
114	Unaffiliated – In Good Standing With Covenants												
115	Unaffiliated – In Good Standing Defeased With Government Securities												
116	Unaffiliated – In Good Standing Primarily Senior												
117	Unaffiliated – In Good Standing All Other												
118	Unaffiliated – Overdue, Not in Process												
119	Unaffiliated – In Process of Foreclosure												
120	Total Unaffiliated (Sum of Lines 114 through 119)												
121	Total with Mortgage Loan Characteristics (Lines 113 + 120)												

Attachment 5
Ref #2024-07

SCHEDULE S PART 8 (Continued)

REINSURANCE AGREEMENTS WITH FUNDS WITHHELD AND MODIFIED COINSURANCE AS OF DECEMBER 31, CURRENT YEAR

		Ceded General Account Assets		Ceded Guaranteed Separate Account Assets		Total Ceded Assets		Assumed General Account Assets		Assumed Guaranteed Separate Account Assets		Total Assumed Assets	
		1	2	3	4	5	6	7	8	9	10	11	12
		FWH B/ACV	Modco B/ACV	FWH B/ACV	Modco B/ACV	FWH B/ACV Col 1+3	Modco B/ACV Col 2+4	FWH B/ACV	Modco B/ACV	FWH B/ACV	Modco B/ACV	FWH B/ACV Col 7+9	Modco B/ACV Col 8+10
	INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF COMMON STOCK												
122	Unaffiliated Public												
123	Unaffiliated Private												
124	Affiliated Life with AVR												
125	Affiliated Certain Other (See SVO Purposes & Procedures Manual)												
126	Affiliated Other - All Other												
127	Total with Common Stock Characteristics (Sum of Lines 122 through 126)												
	INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF REAL ESTATE												
128	Home Office Property (General Account only)												
129	Investment Properties												
130	Properties Acquired in Satisfaction of Debt												
131	Total with Real Estate Characteristics (Sum of Lines 128 through 130)												
	INVESTMENTS IN TAX CREDIT STRUCTURES												
132	Yield Guaranteed State Tax Credit Investments												
133	Qualifying Federal Tax Credit Investments												
134	Qualifying State Tax Credit Investments												
135	Other Tax Credit Investments												
136	Total Tax Credit Investments (Sum of Lines 132 through 135)												
	RESIDUAL TRANCHES OR INTERESTS												
137	Bonds – Unaffiliated												
138	Bonds – Affiliated												
139	Common Stock – Unaffiliated												
140	Common Stock – Affiliated												
141	Preferred Stock – Unaffiliated												
142	Preferred Stock – Affiliated												
143	Real Estate – Unaffiliated												
144	Real Estate – Affiliated												
145	Mortgage Loans – Unaffiliated												
146	Mortgage Loans – Affiliated												
147	Other – Unaffiliated												
148	Other – Affiliated												
149	Total Residual Tranches or Interests (Sum of Lines 137 through 148)												
	SURPLUS NOTES AND CAPITAL NOTES												
150	Highest Quality												
151	High Quality												
152	Medium Quality												
153	Low Quality												
154	Lower Quality												
155	In or Near Default												
156	Total with Bond Characteristics (Sum of Lines 150 through 155)												
	ALL OTHER INVESTMENTS												
157	NAIC 1 Working Capital Finance Investments												
158	NAIC 2 Working Capital Finance Investments												
159	Other Invested Assets - Schedule BA												
160	Other Short-Term Invested Assets - Schedule DA												
161	Cash and Cash Equivalents												
162	Total All Other (Sum of Lines 157, 158, 159, 160 and 161)												

163	Total Other Invested Assets - Schedules BA,DA & E (Sum of Lines 29, 37, 64, 70, 74, 79, 92, 99 and 105)												
164	Total Non-guaranteed Separate Account Assets	XXX	XXX	XXX	XXX			XXX	XXX	XXX	XXX		
165	Total Assets including Non-guaranteed Separate Account Assets	XXX	XXX	XXX	XXX			XXX	XXX	XXX	XXX		

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Reinsurer Affiliated Assets

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: This agenda item has been prepared to consider improved financial statement reporting for reinsurer affiliated assets in response to the January 7, 2025, referral from the Financial Analysis (E) Working Group (FAWG). The following reflects the key components from the referral:

> In recent years, there has been an increase in the number and significance of coinsurance with funds withheld and modified coinsurance reinsurance arrangements ceding blocks of life and annuity liabilities to offshore, third-party reinsurers that are unauthorized. These arrangements, and other similar structures, often involve the transfer of investment advisory responsibilities for the assets supporting the business to the reinsurer or one of its affiliates, although the assets remain on the books of the ceding insurer to collateralize the transaction and/or support of the liabilities.
>
> In a recent troubled company situation, the third-party investment advisor/reinsurer reallocated a significant portion of the assets into securities that were later discovered to be affiliated with and/or related to the investment advisor/reinsurer. However, this concentration was not readily apparent to the domestic regulator, as the securities were issued by various legal entities and the related party relationships were not identifiable in the ceding insurer's Supplemental Investment Risk Interrogatories. After the discovery of this concentration through an examination, the domestic regulators also identified significant concerns regarding the valuation of the securities.
>
> The accurate and complete reporting of potential investment concentrations, particularly of affiliated or related parties of an appointed investment advisor/reinsurer, is of critical importance to regulators in ongoing solvency monitoring. As coinsurance with funds withheld and modified coinsurance arrangements where investment advisory services are transferred to the reinsurer are becoming increasingly common and more complex, there is the potential for investment concentrations in assets affiliated with or related to the reinsurer to go unidentified through the existing statutory reporting framework. As such, FAWG recommends that the Statutory Accounting Principles (E) Working Group (SAPWG) consider whether enhanced reporting or disclosures could be developed in this area to identify such concentrations.

With this referral, the Statutory Accounting Principles (E) Working Group is requested to consider enhanced reporting or disclosures to identify whether investments held under modified coinsurance (modco) or funds withheld (FWH) arrangements are related or affiliated to the reinsurer.

Although there has been discussion on getting full investment detail on held modco/FWH assets, at this time, the proposal resulting from agenda item 2024-07 is to only capture aggregate detail that corresponds to the AVR reporting (so that it can be traceable to the RBC formula). There is a second proposal under agenda item 2024-20 to explicitly identify held modco/FWH assets as restricted. The proposal resulting from agenda item 2024-20 is to capture information on these assets by broad investment category (e.g., investment schedule).

In order to proceed timely with the January 7 FAWG request, this agenda item recommends expanding the restricted asset disclosure to identify the amount of modco/FWH assets for which the asset is a related party or affiliated

investment to the reinsurer. It is proposed that the existing related party investment codes be utilized to ensure consistent application in identifying whether the investment is a related party investment.
Further, in response to informal comments received that the restricted asset disclosure is not updated for notable swings in the interim financials, this agenda item also proposes to capture the full restricted asset disclosure in all quarterly and annual financial statements.

Existing Authoritative Literature:

There is no current reporting or identification requirement for modco/FWH assets affiliated to the reinsurer.

This agenda item proposes to leverage the related party investment codes required for most of the investment schedules to identify the extent modco/FWH assets are affiliated to the reinsurer.

The following electronic column is required in all held investment schedules except for Schedule A – Real Estate.

Column 18 – Investments Involving Related Parties

Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.

Enter one of the following codes to identify the role of the related party in the investment.

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.

2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.

3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.

4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.

5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.

6. The investment does not involve a related party.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None
Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation:
NAIC staff recommend that the Working Group receive the referral and expose this agenda item for comment, for a shortened comment deadline ending May 2, while concurrently sponsoring a blanks proposal to expand the restricted asset reporting to capture information, by investment schedule, of modco and FWH assets that are related to the reinsurer and to require the restricted asset disclosure in all quarterly and annual financial statements.

To timely meet the need of state insurance regulators, as requested from the FAWG referral, it is recommended that this item be planned for data-capturing with a year-end 2025 effective date. This effective date will require adoption of the agenda item, and the corresponding blanks changes, no later than May 2025. If it is not possible to adopt with that timeline, then the SAPWG could still adopt a disclosure for year-end 2025, but it will be narrative only until year-end 2026.

Proposed revisions to SSAP No. 1, footnote 2 to require quarterly disclosure of restricted assets:

23. Reporting entities shall disclose[2] the following information in the financial statements:

[2] Disclosure of restricted assets shall be included in ~~the~~ all annual and quarterly financial statements~~ and, pursuant to the Preamble, in the interim financial statements if significant changes have occurred since the annual statement. If significant changes have occurred, the entire disclosure shall be reported in the interim financial statements~~.

23.c The amount and nature of any assets received as collateral or assets that are held under modified coinsurance or funds withheld reinsurance agreements, reflected as assets within the reporting entity's financial statements, for which there is a recognized liability to return these collateral assets or for the dedicated use of those assets under the modco/funds withheld agreement, in the general and separate accounts in comparison to total assets and admitted assets. The disclosure shall identify whether the modco/FWH assets are related to the reinsurer.

(Note: The above paragraph reflects revisions being considered under 2024-20: Restricted Asset Disclosure Clarification. Only new language from this agenda item is shown as tracked changes.)

Proposed Expansion to the Restricted Asset Reporting: (This will be part of the Note 5L.)

The tracked changes shown illustrate the difference from the current direction for related party investments to the reporting entity (as reported in each investment schedule), to capture related party investments to the reinsurer in the modco/FWH arrangement.

Assets	Book/Adjusted Carrying Value (BACV)	Related Party Code					
	FWH Including Modco	1	2	3	4	5	6
a. Cash, Cash Equivalents and Short-Term Investments	$	$	$	$	$	$	
b. Schedule D, Part 1, Section 1							

c. Schedule D, Part 1, Section 2							
d. Schedule D, Part 2, Section 1							
e. Schedule D, Part 2, Section 2							
f. Schedule B							
g. Schedule A							
h. Schedule BA, Part 1							
i. Schedule DL, Part 1							
j. Other	$	$	$	$	$	$	
k. Total Assets (a+b+c+d+e+f+g+h+i+j)	$	$	$	$	$	$	
Percentage to Total FWH Assets							

The sum of amounts reported in columns 1-6 shall equal the BACV total by investment category.

Identify, by the following related party codes, the amount of assets held under funds withheld agreements (including modco) on the basis of whether the investment is related to the modco/FWH reinsurer:

1. Direct loan or direct investment (excluding securitizations) ~~in a related party~~in the reinsurer, for which the ~~related party~~reinsurer represents a direct credit exposure.

2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with ~~a related party~~the reinsurer as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to ~~related parties~~the reinsurer.

3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with ~~a related party~~the reinsurer as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to ~~related parties~~the reinsurer.

4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction to the reinsurer but does not involve a relationship with ~~a related party~~the reinsurer as sponsor, originator, manager, servicer or other similar influential role.

5. The investment is identified as related to the reinsurer~~party~~, but the role of the ~~related party~~reinsurer represents a different arrangement than the options provided in choices 1-4.

6. The investment is not related / affiliated to the reinsurer. ~~does not involve a related party.~~

Staff Review Completed by: Julie Gann, NAIC Staff—February 2025

Status:
On March 24, 2025, the Statutory Accounting Principles (E) Working Group received a referral from the Financial Analysis (E) Working Group related to funds withheld assets related to / affiliated with the reinsurer and exposed this agenda item proposing revisions to SSAP No. 1 while concurrently sponsoring a blanks proposal to expand the restricted asset note disclosure to capture information, by investment schedule, of funds withheld assets that are

related to the reinsurer. Additionally, the proposed revisions will require the restricted asset disclosure in all quarterly and annual financial statements.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/05-22-2025/6 - 25-05 - Reinsurer Affiliated Assets.docx

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Medicare Part D Prescription Payment Plan Disclosures

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue:
This agenda item is to develop disclosures for the Medicare Part D Prescription Payment Plan (MPPP). The currently exposed accounting guidance for this program is in *INT 24-02: Medicare Part D Prescription Payment Plan*.

MPPP is effective January 1, 2025, and requires all Medicare prescription drug plans (Part D plan sponsors), including both standalone Medicare prescription drug plans and Medicare Advantage plans with prescription drug coverage, to offer its enrollees the option to pay their out-of-pocket prescription drug costs through monthly payments to the Part D plan sponsor over the remainder of the plan year, as opposed to paying the full amount upfront to the pharmacy.

Part D plan enrollees who elect to participate in MPPP (MPPP participants) will pay $0 to the pharmacy for covered Part D drugs. Instead, the Part D plan sponsor is required to fully pay the pharmacy the total of an MPPP participant's applicable out-of-pocket amount and the Part D plan sponsor's portion of the payment in accordance with Part D prompt payment requirements. Subsequently, the Part D plan sponsor will bill the MPPP participant monthly for any cost-sharing incurred while enrolled in MPPP.

INT 24-02 provides the following key points:

- Installment receivables from MPPP participants which are less than 90 days overdue are admitted assets.
- Installment receivables from MPPP participants, which are more than 90 days overdue, are nonadmitted assets.
- The installment receivables from MPPP participants are reported in the Health care receivables reporting line (24) on the asset page as other health care receivables.
- Installments that are collected in full, will not impact Medicare Part D prescription claims.
- Only installment receivables which are impaired and written off as uncollectible are reported as incurred Medicare Part D prescription drug claims.

Existing Authoritative Literature:

In November 17-2024, agenda item 2024-24: Medicare Part D – Prescription Payment Program exposed for comment the currently outstanding revisions to:

- *INT 24-02: Medicare Part D Prescription Payment Plan* along with minor edits to
- *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*,

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): When INT 24-

02 was initially exposed November 17, 2024, the Statutory Accounting Principles (E) Working Group directed NAIC staff to develop disclosures for future discussion.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): None.

Staff Review Completed by: Robin Marcotte, NAIC Staff

Staff Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *SSAP No. 84—Health Care and Government Insured Plan Receivables* to add the disclosures illustrated under the heading proposed SSAP No. 84 disclosures. The disclosures are proposed for initial data capture in the year end 2025 financial statement notes. This agenda item is proposed as a simultaneous exposure with the Blanks (E) Working Group (proposal 2025-04BWG) to allow for initial reporting at 2025-year end. Key points in the recommended disclosures are amounts reported before and after nonadmission, aging, and information on write offs.

Although NAIC staff considered adding line(s) for the MPPP receivables to the health care receivables exhibits in the annual statement blank, at this time, NAIC staff recommend putting the information in the existing health care receivables notes. This placement can be evaluated later as more information on the materiality of the new for 2025 MPPP program becomes available. If needed, the Working Group could re-consider later if additional lines are recommended in the health care receivable exhibits.

Proposed SSAP No. 84 Disclosures.

25. The financial statements shall disclose the following regarding the Medicare Part D Prescription Payment Plan receivables(INT 24-02).

a. Amounts included in other health care receivable which are recoverable from participants in Medicare Part D Prescription Payment Plan for the current reporting period and the prior year.

b. Aging of other health care receivables which are due from participants in Medicare Part D Prescription Payment Plan including the following categories: 1-30 days, 31-60 days, 61-90 days, over 90 days; nonadmitted and admitted.

c. Information on the amount of write-offs of Medicare Prescription Payment Plan installments due from participants in the current and prior year.

Below is an illustration of the Proposed data capture in Note 28 – Health Care Receivables which will be exposed at the Blanks (E) Working Group in agenda item 2025-04BWG:

THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLE BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THIS ILLUSTRATION.

C. Medicare Prescription Payment Plan Receivables

(1) Amounts included in other health care receivable which are recoverable from participants in Medicare Part D Prescription Payment Plan for the current reporting period $__________ and the prior year $__________.

(2) Aging of other health care receivables which are due from participant in Medicare Part D Prescription Payment Plan.

1 Name of plan	2 Current Period Gross*	3 1 - 30 Days	4 31 - 60 Days	5 61 - 90 Days	6 Over 90 Days	7 Nonadmitted	8 Admitted	9 Prior Year admitted
....	....	....	....	....	....	....	....	....
Medicare Prescription Payment Plan	....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....	....
Total								

*represents the Assets Page Column 1, included within Line 24 before nonadmission.

(3) Incurred claims expense includes write-offs of impaired Medicare Prescription Payment Plan receivables of $__________ for [current year] and $__________ for [prior year].

Status:
On March 24, 2025, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 84—Health Care and Government Insured Plan Receivables* to add disclosures for Medicare Part D Prescription Payment Plan receivables. The disclosures are proposed for initial data capture in the year end 2025 financial statement notes. This agenda item is proposed as a simultaneous exposure with the Blanks (E) Working Group (proposal 2025-04BWG) to allow for initial reporting at 2025-year end.

For May 22, 2025 consideration the NAIC staff has reviewed the comments received to the Blanks (E) Working and recommended the following additional minor edits shown as shaded text.

Proposed SSAP No. 84 Disclosures.

25. The financial statements shall disclose the following regarding the Medicare Part D Prescription Payment Plan receivables(INT 24-02).

a. Amounts included in other health care receivable which are recoverable from participants in Medicare Part D Prescription Payment Plan for the current reporting period~~and the prior year~~.

b. Aging of other health care receivables which are due from participants in Medicare Part D Prescription Payment Plan including the following categories: 1-30 days, 31-60 days, 61-90 days, over 90 days; nonadmitted and admitted.

c. Information on the amount of write-offs of Medicare Prescription Payment Plan installments due from participants in the current and prior year.

Below is an illustration of the Proposed data capture in Note 28 – Health Care Receivables which will be exposed at the Blanks (E) Working Group in agenda item 2025-04BWG:

THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLE BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THIS ILLUSTRATION.

C. Medicare Prescription Payment Plan Receivables

(1) Amounts included in other health care receivable which are recoverable from participants in Medicare Part D Prescription Payment Plan for the current reporting period $__________ ~~and the prior year $__________~~.

(2) Aging of other health care receivables which are due from participant in Medicare Part D Prescription Payment Plan.

1 Name of plan	2 Current Period Gross*	3 1 - 30 Days	4 31 - 60 Days	5 61 - 90 Days	6 Over 90 Days	7 Nonadmitted	8 Admitted	~~9~~ ~~Prior Year admitted~~
………………	………………	………………	………………	………………	………………	………………	………………	~~………………~~
Medicare Prescription Payment Plan	………………	………………	………………	………………	………………	………………	………………	~~………………~~
………………	………………	………………	………………	………………	………………	………………	………………	~~………………~~
………………	………………	………………	………………	………………	………………	………………	………………	~~………………~~
………………	………………	………………	………………	………………	………………	………………	………………	~~………………~~
Total								

*represents the Assets Page Column 1, included within Line 24 before nonadmission.

(3) Incurred claims expense includes write-offs of impaired Medicare Prescription Payment Plan receivables of $__________ for [current year] and $__________ for [prior year].

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/05-22-2025/07 - 25-08 - MPPP disclosures for 5-22-25.docx

Statutory Accounting Principles (E) Working Group
May 22, 20025
Comment Letters Received

TABLE OF CONTENTS

D. Keith Bell, CPA
Senior Vice President
Accounting Policy
Corporate Finance
The Travelers Companies, Inc.
860-277-0537; FAX 860-954-3708
Email: d.keith.bell@travelers.com

Rose Albrizio, CPA
Vice President
Accounting Practices
AXA Equitable.
201-743-7221
Email: rosemarie.albrizio@axa-equitable.com

May 2, 2025

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: Interested Parties Comments on Exposure Drafts from the NAIC Spring National Meeting in Indianapolis

Dear Mr. Bruggeman:

Thank you and the NAIC Statutory Accounting Principles Working Group (the Working Group) for the opportunity to comment on the exposure drafts from the recent National NAIC meeting with comments due May 2nd.

We offer the following comments.

Ref #2023-24: Historical GAAP Guidance, Current Expected Credit Losses

The Working Group exposed an issue paper that maintains pre-CECL GAAP impairment guidance for the historical record.

Interested parties have no comment on this item.

Ref #2024-07: Annual Statement, Report of Funds Withheld and Modco Assets

The Working Group exposed revisions that capture information on modified coinsurance (modco)/funds withheld assets. This exposure draft has been modified to remove the initially proposed Schedule F, part 7, from the proposal and add a Part 8 to Schedule S for the life/fraternal instructions and blank. The Schedule S draft includes aggregated data and is consistent with AVR reporting.

Interested parties support the revisions with the edits provided by the American Council of Life Insurers. Also, interested parties provided comments to the Blanks Working Group on 2025-05BWG which adds a new part to Schedule S to report reinsurance agreements with funds withheld and modified coinsurance.

Ref #2025-04: Annual Statement, Capital Structure Code

The Working Group exposed an agenda item that proposes to remove the "capital structure code" reporting column in Schedule D-1-1: Long-Term Bonds – Issuer Credit Obligations (D-1-1) and Schedule D-1-2: Asset-Backed Securities (D-1-2).

Interested parties have no comment on this item. However, interested parties provided comments to the Blanks Working Group on 2025-11BWG which removes the capital structure code reporting column on Schedule D, Part 1, Sections 1 and 2.

Ref #2025-05: SSAP No. 1/Annual Statement, Reinsurer Affiliated Assets

The Working Group exposed revisions that expand the restricted asset note disclosure to capture information on all funds withheld assets that are related to the reinsurer and require the disclosure in all quarterly and annual financial statements.

Interested parties understand that the intention of this proposal is to enhance reporting to identify investments in modified coinsurance (modco) and funds withheld (FWH) arrangements that are affiliated with the reinsurer and for the cedant to report this information.

We have concerns in two primary areas:

1) Potentially Misleading Disclosure: The cedant's disclosure of this information may imply that reinsurer-related party investments are inherently riskier than non-related party investments and that this risk is borne by the cedant. In modco and FWH arrangements, the investment risks and rewards are borne by the reinsurer as evidenced by the RBC instructions providing for the reduction in RBC for the cedant (and corresponding increase to the reinsurer) for modco and FWH assets.

2) Scope of Disclosures: The required disclosures would set an unusual precedent, requiring a cedant to report on related party transactions of an unrelated entity.

As a practical matter, operational challenges, such as the following, arise in obtaining such information for transactions with non-affiliated reinsurers:

- Investment Accounting Systems: It is unlikely that such information is currently captured within a cedant's investment accounting systems. Therefore, to comply with this requirement, especially for year-end 2025, cedants would likely have to manually prepare this disclosure.

- Knowledge of Reinsurer Affiliate Relationships: A cedant is unlikely to have full knowledge of a reinsurer's affiliate relationships. Thus, in most cases, the required information would need to be provided by the reinsurer.
- Application of US Statutory Accounting Guidance: This disclosure would require reinsurers, who are not otherwise subject to SAP to apply the statutory related party definition to their investment portfolios.
- Contractual Obligations: The reinsurer may not have a contractual obligation within the reinsurance agreement to report or disclose such information to the cedant.

Interested parties ask regulators to weigh the benefits of this new disclosure, including the pervasiveness of the issue regulators are trying to address, against the concerns and operational burdens noted above. We recommend the following two scope limitations, with the understanding that additional information or quarterly reporting could be implemented later:

- Reporting Frequency: Limit reporting frequency to annual. This would reduce the operational burden for cedants and reinsurers.
- Scope of Disclosure: Limit the scope of disclosure based on the level of judgment used in valuation (e.g., Level 3 assets as classified in the Fair Value Hierarchy in SSAP No. 100, *Fair Value*). This would address the primary source of concern in the specific example cited by NAIC staff, which is centered on the valuation of funds withheld assets.

Interested parties also provided comments to the Blanks Working Group on 2025-10BWG which updated Note 5L – *Restricted Assets* to identify assets held under Modco / Funds Withheld Agreements that are affiliated with the reinsurer and also updated the list of required quarterly disclosures to include Note 5L.

Ref #2025-06: Annual Statement, AVR Line: Unrated Multi-Class Securities

The Working Group exposed an agenda item that proposes revisions to the life/fraternal annual statement blank to remove reporting line 8, "Unrated Multi-Class Securities acquired by Conversion," from the asset valuation reserve (AVR). (Under the proposal, the line will be renamed to "intentionally left blank" to prevent renumbering AVR / RBC references.)

Interested parties have no comment on this item. However, interested parties provided comments to the Blanks Working Group on 2025-12BWG which "removes" Line 8 – Unrated Multi-Class Securities Acquired by Conversion from AVR: Default Component – Basic Contribution.

Ref #2025-07: Annual Statement, Dividend General Interrogatory Update

The Working Group exposed revisions to the life/fraternal annual statement blank to remove a general interrogatory on dividends received.

Interested parties have no comment on this item. However, interested parties provided comments to the Blanks Working Group on 2025-08BWG which removes Life / Fraternal General Interrogatory #14 that reports total dividends paid to stockholders since organization of the reporting entity.

Ref #2025-08: SSAP No. 84, Medicare Part D Prescription Drug Payment Plan Disclosures

The Working Group exposed revisions to add 2025 year-end disclosures on the Medicare part D prescription payment plan amounts.

Interested parties have no comment on this item. However, interested parties provided comments to the Blanks Working Group on 2025-04BWG which adds a new part to Note to Financial Statements Note 28 – Health Care Receivables to include Medicare Part D Prescription Payments.

* * * *

Thank you for considering interested parties' comments. We look forward to working with you and the Working Group on these items. If you have any questions in the interim, please do not hesitate to contact either one of us.

Sincerely,

D. Keith Bell Rose Albrizio

cc: Julie Gann, NAIC staff
Robin Marcotte, NAIC staff
Interested parties

United Healthcare

May 1, 2025

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: 2024-07 Reporting of Funds Withheld and Modco Assets

Dear Mr. Bruggeman:

Thank you for the opportunity to comment on the above-referenced item that was re-exposed by the Statutory Accounting Principles (E) Working Group (SAPWG). We previously submitted comments with an example of certain Health reinsurance arrangements where there is no contractual requirement or purpose to identify specific assets for funds withheld.

The example provided is as follows: a Health insurer may have a Health reinsurance arrangement transferring only insurance risk whereby the terms of the agreement require funds to be withheld equal to the amount of ceded statutory reserves. The funds are withheld solely to permit statutory credit for a nonadmitted reinsurer. In this case, there is no investment risk being passed to the reinsurer and no specific assets separately identified. As such, the information proposed to be disclosed in the newly developed Schedule S exhibit would not be applicable to this type of Health reinsurance arrangement with these characteristics.

In the latest proposal, the new Schedule S exhibit and related disclosures are not required for the Health or P&C/Title blanks. We certainly support that guidance. However, we believe there is an unintended consequence and inconsistency in treatment whereby Health reinsurance arrangements for companies filing on the Life blank still remain in scope for the new Schedule S exhibit and disclosures.

Since you are excluding the new Schedule S exhibit and disclosures from the Health blank, it would make sense to also exclude Health reinsurance arrangements from the new Schedule S and related disclosures in the Life blank. Health reinsurance reported on the Life blank would have the same characteristics as those on the Health blank, namely, that investment risk is not transferred and there is no contractual requirement for an identification of specific assets supporting the reinsured business.

Since there is no contractual requirement or even a contractual purpose for identifying specific assets, how could the company provide meaningful information in the new Schedule S exhibit and related disclosures?

We respectfully request the Working Group limits the application of this guidance and Schedule S reporting requirement to Life reinsurance arrangements. Health reinsurance arrangements without contractual requirements to identify specific assets withheld should be excluded, regardless of the type of blank filed.

Please feel free to contact me if you have any questions or would like to discuss the above recommendation.

Sincerely,

Sherry Gillespie
Senior Director, Regulatory Finance
UnitedHealthcare
Office Phone: 920-661-4318
Cell Phone: 920-246-6821
Email: sherry.gillespie@uhc.com

cc: NAIC SAPWG Staff

April 23, 2025

Dale Bruggeman, Chair
NAIC Statutory Accounting Principles (E) Working Group (SAPWG)
Roy Eft, Chair
NAIC Blanks (E) Working Group (BWG)
Steve Drutz, Chair
NAIC Health Risk-Based Capital (E) Working Group (HRBCWG)
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

By Email to: Julie Gann at JGann@NAIC.org, Mary Caswell at MCaswell@NAIC.org, and Derek Noe at DNoe@NAIC.org

Re: Pending Exposures Relating to the Medicare Part D Prescription Payment Plan (MPPP)

Dear Gentlemen:

On behalf of AHIP and the Blue Cross and Blue Shield Association (the Trades), we are pleased to respond to four separate exposures which are currently pending before the NAIC working groups that you chair:

- SAPWG: 2025-08, SSAP No. 84, Medicare Part D Prescription Drug Payment Plan Disclosures
- BWG: 2025-04BWG, add a new part to the Notes to Financial Statements Note 28 – Health Care Receivables to include Medicare Part D prescription payment plans.
- BWG: 2025-14BWG, add instructions to include Medicare Part D Prescription Payment Plan information
- HRBCWG: exposure to solicit feedback regarding the potential ramifications of SAPWG's adoption of the INT 24-02, *Medicare Part D Prescription Payment Plan*

We would first like to acknowledge the work of SAPWG members and NAIC staff that culminated in SAPWG's adoption at the NAIC's 2025 Spring National Meeting in

Indianapolis of INT 24-02. We appreciate their engagement on the matter. The Trades support SAPWG's action in Indianapolis to adopt the new accounting interpretation.

The four exposures which now remain pending, and which are cited above, all relate to INT 24-02, i.e., they propose to require supplemental disclosures and instructions thereto in the Annual Statement blanks, and to solicit input as to any potential ramifications involving Health RBC that should be considered.

SAPWG's 2025-08 and BWG's 2025-04BWG both address supplemental disclosures in the Annual Statement blanks. They are virtually identical in that regard, save for reference to disclosure "by debtor" in 2025-04BWG, a reference that NAIC staff has indicated to us was unintended. Assuming that reference is deleted, these two exposures would be identical, and ***the Trades support both***.

BWG's 2025-14BWG proposes to add text to the Blanks Instructions relating to the MPPP disclosures that are covered by the prior paragraph***. The Trades have no comments and support the proposed instructions as drafted.***

HRBCWG's exposure solicits feedback regarding the potential ramifications of SAPWG's adoption of the INT 24-02, *Medicare Part D Prescription Payment Plan.* As described in INT 24-02 as adopted, MPPP went into effect January 1, 2025. While Federal government regulations require Part D Plan Sponsors and pharmacies to make certain disclosures to inform their members about MPPP and its benefits, the extent to which members avail themselves of those benefits will likely evolve over some time. Likewise, the proposed disclosures which have been proposed by SAPWG and BWG include impairment losses charged to incurred health care benefits, and the first of such disclosures will be made in 2025 Annual Statements filed early next year. While the Trades are supportive of HRBCWG's effort to solicit input, ***the Trades suggest that any consideration of changes to Health RBC due to MPPP and INT 24-02 be deferred until sufficient data is available to provide an indication of the existence and materiality of risk.***

The Trades very much appreciate the engagement of your working groups and of NAIC staff on these matters and would be pleased to address any questions you may have at your convenience.

Sincerely,

Miranda Motter
Senior Vice President, State Affairs and Policy
MMotter@AHIP.org

Clay S. McClure
Executive Director, State Affairs
Clay.McClure@BCBSA.com

202-923-7346 202-626-8649

CC: Robin Marcotte
Jake Stultz
Jason Farr
Wil Oden
Jill Youtsey

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Residential Mortgage Loans Held in Statutory Trusts

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: This agenda item was drafted in response to interested parties' comments on agenda item 2024-21: Investment Subsidiaries. Comments from interested parties noted that a significant part of the increase in investment subsidiaries is primarily due to increased usage of Delaware Statutory Trusts (DSTs). DSTs are distinct from common-law trusts as they are established under Delaware statutory trust laws, which allows for significant flexibility in structuring the trust. While holding real estate investments within a DST provides a number of structural and tax advantages, one of the most notable benefits is that it enables insurance companies to bypass the requirement of obtaining individual state lending licenses for each state where they hold residential mortgage investments.

This agenda item proposes to develop accounting and reporting guidance for qualifying trust structures, regardless of the state of domicile, that hold residential mortgage loans in scope of *SSAP No. 37—Mortgage Loans* and proposes reporting of these items on Schedule B - Mortgage Loans. Discussion on requirements in determining a "qualifying" trust and the reporting specifics are key items for which regulator feedback is specifically requested. Rather than retaining a generic reporting category that allows an RBC look-through without any parameters, which likely should have been eliminated when the concept of "investment subsidiaries" was deleted from SSAP No. 97 in 2005, NAIC staff proposes to assess statutory trust structures holding residential mortgage loans and establish specific accounting and reporting guidance.

As previously identified, the existing reporting for "investment subsidiaries" does not provide any transparency to regulators, as there are very limited restrictions as to what can be captured in an investment subsidiary, potentially allowing companies to bypass SSAP accounting or admittance requirements, NAIC designation determinations or state investment limitations requirements, with look-through RBC based on company records. Further, the RBC measurement guidance refers to an "imputed statutory value" and there are no current provisions on how that value should be determined.

Existing Authoritative Literature:

SSAP No. 37— Mortgage Loans

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for the accounting and reporting of mortgage loans and related fees.

SUMMARY CONCLUSION

2. A mortgage loan is defined as a debt obligation that is not a security, which is secured by a mortgage on real estate. In addition to mortgage loans directly originated, a mortgage loan also includes mortgage loans acquired or obtained through assignment, syndication or participation[1]. Investments that reflect "participating mortgages," "mortgage loan fund," "bundled mortgage loans[2]" or the "securitization of assets" are not considered mortgage loans within scope of this SSAP.

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

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

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

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

3. Mortgage loans meet the definition of assets as specified in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement.

---

[1] Examples of agreements intended to be captured within this statement:

a. Reporting entity is a "co-lender" in a single mortgage loan agreement that identifies more than one lender (which includes the reporting entity) with the real estate collateral securing all lenders identified in the agreement. For these single-mortgage loan agreements, each lender is incorporated directly into the loan documents. The key differentiating characteristic of a mortgage loan provided under a group "mortgage loan co-lending agreement" rather than a solely owned mortgage loan is that no one lender of the lending group may unilaterally foreclose on the mortgage. With these agreements, the lenders must foreclose on the mortgage loan as a group.

b. Reporting entity has a "participation agreement" to invest in a single-mortgage loan. The reporting entity is not the lender of record named as a payee on the mortgage loan, but the lender of record sells a portion of the mortgage loan to the reporting entity through an assignment or participation interest under the participation agreement. Under a participation agreement, the reporting entity acquires an undivided interest in the single mortgage loan proceeds to be received by the lender of record. Under a participation agreement, single mortgage loan proceeds include the periodic mortgage loan principal and interest payments received by the lender of record, and all rights and proceeds received in the foreclosure of a mortgage, deed of trust, deed in lieu of foreclosure, or other similar proceeding by the lender of record. The amount of the proceeds to be received by the reporting entity is based on the ratio of its participation interest to the then-outstanding single mortgage loan balance. To qualify as a mortgage loan under the scope of this statement, the reporting entity must have a signed participation agreement with the lender of record named in the mortgage loan, the financial rights and obligations of the reporting entity under the participation agreement are the same as the lender of record, the reporting entity's participation interest in the single mortgage loan proceeds must be pari-passu with the lender of record named on the mortgage loan agreement, and the participation agreement must be properly and promptly recorded on the lender or record's books and records. For the purposes of this footnote, "financial rights" may include the right to take legal action against the borrower, or participate with the other lenders in determining whether legal action should be taken, but typically does not include the right to solely initiate legal action, foreclosure, or under normal circumstances, communicate directly with the borrower.

[2] The scope of this SSAP is limited to single mortgage loan agreements. Although single mortgage loan agreements can potentially have more than one lender (e.g., co-lenders/participations) and more than one borrower (such as in a tenancy-in-common arrangement), the concept of a "single mortgage loan" does not include arrangements in which a reporting entity acquires more than one mortgage loan in a sole transaction. (For example, if a reporting entity was to acquire an interest in a "bundle" of mortgage loans with various unrelated borrowers and collateral, this agreement would be outside of the scope of this SSAP. However, a bundle of mortgage loans does not include a "bulk purchase" where the reporting entity's interest in each mortgage loan is legally separate and divisible and the purchase just facilitates the acquisitions of multiple single mortgage loan agreements.)

<u>SSAP No. 46—Investments in Subsidiary, Controlled and Affiliated Entities</u>
Superseded by SSAP No. 88 as of Jan. 1, 2005.

7.b.ii Investments in noninsurance SCA entities that have no significant ongoing operations other than to hold assets that are primarily for the direct or indirect benefit or use of the reporting entity or its affiliates, shall be recorded based on the underlying equity of the respective entity's financial statements adjusted to a statutory basis of accounting and the resultant proportionate share of the subsidiary's adjusted surplus, adjusted for unamortized goodwill as provided for in SSAP No. 68. Examples include but are not limited to: (i) an insurer and a SCA entity that leases autos, furniture, office equipment, or computer equipment to the insurer; (ii) an insurer and a SCA entity that owns real estate property that is leased to the insurer for office space; and (iii) an insurer and an SCA entity that holds investments that an insurer could acquire directly (i.e., "look through" investment subsidiary);

<u>SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities</u>
The current guidance requirement prescribes measurement based on the market value approach (8a) or an equity method (8b). The following guidance is divided as follows: 8bi: insurance subsidiaries, 8.b.ii: non-insurance subsidiaries that meet the activity and revenue test, 8bii: non-insurance subsidiaries not captured in 8a or 8bii, and 8biv: foreign insurance subsidiaries. There is no current guidance for an "investment subsidiary" and those SCAs would be captured under 8.b.iii and measured at the audited US GAAP equity.

8. The admitted investments in SCA entities shall be valued using either the market valuation approach (as described in paragraph 8.a.), or one of the equity methods (as described in paragraph 8.b.) adjusted as appropriate in accordance with the guidance in *SSAP No. 25—Affiliates and Other Related Parties*, paragraph 18.d.

a. In order to use the market valuation approach for SCA entities, the following requirements apply:

i. The subsidiary must be traded on one of the following major exchanges: (1) the New York Stock Exchange, (2) the NASDAQ, or (3) the Japan Exchange Group;

ii. The reporting entity must submit subsidiary information to the NAIC SCA analysts for calculation of the subsidiary's market value. Such calculation could result in further discounts in market value above the established base discounts based on ownership percentages detailed below;

iii. Ownership percentages for determining the discount rate shall be measured at the holding company level;

iv. If an investment in a SCA results in an ownership percentage between 10% and 50%, a base discount percentage between 0% and 20% on a sliding scale basis is required;

v. If an investment in a SCA results in an ownership percentage greater than 50% up to and including 80%, a base discount percentage between 20% and 30% on a sliding scale basis is required;

vi. If an investment in a SCA results in an ownership percentage greater than 80% up to and including 85%, a minimum base discount percentage of 30% is required.

vii. Further, the SCA must have at least two million shares outstanding, with a total market value of at least $50 million in the public's control; and

viii. Any ownership percentages exceeding 85% will result in the SCA being recorded on an equity method.

b. If a SCA investment does not meet the requirements for the market valuation approach in paragraph 8.a. or, if the requirements are met, but a reporting entity elects not to use that approach, the reporting entity's proportionate share of its investments in SCAs shall be recorded as follows:

i. Investments in U.S. insurance SCA entities shall be recorded based on either 1) the underlying audited statutory equity of the respective entity's financial statements, adjusted for any unamortized goodwill as provided for in SSAP No. 68—Business Combinations and Goodwill3 or 2) the underlying audited statutory equity of the respective entity's financial statements, adjusted for any unamortized goodwill, modified to remove the impact of any permitted or prescribed accounting practices that depart from the NAIC Accounting Practices and Procedures Manual. Reporting entities shall record investments in U.S. insurance SCA entities on at least a quarterly basis, and shall base the investment value on the most recent quarterly information available from the SCA. Entities may recognize their investment in U.S. insurance SCA entities based on the unaudited statutory equity in the SCAs year-end annual statement if the annual SCA audited financial statements are not complete as of the filing deadline. The recorded statutory equity shall be adjusted for audit adjustments, if any, as soon as the annual audited financial statements have been completed. Annual consolidated or combined audits are allowed if completed in accordance with the Model Regulation Requiring Annual Audited Financial Reports as adopted by the SCA's domiciliary state;

ii. Investments in both U.S. and foreign noninsurance SCA entities that are engaged in the following transactions or activities:

(a) Collection of balances as described in *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers*

(b) Sale/lease or rental of EDP Equipment and Software as described in *SSAP No. 16—Electronic Data Processing Equipment and Software*

(c) Sale/lease or rental of furniture, fixtures, equipment or leasehold improvements as described in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*

(d) Loans to employees, agents, brokers, representatives of the reporting entity or SCA as described in *SSAP No. 20—Nonadmitted Assets*

[3] If the insurance SCA employs accounting practices that depart from the NAIC accounting practices and procedures, and the reporting insurance entity has not adjusted the valuation of the insurance SCA to be consistent with the NAIC accounting practices and procedures, (i.e., retains the effect of the permitted or prescribed practice in its valuation), disclosure about those accounting practices that affect the insurance SCA's net income and surplus shall be made pursuant to paragraph 37. If the reporting entity has adjusted the investment in the insurance SCA with the resulting valuation being consistent with the accounting principles of the AP&P Manual, the disclosures in paragraph 37 are not required.

(e) Sale/lease or rental of automobiles, airplanes and other vehicles as described in *SSAP No. 20—Nonadmitted Assets*

(f) Providing insurance services on behalf of the reporting entity including but not limited to accounting, actuarial, auditing, data processing, underwriting, collection of premiums, payment of claims and benefits, policyowner services

(g) Acting as an insurance or administrative agent or an agent for a government instrumentality performing an insurance function (e.g. processing of state workers compensations plans, managing assigned risk plans, Medicaid processing etc).

(h) Purchase or securitization of acquisition costs

and if 20% or more of the SCA's revenue is generated from the reporting entity and its affiliates, then the underlying equity of the respective entity's audited U.S. Generally Accepted Accounting Principles (GAAP) financial statements shall be adjusted to a limited statutory basis of accounting in accordance with paragraph 9. For purposes of this section, revenue means GAAP revenue reported in the audited U.S. GAAP financial statements excluding realized and unrealized capital gains/losses. Foreign SCA entities are defined as those entities incorporated or otherwise legally formed under the laws of a foreign country. Paragraphs 22-27 provide guidance for investments in holding companies;

iii. Investments in both U.S. and foreign noninsurance SCA entities that do not qualify under paragraph 8.b.ii., shall be recorded based on the audited U.S. GAAP equity of the investee. Foreign SCA entities are defined as those entities incorporated or otherwise legally formed under the laws of a foreign country. Additional guidance on investments in downstream holding companies is included in paragraphs 22-27. Additional guidance on the use of audited foreign GAAP basis financial statements for the U.S. GAAP equity valuation amount is included in paragraph 23.b.

iv. Investments in foreign insurance SCA entities shall be recorded based on the underlying U.S. GAAP equity from the audited U.S. GAAP basis financial statements, adjusted to a limited statutory basis of accounting in accordance with paragraph 9, if available. If the audited U.S. GAAP basis financial statements are not available, the investment can be recorded on the audited foreign statutory basis financial statements of the respective entity adjusted to a limited statutory basis of accounting in accordance with paragraph 9 and adjusted for reserves of the foreign insurance SCA with respect to the business it assumes directly and indirectly from a U.S. insurer using the statutory accounting principles promulgated by the NAIC in the *Accounting Practices and Procedures Manual*. The audited foreign statutory basis financial statements must include an audited footnote that reconciles net income and equity on the foreign statutory basis of accounting to the U.S. GAAP basis. Foreign insurance SCA entities are defined as alien insurers formed according to the legal requirements of a foreign country.

2024 Annual Statement Instructions – Schedule D-6-1

If a reporting entity has any common stock or preferred stock reported for any of the following required categories or subcategories, it shall report the subtotal amount of the corresponding category or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total or grand total line and number:

Category	Line Number
Preferred Stocks:	
Parent	0199999
U.S. Property & Casualty Insurer	0299999
U.S. Life Insurer	0399999
U.S. Health Entity #	0499999
Alien Insurer	0599999
Non-Insurer Which Controls Insurer	0699999
***Investment Subsidiary**	**0799999**
Other Affiliates	0899999
Subtotals – Preferred Stocks	0999999
Common Stocks:	
Parent	1099999
U.S. Property & Casualty Insurer	1199999
U.S. Life Insurer	1299999
U.S. Health Entity #	1399999
Alien Insurer	1499999
Non-Insurer Which Controls Insurer	1599999
***Investment Subsidiary**	**1699999**
Other Affiliates	1799999
Subtotals – Common Stocks	1899999
Totals – Preferred and Common Stocks	1999999

*NOTE: Investment Subsidiary shall mean any subsidiary, other than a holding company, engaged or organized primarily in the ownership and management of investments for the reporting entity. An investment subsidiary shall not include any broker dealer or a money management fund managing funds other than those of the parent company. The following criteria are applicable:

1. 95% or more of the investment subsidiary's assets would qualify as admitted assets;
2. The investment subsidiary's total liabilities are 5% or less of total assets;
3. Combining the pro-rata ownership shares of the assets of all the investment subsidiaries with the owning reporting entity's assets does not violate any state requirements concerning diversification of investments or limitations on investments in a single entity; and
4. **The investment subsidiary's book/adjusted carrying value does not exceed the imputed value on a statutory accounting basis. If the book/adjusted carrying value does exceed the imputed statutory value, the reporting entity may either nonadmit the excess or categorize such subsidiary in the "All Other Affiliates" category.**

<u>2023 RBC Forecasting and Instructions:</u>

AFFILIATED/SUBSIDIARY STOCKS – LR042, LR043, and LR044

(Only key excerpts included – **bolded for emphasis**.)

Affiliated/Subsidiary investments fall into two broad categories: (A) Insurance Affiliates/Subsidiaries that are Subject to risk-based capital; and (B) Affiliates/Subsidiaries that are Not Subject to risk-based capital. The risk-based capital for these two broad groups differs. **Investment subsidiaries are a subset of category A in that they are subject to a risk-based capital charge that includes the life RBC risk factors applied only to the**

investments held by the investment subsidiary for its parent insurer. Publicly traded insurance affiliates/subsidiaries held at market value have characteristics of both broader categories. As a result, there is a two-part RBC calculation. The general treatment for each is explained below.

4. Investment Subsidiaries

An investment subsidiary is a subsidiary that exists only to invest the funds of the parent company. The term "investment subsidiary" is defined in the NAIC's Annual Statement Instructions as any subsidiary, other than a holding company, engaged or organized primarily to engage in the ownership and management of investments for the insurer. An investment subsidiary shall not include any broker-dealer or a money management fund managing funds other than those of the parent company. **The risk-based capital charge for the ownership of an investment subsidiary is based on the risk-based capital of the underlying assets, pro-rated for the degree of ownership. The basis for this calculation is the assumption that the charge should be the same as it would be if the life insurer held the assets directly.** Report information regarding any investment subsidiaries. Subsidiaries reported in this section will be assigned an affiliate code of "4" for investment subsidiaries. The amount of reported common stock should be the same as Schedule D, Part 6, Section 1, Line 1699999. Preferred stock information should be the same as Schedule D, Part 6, Section 1, Line 0799999.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing categorized as a SAP clarification and expose this agenda item proposing to add qualifying investment trusts holding residential mortgage loans in scope of *SSAP No. 37—Mortgage Loans* for reporting on Schedule B – Mortgage Loans. Comments are specifically requested on the requirements for a qualifying trust as well as the proposed reporting. A few key items to note:

- **The proposal is specific to trusts that hold only residential mortgage loans. This is due to concerns about a lack of transparency if multiple types of mortgages are held in the same trust, and that industry has indicated these structures are specifically used for residential mortgage loans. Industry has also indicated that the value of the individual residential mortgages is often a lower dollar amount which results in a high volume of residential mortgage loans held in the trust.**

- **The agenda item proposes separate reporting of individual mortgage loans on Schedule B for residential mortgages held in trust consistent with the existing annual statement instructions for Schedule B. NAIC staff is aware that some reporting entities are already reporting these trusts as "participation agreements" on Schedule B, but it appears there is not consistency in presentation (some companies show aggregated by trust, whereas other companies show by individual mortgage loans). Comments are requested by regulators on this proposal to determine if individual loan reporting is the preferred reporting method, or if some kind of aggregate reporting method should be explored. One concern that has been raised with individual reporting is that the volume of residential mortgage loans could be quite high as individual residential mortgage loan values are generally quite low compared to the typical**

mortgage loans purchased by insurers. Alternatively, individual mortgage loan reporting is consistent with existing Schedule B instructions, which may be simpler for insurers to report using existing mortgage loan details, and there would be increased transparency.

- **As noted after paragraph 6.b.iv., NAIC staff is requesting information on how foreclosed assets (real estate) would be reported when held in the trust. Presumably, these would be sold and the cash would be transferred to the reporting entity, but there will be ongoing / recurring real estate in the trust as foreclosures occur before they are sold and settled. NAIC staff also requests comments on whether any additional columns should be added to Schedule B for mortgages held in qualifying statutory trust.**

Proposed revisions to SSAP No. 37— Mortgage Loans:
SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for the accounting and reporting of mortgage loans and related fees.

SUMMARY CONCLUSION

2. A mortgage loan is defined as a debt obligation that is not a security, which is secured by a mortgage on real estate. In addition to mortgage loans directly originated, a mortgage loan also includes mortgage loans acquired or obtained through assignment, syndication or participation[4], or mortgage loans acquired through a qualifying investment in a statutory trust. Investments that reflect "participating mortgages," "mortgage loan fund," "bundled mortgage loans[5]" or the "securitization of assets" are not considered mortgage loans within scope

[4] Examples of agreements intended to be captured within this statement:

a. Reporting entity is a "co-lender" in a single mortgage loan agreement that identifies more than one lender (which includes the reporting entity) with the real estate collateral securing all lenders identified in the agreement. For these single-mortgage loan agreements, each lender is incorporated directly into the loan documents. The key differentiating characteristic of a mortgage loan provided under a group "mortgage loan co-lending agreement" rather than a solely owned mortgage loan is that no one lender of the lending group may unilaterally foreclose on the mortgage. With these agreements, the lenders must foreclose on the mortgage loan as a group.

b. Reporting entity has a "participation agreement" to invest in a single-mortgage loan. The reporting entity is not the lender of record named as a payee on the mortgage loan, but the lender of record sells a portion of the mortgage loan to the reporting entity through an assignment or participation interest under the participation agreement. Under a participation agreement, the reporting entity acquires an undivided interest in the single mortgage loan proceeds to be received by the lender of record. Under a participation agreement, single mortgage loan proceeds include the periodic mortgage loan principal and interest payments received by the lender of record, and all rights and proceeds received in the foreclosure of a mortgage, deed of trust, deed in lieu of foreclosure, or other similar proceeding by the lender of record. The amount of the proceeds to be received by the reporting entity is based on the ratio of its participation interest to the then-outstanding single mortgage loan balance. To qualify as a mortgage loan under the scope of this statement, the reporting entity must have a signed participation agreement with the lender of record named in the mortgage loan, the financial rights and obligations of the reporting entity under the participation agreement are the same as the lender of record, the reporting entity's participation interest in the single mortgage loan proceeds must be pari-passu with the lender of record named on the mortgage loan agreement, and the participation agreement must be properly and promptly recorded on the lender or record's books and records. For the purposes of this footnote, "financial rights" may include the right to take legal action against the borrower, or participate with the other lenders in determining whether legal action should be taken, but typically does not include the right to solely initiate legal action, foreclosure, or under normal circumstances, communicate directly with the borrower.

[5] The scope of this SSAP is limited to single mortgage loan agreements. Although single mortgage loan agreements can potentially have more than one lender (e.g., co-lenders/participations) and more than one borrower (such as in a tenancy-in-common arrangement), the concept of a "single mortgage loan" does not include arrangements in which a reporting entity acquires more than one mortgage loan in a

of this SSAP. Regardless of whether reported on Schedule B or another schedule, all statutory trusts owned by the reporting entity shall be detailed in Schedule Y.

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

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

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

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

b. A statutory trust is a separate legal entity created as a trust under state statute, a common example of which would be Delaware statutory trusts (DSTs). For an investment in a statutory trust to qualify as a mortgage loan within this statement it must have the following characteristics:

i. Statutory trust must be domiciled in a U.S. state or territory.

ii. Beneficial ownership in the statutory trust must be evidenced by a certificate or registered as an uncertificated interest within the statutory trust register.

iii. The reporting entity has exclusive, 100% undivided beneficial ownership interest in all assets of the statutory trust[6].

iv. All assets of the statutory trust are to be in first lien single residential mortgage loan agreements, meaning each mortgage loan is legally separate and divisible. Statutory trusts which have pledged, or otherwise encumbered, trust assets to secure financing would fail this criterion.

---

sole transaction. (For example, if a reporting entity was to acquire an interest in a "bundle" of mortgage loans with various unrelated borrowers and collateral, this agreement would be outside of the scope of this SSAP. However, a bundle of mortgage loans does not include a "bulk purchase" where the reporting entity's interest in each mortgage loan is legally separate and divisible and the purchase just facilitates the acquisitions of multiple single mortgage loan agreements.)

[6] Some statutory trusts are formed with designated separate series, where each series maintains distinct and separate records, assets, and liabilities—either directly or indirectly (including through a nominee or otherwise)—from those of the overall trust and any other series. For ownership in a series statutory trust to meet the criterion described in paragraph 2b.i., the reporting entity must: hold 100% undivided beneficial ownership interest in all assets of the statutory trust series, the series must own all of each single mortgage loan agreement held as assets, and the reporting entity's ownership and ability to divest its interest the series must not be contingent upon its ownership in other series of the statutory trust.

For example, if a statutory trust has Series A through C, and the reporting entity has 100% beneficial ownership of Series A but only 50% of Series B, only the investment in Series A would meet this criterion. However, if beneficial ownership of each single mortgage loan agreement is split evenly across Series A, B, and C (e.g., each holds one-third of the loan asset), then none of the investments would qualify, as the assets are shared across series.

NAIC Question on 6.b.iv. - Were the statutory trust to foreclose on a mortgage, and would the "real estate" become an asset of the trust? How would that be reported?

v. Statutory trust must maintain all requisite documents and records in accordance with the applicable state statutes. The trust must also maintain a detail of residential mortgage loan agreements held in the trust to be made available to the state insurance regulator and auditors upon request; this detail must contain, at a minimum, the same information as would be required were the mortgage loans to be individually reported on Schedule B, Part 1.

vi. The statutory trust has no transactions of its own other than transactions associated with an ownership structure utilized only for the ownership and management of the residential mortgages exclusively for the reporting entity (e.g., service fees, real estate taxes, etc.). Transactions of the qualifying statutory trust shall be reported as transactions of the reporting entity pursuant to the guidance in this statement.

~~i.~~vii. All cash flows from the single residential mortgage loan agreements must flow through directly to the reporting entity, with the exception of customary and reasonable fees to the statutory trust manager/servicer.

3. Mortgage loans meet the definition of assets as specified in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement.

Disclosures

4. The following disclosures shall be made for mortgage loans acquired through a qualifying investment in a statutory trust:

a. A description of the statutory trust(s). Mortgage loans held in statutory trusts must be separately reported on Schedule B in accordance with the annual statement instructions.

i. If the statutory trust(s) holds any amount of subprime mortgages, the reporting entity must disclose this fact in the description of the statutory trust(s) and complete the subprime mortgage disclosures as detailed in *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*.

ii. Description of each statutory trust must include the U.S. state(s) in which the statutory trust is qualified to do business, and the amount of fiscal year-to-date fees incurred for asset management, property management, trustee, service, and any other fees associated with management/administration of the described statutory trust.

b. Disclosure of any material litigation and any kind of state or federal regulatory review and/or action concerning the statutory trust(s).

c. Disclosure of financing transactions of any sort which are secured, directly or indirectly, by statutory trust assets.

~~a.~~d. Total of residential mortgages held in qualifying statutory trusts, disaggregated by loan standing: In Good Standing, Restructured, Overdue Interest Over 90 Days Not in the Process of Foreclosure, and In the Process of Foreclosure.

Proposed revisions to Annual Statement Instructions:

SCHEDULE B – PARTS 1 AND 2

MORTGAGE LOANS OWNED AND ACQUIRED – GENERAL INSTRUCTIONS

If a reporting entity has any detail lines reported for any of the following required groups, it shall report the subtotal amount of the corresponding group with the specified subtotal line number appearing in the same manner and location as the pre-printed total.

For accounting guidance related to foreign currency transactions and translations, refer to *SSAP No. 23—Foreign Currency Transactions and Translations*. The underlying loans held by qualifying investments in a statutory trust(s) must be disaggregated by group (loan standing) and subgroup (loan type), as shown below.

Mortgages in Good Standing:

Farm Mortgages 0199999
Residential Mortgages — Insured or Guaranteed....................0299999
Residential Mortgages — All Other....................0399999
Commercial Mortgages — Insured or Guaranteed....................0499999
Commercial Mortgages — All Other....................0599999
Mezzanine Loans....................0699999
Total Mortgages in Good Standing (sum of 0199999 through 0699999)....................0899999

Restructured Mortgages:

Farm Mortgages 0999999
Residential Mortgages — Insured or Guaranteed....................1099999
Residential Mortgages — All Other....................1199999
Commercial Mortgages — Insured or Guaranteed....................1299999
Commercial Mortgages — All Other....................1399999
Mezzanine Loans....................1499999
Total Restructured Mortgages (sum of 0999999 through 1499999)....................1699999

Mortgages with Overdue Interest Over 90 Days, Not in the Process of Foreclosure:

Farm Mortgages 1799999
Residential Mortgages — Insured or Guaranteed....................1899999
Residential Mortgages — All Other....................1999999
Commercial Mortgages — Insured or Guaranteed....................2099999
Commercial Mortgages — All Other....................2199999
Mezzanine Loans....................2299999
Total Mortgages with Overdue Interest Over 90 Days, Not in the Process
of Foreclosure (sum of 1799999 through 2299999)....................2499999

Mortgages in the Process of Foreclosure:

Farm Mortgages 2599999

Residential Mortgages — Insured or Guaranteed...2699999

Residential Mortgages — All Other 2799999

Commercial Mortgages — Insured or Guaranteed..2899999

Commercial Mortgages — All Other 2999999

Mezzanine Loans..3099999

Total Mortgages in the Process of Foreclosure (sum of 2599999 through 3099999)......................................3299999

Total Mortgages
(sum of 0899999, 1699999, 2499999 and 3299999) 3399999

Mortgages in good standing:

This section applies to loans on which all the original basic terms of the loan are being met by the borrowers. It also includes loans on which all the basic terms of refinancing agreements at current market terms are being met by the borrowers. Insured or guaranteed loans are considered to be only those loans insured or guaranteed by the Federal Housing Administration, the National Housing Act of Canada or by the Veterans Administration. For loans subject to a participation agreement, include only the reporting entity's share of book value/recorded investment excluding accrued interest.

Mortgages with restructured terms:

Restructured loans include commercial mortgage loans on which the basic terms such as interest rate, maturity date, collateral or guaranty have been restructured in 1986 or later as a result of actual or anticipated delinquency. Include those loans whose basic terms are being met in accordance with the restructuring agreement. A maturing balloon mortgage that has been refinanced or extended at below current market terms should be classified as a restructured loan. (A maturing balloon mortgage that has been refinanced or extended at current market terms should be considered a performing loan.) Current market terms are loan terms where the borrower pays a current market interest rate consistent with the collateral, maturity date, and other terms of the mortgage.

A mortgage loan will no longer be considered in this category when one or more of the following events occur:

The loan is paid in full or otherwise retired.

The loan becomes delinquent under the terms of the restructure agreement.

The loan is in the process of foreclosure.

The borrower has resumed the original contractual terms on the current loan balance including payments, interest rate and loan duration. The borrower must have also made cash payments of any interest or principal foregone during the restructure.

If none of the above are met, a loan will no longer be considered as restructured when all of the following conditions exist:

The loan-to-value ratio based upon the current appraisal cannot be greater than 80%. Additionally, the loan-to-value ratio cannot be greater than the state of domicile's limits for first mortgages. An independent appraiser must perform the current appraisal. The appraisal requirement does not apply to individual loans the lesser of $1 million or 5% of capital and surplus. The aggregate of such exempted loans must not exceed 15% of total long-term mortgage holdings.

AND

The coupon rate after restructuring is a current market rate. Such coupon rates should be consistent with the coupon rate on new commercial mortgages of comparable terms made by the reporting entity in the quarter in which the restructure date occurred, or:

> On the restructure date, not be less than the quarterly average of new commercial mortgage loan rates of loans of comparable terms from the Survey of Mortgage Commitments of Commercial Properties by the American Council of Life Insurers (ACLI), by more than ½ of a percentage point difference.

AND

The restructured mortgage loan performs according to the new terms for at least two years.

Mortgages with overdue interest over 90 days not in the process of foreclosure:

Show individually mortgages upon which interest is overdue more than 90 days or upon which taxes or other liens are delinquent more than one year.

Mortgages in process of foreclosure:

This section applies to loans in the process of being foreclosed or voluntarily conveyed by the borrower to the lender. It also includes loans in which transfer of title is awaiting expiration of redemption or moratorium period.

SCHEDULE B – PART 1

MORTGAGE LOANS OWNED DECEMBER 31 OF CURRENT YEAR

Report separately all mortgage loans owned and backed by real estate, including those held in qualifying investments in statutory trust(s). Include non-conventional mortgage loans (e.g., loans that can be increased to their maximum loan value without incurring the cost of writing a new mortgage). Also include mezzanine real estate loans. For accounting and admission guidance related to mezzanine real estate loans, refer to *SSAP No. 83—Mezzanine Real Estate Loans*. Collateralized Mortgage Obligations, (residential mortgage-backed securities), should be included in Schedule D.

A description of the information required by the columnar headings is as follows:

Column 1 – Loan Number

Report the mortgage loan number assigned by the reporting entity. For foreign denominated mortgages, indicate the principal indebtedness amount in its local currency.

Column 2 – Code

Enter "^" in this column for all assets that are bifurcated between the insulated separate account filing and the non-insulated separate account filing.

If mortgage loans are not under the exclusive control of the company as shown in the General Interrogatories, it is to be identified by placing one of the **symbols identified in the Investment Schedules General Instructions** in this column.

Separate Account Filing Only:

If the asset is a bifurcated asset between the insulated separate account filing and the non-insulated separate account filing, the "^" should appear first, immediately followed by the appropriate code (**identified in the Investment Schedules General Instructions**).

Column 3 – City

For mortgages in the U.S., list city. If the city is unknown, indicate the county. If the mortgage is outside the U.S., indicate the city or province.

Column 4 – State

For mortgages in U.S. states, territories and possessions, report the two-character U.S. postal abbreviation for U.S. states, territories and possessions. If the mortgage is located outside the U.S. states, territories and possessions, report the three-character (ISO Alpha 3) country abbreviations available in the listing in the appendix of these instructions.

Column 5 – Loan Type

If the loan was made to an officer or director of the reporting entity/subsidiary/affiliate, enter "E".

If the loan was made directly to a subsidiary or affiliate enter "S".

If the loan was made directly to a related party that doesn't meet the affiliate definition or the reporting entity has received domiciliary state approval to disclaim control/affiliation, enter "R."

Otherwise, leave the column blank.

Column 6 – Date Acquired

State date mortgage was acquired.

Column 7 – Rate of Interest

Report the effective annual interest rate of the mortgage.

Column 8 – Book Value/Recorded Investment Excluding Accrued Interest

Report the statutory book value/recorded investment excluding accrued interest of each loan.

Deduct: Direct write-down (charge-off) if the loss is other-than-temporary. Report as a realized loss.

Exclude: Valuation allowance.

Column 9 – Unrealized Valuation Increase/(Decrease)

The difference between the Book Value/Recorded Investment at the previous year-end and the Book Value/Recorded Investment at the current year-end not related to the receipt of loan principal payments, other-than-temporary impairments and amortization.

These amounts are to be reported as unrealized capital gains (losses) in the Exhibit of Capital Gains (Losses) and in the Capital and Surplus Account (Page 4).

Column 10 – Current Year's (Amortization)/Accretion

This amount should equal the net of the reporting year's amortization of premium or accrual of discount. The accrual of discount amounts in this column are to be reported as increases to investment income in the Exhibit of Net Investment Income, while the amortization of premium amounts are to be reported as decreases to investment income.

Column 11 – Current Year's Other-Than-Temporary Impairment Recognized

If the mortgage loan has suffered an "other-than-temporary impairment," this column should contain the amount of the direct write-down recognized. The amounts in this column are to be reported as realized capital losses in the Exhibit of Capital Gains (Losses) and in the calculation of Net Income.

Column 12 – Capitalized Deferred Interest and Other

Include interest and other items that can be capitalized in accordance with *SSAP No. 37—Mortgage Loans*.

Column 13 – Total Foreign Exchange Change in Book Value

Enter the unrealized foreign exchange gain or (loss) for the year.

Column 14 – Value of Land and Buildings

Report the appraisal value of the property (for land and buildings). For loans subject to a participation agreement, include only the reporting entity's pro rata share of the appraised value as it relates to the reporting entity's interest in the mortgage loan.

Column 15 – Date of Last Appraisal or Valuation

State date of last appraisal or valuation of the collateral.

**** Columns 16 through 20 will be electronic only. ****

Column 16 – Legal Entity Identifier (LEI)

Provide the 20-character Legal Entity Identifier (LEI) for any mortgagor as assigned by a designated Local Operating Unit. If no LEI number has been assigned, leave blank.

Column 17 – Postal Code

The postal code(s) reported in this column should reflect the location of the underlying property. For mortgages in U.S. states, territories and possessions, use the five-digit ZIP code and not the ZIP+4 code. If the mortgage is located outside the U.S. states, territories and possessions, use that country's equivalent to the ZIP code. Multiple postal codes should be entered if the underlying properties are located in more than one postal code and listed from highest to lowest value associated with the underlying properties separated by commas.

Example two U.S. postal codes and one United Kingdom postal code (51501,68104,E4 7SD).

Column 18 – Property Type

For property type, use one of the following codes to indicate the primary use of the property:

OF Office

RT Retail

MU Apartment/Multifamily

IN Industrial

HC Medical/Health Care

MX Mixed Use

LO Lodging

OT Other

Column 19 – Maturity Date

State the date the mortgage loan matures.

Column 20 – Investments Involving Related Parties

Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.

Enter one of the following codes to identify the role of the related party in the investment.

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.

2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.

3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator,

manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.

4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.

5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.

6. The investment does not involve a related party.

Column 21 – State of Domicile (Statutory Trust Only)

Report the two-character U.S. postal abbreviation for the U.S. state the statutory trust is domiciled within.

SCHEDULE B – PART 2

MORTGAGE LOANS ACQUIRED AND ADDITIONS MADE DURING YEAR

Report individually all mortgage loans acquired or transferred from another category (e.g., joint ventures, Schedule BA) but also any increases or additions to mortgage loans acquired or transferred in the current and prior periods. Mortgages acquired and disposed during the same year should be reported in both Part 2 and Part 3, which would also include acquired or disposed of residential mortgage loans held within qualifying statutory trusts. Include non-conventional mortgage loans (e.g., loans that can be increased to their maximum loan value without incurring the cost of writing a new mortgage). Also include mezzanine real estate loans. For accounting and admission guidance related to mezzanine real estate loans, refer to *SSAP No. 83—Mezzanine Real Estate Loans*. Collateralized Mortgage Obligations (residential mortgage-backed securities) should be included in Schedule D.

A description of the information required by the columnar headings is as follows:

Column 1 – Loan Number

Report the mortgage loan number assigned by the reporting entity. For foreign denominated mortgages, indicate the principal indebtedness amount in its local currency.

Column 2 – City

For mortgages in the U.S., list city. If the city is unknown, indicate the county. If the mortgage is outside the U.S., indicate the city or province.

Column 3 – State

For mortgages in U.S. states, territories and possessions, report the two-character U.S. postal abbreviation for U.S. states, territories and possessions. If the mortgage is located outside the U.S. states, territories and possessions, report the three-character (ISO Alpha 3) country abbreviations available in the listing in the appendix of these instructions.

Column 4 – Loan Type

If the loan was made to an officer or director of the reporting entity/subsidiary/affiliate, enter "E".

If the loan was made directly to a subsidiary or affiliate, enter "S."

If the loan was made directly to a related party that doesn't meet the affiliate definition or the reporting entity has received domiciliary state approval to disclaim control/affiliation, enter "R."

Otherwise, leave the column blank.

Column 5 – Date Acquired

State date mortgage was acquired.

Column 6 – Rate of Interest

Report the effective annual interest rate of the mortgage.

Column 7 – Actual Cost at Time of Acquisition

Report the actual amount loaned for the mortgages at the time the asset was originally acquired. The cost of acquiring the assets includes any additional amounts that are to be capitalized. Accordingly, there may be a premium or discount on such loans resulting from a difference between the amount paid and the principal amount. Do not include additional expenditures after the time of initial acquisition. These amounts are reported in Column 8.

Column 8 – Additional Investment Made after Acquisition

Report additional amounts that increased the mortgage during the year subsequent to the time the asset was originally acquired, e.g., increases in the loan. Include additional loans on mortgages that were subsequently disposed during the year.

Column 9 – Value of Land and Buildings

Report the appraisal value of the property (for land and buildings). For loans subject to a participation agreement, include only the reporting entity's pro rata share of the appraised value as it relates to the reporting entity's interest in the mortgage loan.

**** Columns 10 through 14 will be electronic only. ****

Column 10 – Legal Entity Identifier (LEI)

Provide the 20-character Legal Entity Identifier (LEI) for any mortgagor as assigned by a designated Local Operating Unit. If no LEI number has been assigned, leave blank.

Column 11 – Postal Code

The postal code(s) reported in this column should reflect the location of the underlying property. For mortgages in U.S. states, territories and possessions, use the five-digit ZIP code and not the ZIP+4 code. If the mortgage is located outside the U.S. states, territories and possessions, use that country's equivalent to the ZIP code. Multiple postal codes should be entered if the underlying properties are located in more than one postal code and listed from highest to lowest value associated with the underlying properties separated by commas.

Example two U.S. postal codes and one United Kingdom postal code (51501,68104,E4 7SD).

Column 12 – Property Type

For property type, use one of the following codes to indicate the primary use of the property:

OF Office

RT Retail

MU	Apartment/Multifamily
IN	Industrial
HC	Medical/Health Care
MX	Mixed Use
LO	Lodging
OT	Other

Column 13 – Maturity Date

State the date the mortgage loan matures.

Column 14 – Investments Involving Related Parties

Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.

Enter one of the following codes to identify the role of the related party in the investment.

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.

2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.

3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.

4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.

5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.

6. The investment does not involve a related party.

Column 15 – State of Domicile (Statutory Trust Only)

Report the two-character U.S. postal abbreviation for the U.S. state the statutory trust is domiciled within.

SCHEDULE B – PART 3

MORTGAGE LOANS DISPOSED, TRANSFERRED OR REPAID DURING THE YEAR

Report individually each mortgage, including those held in qualifying investments in statutory trust(s), that has had decreases in the balance as a result of being closed by repayment, partial repayment, disposed or transferred to another category (e.g., real estate, Schedule A). Do not report individual partial repayments but aggregate all partial repayments by mortgage loan.

If a reporting entity has any detail lines reported for any of the following required groups, it shall report the subtotal amount of the corresponding group with the specified subtotal line number appearing in the same manner and location as the pre-printed total.

Mortgages closed by repayment	0199999
Mortgages with partial repayments	0299999
Mortgages disposed	0399999
Mortgages transferred	0499999
Total	0599999

A description of the information required by the columnar headings is as follows:

Column 1 – Loan Number

Report the mortgage number assigned by the reporting entity.

Column 2 – City

For mortgages in the U.S., list city. If the city is unknown, indicate the county. If the mortgage is outside the U.S., indicate the city or province.

Column 3 – State

For mortgages in U.S. states, territories and possessions, report the two-character U.S. postal abbreviation for U.S. states, territories and possessions. If the mortgage is located outside the U.S. states, territories and possessions, report the three-character (ISO Alpha 3) country abbreviations available in the listing in the appendix of these instructions.

Column 4 – Loan Type

If the loan was made to an officer or director of the reporting entity/subsidiary/affiliate, enter “E.”

If the loan was made directly to a subsidiary or affiliate enter “S.”

If the loan was made directly to a related party that doesn’t meet the affiliate definition or the reporting entity has received domiciliary state approval to disclaim control/affiliation, enter “R.”

Otherwise, leave the column blank.

Column 5 – Date Acquired

State date mortgage was acquired.

Column 6 – Disposal Date

For individual properties, state date mortgage was disposed using MM/DD/YYYY format. For mortgages transferred to another category and mortgages with partial payments, this column should not be completed.

Column 7 – Book Value/Recorded Investment Excluding Accrued Interest Prior Year

Report the statutory book value/recorded investment excluding accrued interest at December 31 of the prior year.

Deduct: The amount of any write-downs. Report as a realized loss.

Exclude: Valuation allowance.

Column 8 – Unrealized Valuation Increase/(Decrease)

The difference between the Book Value/Recorded Investment at the previous year-end and the Book Value/Recorded Investment at the current year-end not related to the receipt of loan principal payments, other-than-temporary impairments and amortization.

These amounts are to be reported as unrealized capital gains (losses) in the Exhibit of Capital Gains (Losses) and in the Capital and Surplus Account (Page 4).

Column 9 – Current Year's (Amortization)/Accretion

This amount should equal the net of the reporting year's amortization of premium or accrual of discount. The accrual of discount amounts in this column are to be reported as increases to investment income in the Exhibit of Net Investment Income, while the amortization of premium amounts are to be reported as decreases to investment income.

Column 10 – Current Year's Other-Than-Temporary Impairment Recognized

If the mortgage loan has suffered an "other-than-temporary impairment," this column should contain the amount of the direct write-down recognized. The amounts in this column are to be reported as realized capital losses in the Exhibit of Capital Gains (Losses) and in the calculation of Net Income.

Column 11 – Capitalized Deferred Interest and Other

Include interest and other items that can be capitalized in accordance with *SSAP No. 37—Mortgage Loans*.

Column 13 – Total Foreign Exchange Change in Book Value

Enter the unrealized foreign exchange gain or (loss) for the year, including reversal of foreign exchange gains or (losses) previously recorded.

Column 14 – Book Value/Recorded Investment Excluding Accrued Interest on Disposal

Report the statutory Book Value/Recorded Investment excluding accrued interest (including any capitalized amounts) at the time the loan was sold or transferred to another category, (e.g., real estate).

Deduct: The amount of any write-downs. Report as a realized loss.

Exclude: Valuation allowance.

Column 15 – Consideration

Report the amount received during the year on mortgages disposed, including partial pay-downs of mortgages, sale of the mortgage or through transfer to another category (e.g., Schedule A). For those mortgages transferred to another category, only report the amount received for the period up to the time the loan was transferred.

Column 16 – Foreign Exchange Gain (Loss) on Disposal

Enter the foreign currency exchange gain or (loss).

Column 17 – Realized Gain (Loss) on Disposal

Report the amount of any market gain or (loss) realized from the transfer, sale or maturity.

Exclude: Foreign currency gain (loss) reported in Column 16.

Column 18 – Total Gain (Loss) on Disposal

Enter the sum of Column 16 foreign exchange gain or (loss), and Column 17 realized gain or (loss).

**** Columns 19 through 23 will be electronic only. ****

Column 19 – Legal Entity Identifier (LEI)

Provide the 20-character Legal Entity Identifier (LEI) for any mortgagor as assigned by a designated Local Operating Unit. If no LEI number has been assigned, leave blank.

Column 20 – Postal Code

The postal code(s) reported in this column should reflect the location of the underlying property. For mortgages in U.S. states, territories and possessions, use the five-digit ZIP code and not the ZIP+4 code. If the mortgage is located outside the U.S. states, territories and possessions, use that country's equivalent to the ZIP code. Multiple postal codes should be entered if the underlying properties are located in more than one postal code and listed from highest to lowest value associated with the underlying properties separated by commas.

Example two U.S. postal codes and one United Kingdom postal code (51501,68104,E4 7SD).

Column 21 – Property Type

For property type, use one of the following codes to indicate the primary use of the property:

OF Office

RT Retail

MU Apartment/Multifamily

IN Industrial

HC Medical/Health Care

MX Mixed Use

LO Lodging

OT Other

Column 22 – Maturity Date

State the date the mortgage loan matures.

Column 23 – Investments Involving Related Parties

Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.

Enter one of the following codes to identify the role of the related party in the investment.

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.

2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.

3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.

4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.

5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.

6. The investment does not involve a related party.

Column 24 – State of Domicile (Statutory Trust Only)

Report the two-character U.S. postal abbreviation for the U.S. state the statutory trust is domiciled within.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/05-22-2025/A - 25-13 - Statutory Trusts.docx

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: *ASU 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue:
In February 2017 the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*, to clarify the scope of Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets, and to add guidance for partial sales of nonfinancial assets. Subtopic 610-20, which was issued in May 2014 as a part of *ASU 2014-09, Revenue from Contracts with Customers (Topic 606)*, provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. ASU 2017-05 also establishes a definition for the term "in substance nonfinancial asset" and guidance for making this determination.

The guidance provided by Subtopic 610-20 specifically carves out transfers of nonfinancial assets which are part of business combinations, leases, sale-leaseback transactions, securitizations of nonfinancial assets, and nonmonetary transactions. The nonfinancial assets within the scope of Subtopic 610-20 include intangible assets, land, buildings, use of facilities or utilities, or materials and supplies and may have a zero carrying value.

Existing Authoritative Literature:
Nonfinancial asset is not a defined term within Statutory Accounting, but the term is inclusive of several types of assets which are individually addressed within statutory accounting.

SSAP No 22—Leases provides statutory guidance on use of facilities or utilities agreements.

SSAP No 40—Real Estate Investments provides statutory guidance on investments in land and buildings.

Intangibles are generally addressed by *SSAP No. 20—Nonadmitted Assets*, which states that intangibles are nonadmitted assets unless specifically admitted. Certain intangible assets are specifically addressed and allowed as admitted assets, which would include *SSAP No. 16—Electronic Data Processing Equipment and Software and SSAP No. 68—Business Combinations and Goodwill*.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):
Agenda items 2016-19 and 2017-37 addressed ASU 2014-09 and the other main ASUs related to ASC Topic 606 Contracts with Customers and were rejected in *SSAP No. 47—Uninsured Plans*. As noted earlier, Subtopic 610-20 was established through ASU 2014-09.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): None

Staff Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* as not applicable to statutory accounting. This item is considered not applicable as the ASU amends U.S. GAAP guidance on derecognition of nonfinancial assets, which is not an applicable concept for statutory accounting purposes. Topic 610 was established from ASU 2014-09, which has previously been determined to be not applicable to statutory accounting principles by the Working Group.

Staff Review Completed by: William Oden – April 2025

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/05-22-2025/B - 25-14 - ASU 2017-05, Asset Derecognition and Sales of Nonfinancial Assets.docx

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: *ASU 2025-02—Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 122*

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue:
In March of 2025, FASB issued *ASU 2025-02, Liabilities (Topic 405), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 122*, which amends an SEC paragraph pursuant to the issuance of SEC Staff Accounting Bulletin (SAB) No. 122, which rescinds the interpretive guidance on accounting for obligations to safeguard crypto-assets held for platform users detailed in SAB No. 121.

Existing Authoritative Literature:
Historically, SEC guidance from ASUs have been rejected as not applicable for statutory accounting in Appendix D. Regardless, all ASUs are reviewed for statutory accounting purposes to determine if the guidance should be considered for statutory accounting.

The SEC guidance deleted by ASU 2025-02 was previously rejected for inclusion in statutory accounting.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):
ASU 2023-04, Amendments to SEC Paragraphs Pursuant to SAB No. 121 was rejected by the Working Group through agenda item 2023-27.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): None

Staff Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2025-02, Liabilities (Topic 405), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 122* as not applicable to statutory accounting. This guidance is not applicable as it eliminates SEC guidance which was rejected for statutory accounting purposes.

Staff Review Completed by: William Oden – May 2025

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/05-22-2025/C - 25-15 - ASU 2025-02 - SEC Updates.docx

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Status Section Updates

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue:
This agenda item is to provide updates to the Status Section on the cover page of the statements of statutory accounting principles (SSAPs). The two primary revisions are: 1) to change "substantively" revised to "conceptually" revised in the status section, and 2) to remove the issue paper references in the status section. Note that references to the issue papers will be maintained in the SSAPs, typically in the Effective Date section regarding the revisions documented in the issue papers, so historical tracking will still be maintained.

Existing Authoritative Literature:
The "How to Use this Manual" in the introductory section of the *Accounting Practices and Procedures Manual* contains the following regarding the cover page of the statements of statutory accounting principles (SSAPs):

> Prior to January 1, 2022, the term used to describe a new SAP concept or a new SAP concept in an existing SSAP was "substantive" and the term used to describe a SAP clarification was "nonsubstantive." The new terms will be reflected in materials to describe revisions to statutory accounting principles on a prospective basis and historical documents will not be updated to reflect the revised terms.
>
> The cover page of each SSAP contains a STATUS section that can affect the implementation of each SSAP.
>
> The STATUS section contains the following:
>
>> TYPE OF ISSUE – SSAPs designated as Common Area apply to all insurers. Although the nomenclature or terms provided in the prescribed annual statement forms may vary among different types of insurers, only one set of nomenclature or terms may have been used in the SSAP. For example, the Statement of Income found in the Property and Casualty Annual Statement shall be considered as synonymous with the Summary of Operations found in the Life and Health Annual Statement.
>>
>> ISSUED – Date when the SSAP was adopted by the NAIC. SSAPs designated with Initial Draft were adopted by the NAIC Plenary in March 1998 as part of the Codification Project (SSAP Nos. 1-73). The date included for SSAP No. 74, and subsequent SSAPs, denotes when the Statutory Accounting Principles (E) Working Group adopted the SSAP.
>>
>> EFFECTIVE DATE – Date representing when the SSAP is effective. Many times, there are additional details relative to the transition provided within the SSAP.
>>
>> AFFECTS/AFFECTED BY – A useful tool for tracking relationships between statements and interpretations is contained within these sections. The "affects" section is used when a SSAP has previously been amended to reflect new SAP concepts or superseded by other issued SSAPs. Nullified INTs are also noted in this section. Readers are referenced to another SSAP in the "affected by" section if the SSAP has

been superseded or amended with a new SAP concept or with the issuance of a new SSAP. Text within paragraphs amended with new SAP concepts or superseded may also be "shaded" to notify readers that revised guidance is available.

INTERPRETED BY – This section includes a reference to the applicable interpretation (INT) of statutory accounting principles contained within Appendix B of the Manual which provides interpretative guidance as a result of issues raised by users of the Manual or related GAAP guidance. INTs are generally effective when adopted. Readers should note that the Manual only contains the INTs finalized through year end prior to publication, due to the fact that the Manual is published annually. Readers may use the NAIC website, as indicated on the inside front cover of the Manual, to keep abreast of recently issued INTs.

RELEVANT APPENDIX A GUIDANCE – This section identifies the relevant *Appendix A—Excerpts from NAIC Model Laws* guidance referenced within the SSAP.

Refer to the Relevant Literature and Effective Date and Transition sections of each SSAP for details of the development of new SSAPs or new SAP concepts, as well as changes as the result of SAP clarifications.

The following also appears in the "How to Use this Manual" section:

How to Use This Manual …

... to account for a certain item under NAIC SAP

As the SSAPs represent the highest level of NAIC statutory authority, readers should begin their search there. The Index to SSAPs is a useful tool to identify which SSAP(s) address the issue. Once the pertinent SSAP has been identified, it can be used to locate other documents that may also address the issue. On the SSAP cover page, readers will be referred to other SSAPs if there have been **substantive** changes made to it or INTs if there have been interpretations of the SSAP. Within the body of the SSAP, readers may be referred to Appendix A or C for further guidance. There is a reference located at the end of each SSAP to issue paper(s) used in the development of the SSAP. The DISCUSSION section of the issue paper provides documentation supporting the conclusions reached in the SSAP. As supported by the statutory hierarchy, readers should only utilize the issue papers as support to the SSAP as they ARE NOT authoritative. The Statutory Hierarchy contains a detailed listing of levels of authoritative literature.

The following is an illustration of a SSAP Status section from *SSAP No. 32—Preferred Stock* in the *As of March 2025 Accounting Practices and Procedures Manual:*

Type of Issue	Common Area
Issued...	Initial Draft; Substantively revised July 30, 2020
Effective Date..	January 1, 2001; Substantive revisions detailed in Issue Paper No. 164 effective January 1, 2021
Affects	Supersedes SSAP No. 99 with guidance incorporated November 2010; Nullifies and incorporates INT 99-29
Affected by..	No other pronouncements
Interpreted by	INT 06-02; INT 06-07
Relevant Appendix A Guidance............	None

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): Agenda items 2021-26EP and 2021-14 were adopted in 2022 resulting in revisions to replace the term "substantive" with "new SSAP" or "new SAP concept" and to replace the term "nonsubstantive" with "SAP clarification" on a primarily prospective basis.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): None

Staff Review Completed by: Robin Marcotte – NAIC Staff

Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose the following revisions as illustrated or listed below. The revisions are proposed not to be tracked.

1. Make an edit in the "How to Use" section to replace "substantive" with "conceptual," which is consistent with prior 2022 revisions in *the Accounting Practices and Procedures Manual*.

2. Remove the issue paper references in the Status section.

3. Change "substantively revised" to "conceptually revised" in the Status section and in the Effective Date section of the applicable statements, if appropriate. Note this does not intend to change the use of the word "substantive" in historical documents. The Status section and/or the Effective Date section of SSAPs that currently refer to prior "substantive/substantively" revisions have been identified to be updated with "conceptual/conceptually" as appropriate to the context. The following chart of anticipated revisions is believed to be an accurate account; however, other items identified as the subsequent year's Manual is being prepared for release would follow the same process.

4. Remove a disclosure referencing a 2010 effective date of the Status section of *SSAP No. 56—Separate Accounts*; as illustrated below. This wording is not needed in the Status section, as was a nonsubstantive revision, which is noted in paragraph 44 of SSAP No. 56.

Proposed revision shown tracked:

How to Use This Manual …

... to account for a certain item under NAIC SAP

As the SSAPs represent the highest level of NAIC statutory authority, readers should begin their search there. The Index to SSAPs is a useful tool to identify which SSAP(s) address the issue. Once the pertinent SSAP has been identified, it can be used to locate other documents that may also address the issue. On the SSAP cover page, readers will be referred to other SSAPs if there have been ~~substantive~~ conceptual changes made to it or INTs if there have been interpretations of the SSAP. Within the body of the SSAP, readers may be referred to Appendix A or C for further guidance. There is a reference located at the end of each SSAP to issue paper(s) used in the development of the SSAP. The DISCUSSION section of the issue paper provides documentation supporting the conclusions reached in the SSAP. As supported by the statutory hierarchy, readers should only utilize the issue papers as support to the SSAP as they ARE NOT authoritative. The Statutory Hierarchy contains a detailed listing of levels of authoritative literature.

Below is an illustration of the revisions to SSAP No. 32. Similar revisions will be made to the SSAPs noted in the chart of expected revisions on the following pages:

SSAP No. 32—Preferred Stock

Type of Issue	Common Area
Issued..	Initial Draft; ~~Substantively~~ Conceptually revised July 30, 2020
Effective Date.......................................	January 1, 2001; ~~Substantive~~ Conceptual revisions ~~detailed in Issue Paper No. 164~~ effective January 1, 2021
Affects	Supersedes SSAP No. 99 with guidance incorporated November 2010; Nullifies and incorporates INT 99-29
Affected by...	No other pronouncements
Interpreted by	INT 06-02; INT 06-07
Relevant Appendix A Guidance............	None

Effective Date and Transition

22. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors.* The guidance in paragraphs 24-27 was previously included within *SSAP No. 99—Accounting for Securities Subsequent to an Other-Than-Temporary Impairment* and was effective for reporting periods beginning on January 1, 2009, and thereafter, with early adoption permitted. In 2010, the guidance from SSAP No. 99 was incorporated within the impacted standards, with SSAP No. 99 superseded. The original impairment guidance included in this standard, and the ~~substantive~~ conceptual revisions reflected in SSAP No. 99 are retained for historical purposes within Issue Paper No. 131. The guidance in paragraphs 2 and 4 to SSAP No. 32 was originally superseded January 1, 2005, by guidance included in *SSAP No. 88—Investments in Subsidiaries, Controlled and Affiliated Entities, A replacement of SSAP No. 46*, and then subsequently reflected in SSAP No. 97. In 2011, the guidance related to preferred stock of SCAs from SSAP No. 97 was incorporated into this statement and revised to reflect a definition of preferred stock. The original guidance included in this statement, and the ~~substantive~~ conceptual revisions reflected in SSAP No. 88 and SSAP No. 97 (including the title change already reflected in SSAP No. 32) are retained for historical purposes within Issue Paper Nos. 32 and 118. Guidance in paragraph 18 was originally contained in *INT 99-29: Classification of Step-Up Preferred Stock* and was effective December 6, 1999.

23. On July 30, 2020, ~~substantive~~ conceptual revisions, as detailed in *Issue Paper No. 164—Preferred Stock* were adopted. These revisions update definitions of preferred stock and reporting values based on characteristics of the preferred stock and are effective January 1, 2021, with early adoption permitted.

Proposed additional revision to status section of *SSAP No. 56—Separate Accounts*:

Type of Issue	Life, Accident and Health
Issued...	Finalized March 13, 2000
Effective Date..	January 1, 2001~~ — Revised disclosures adopted September 2009 were required within the 2010 annual financial statements~~
Affects	Supersedes SSAP No. 80 with guidance incorporated August 2011
Affected by	No other pronouncements
Interpreted by	INT 00-03
Relevant Appendix A Guidance.............	A-200; A-250; A-255; A-270; A-585; A-588; A-620; A-695; A-812; A-820; A-821; A-822; A-830

Chart of expected revisions
The chart below is believed to be an accurate list of expected revisions; however, if additional items are identified as the subsequent year's AP&P Manual is being prepared for release, the same process would apply.

Remove Issue Paper Reference in the SSAP Status Section	Change "Substantively" to "Conceptually" in SSAP Status Section	Change "Substantively" to "Conceptually" in Effective Date/Other Section as Applicable
	2	Paragraph 22
	5	
	16	
	21	
22	22	Paragraph 54
	26	
30	30	
32	32	Paragraphs 22 and 23
35	35	Paragraph 22
40	40	Paragraph 36
41	41	Paragraph 24
	43	
51	51	Paragraph 58
54	54	
	61	
62	62	Paragraph 135
	86	
	93	
	94	Paragraph 19
100	100	Paragraph 67
103	103	
	104	Subparagraphs 132.b. through 132.d.
105	105	Paragraph 34

NAIC Accounting Practices and Procedures Manual
Editorial and Maintenance Update
May 22, 2025

Maintenance updates provide revisions to the *Accounting Practices and Procedures Manual* (Manual), such as editorial corrections, reference changes and formatting.

SSAP/Appendix	Description/Revision
SSAP No. 26	***SSAP No. 26—Bonds*** Update Disclosure 40.f. to Match Schedule D, Part 1A Maturity categories. Schedule D, Part 1A has maturity categories of 10-20 years and over 20 years. The disclosure in SSAP No. 26 only goes up to an after 10-year category.
SSAP No. 41	***SSAP No. 41—Surplus Notes*** Remove remaining reference to a "CRP" designation in paragraph 11. Whether the designation is required from a Credit Rating Provider or from the SVO is contingent on the *Purposes and Procedures Manual of the NAIC Investment Analysis Office.*
SSAP No. 56	***SSAP No. 56—Separate Accounts*** Delete Disclosure 32.d. The disclosure is no longer applicable with previously adopted revisions.
INT 22-01	***INT 22-01: Freddie Mac When Issued K-Deal (WI Trust) Certificates.*** Remove former *SSAP No. 43R—Loan-Backed and Structured Security* terminology.

Staff Recommendation:
NAIC staff recommend that the Statutory Accounting Principles (E) Working Group move this agenda item to the active listing, categorize as a SAP clarification, and expose editorial revisions as illustrated within.

1. *SSAP No. 26—Bonds – Update Disclosure 40.f. to Match Schedule D-Part 1A*

Schedule D, Part 1A has categories for 10-20 years and over 20 years. This has been a long-standing disconnect from the categories in SSAP No. 26 recently identified and was not revised as part of the bond definition. The SSAP No. 26 guidance has also been revised to remove the direction for items without a maturity date that are either not payable on demand or not in good standing as the Schedule D – Part 1A instructions shall be followed.

40. The financial statements shall include the following disclosures:

f. For the most recent balance sheet, the book/adjusted carrying values and the fair values of bonds and assets in scope of this statement, reported in statutory annual statement Schedule D, Part 1A, due:

i. In one year or less (including items without a maturity date which are payable on demand and in good standing);

ii. After one year through five years;

iii. After five years through ten years;

iv. After ten years through twenty years.

v. Over 20 Years~~(including items without a maturity date which are either not payable on demand or not in good standing)~~.

2. *SSAP No. 41—Surplus Notes – Delete remaining reference to "CRP designations"*

10. Capital or surplus notes shall be valued in accordance with paragraph 11. Pursuant to that paragraph, the value is determined by NAIC designations. The *Purposes and Procedures Manual of the NAIC Investment Analysis Office* provides guidance in determining the NAIC designation for these investments.

11. If the capital or surplus note ~~has been rated by an NAIC CRP and~~ has a designation equivalent of NAIC 1 or NAIC 2, then it shall be reported at amortized cost. If the capital or surplus note does not have an NAIC designation or has an NAIC designation of NAIC 3 through 6, then the balance sheet amount shall be reported at the lesser of amortized cost or fair value, with fluctuations in value reflected as unrealized valuation changes.

3. *SSAP No. 56—Separate Accounts – Delete Disclosure 32.d.*

Delete paragraph 32.d. as it is no longer applicable with the revised adoption to SSAP No. 56:

32. For each grouping (as detailed in paragraph 33), the following shall be disclosed:

~~d. Reserves for asset default risk, as described in paragraph 18.b., that are recorded in lieu of AVR.~~

With the revisions adopted to *SSAP No. 56—Separate Accounts* under agenda item 2024-10: Book Value Separate Accounts, the guidance in paragraph 18.b. was deleted.

Historical SSAP No. 56 guidance for paragraph 18.b.

These paragraphs have been deleted/revised:

Separate Account AVR and IMR Reporting

~~18.~~23. An AVR is ~~generally~~ required for separate accounts when the ~~insurer~~reporting entity, rather than the policyholder/contractholder, suffers the loss in the event of asset default or fair value loss. ~~An AVR is required unless:~~

~~a. The asset default or fair value risk is borne directly by the policyholders; or~~

~~b. The regulatory authority for such separate accounts already explicitly provides for a reserve for asset default risk, where such reserves are essentially equivalent to the AVR.~~

Revised SSAP No. 56 after adoption of 2024-10 (shown clean)

Separate Account AVR and IMR Reporting

23. An AVR is required for separate accounts when the reporting entity, rather than the policyholder/contractholder, suffers the loss in the event of asset default or fair value loss.

24. Assets supporting separate accounts, excluding products captured in paragraph 18, do not require an AVR because the policyholders/contractholders bear the risk of change in the value of the assets.

However, for those contracts an AVR is required for that portion of the assets representing seed money (including accumulated earnings on seed money) from the general account.

25. Assets supporting separate account contracts where the insurer bears the risk of investment performance, which shall include all book value separate accounts, require an AVR because the insurer is responsible for credit related asset or fair value loss.

26. "Book Value" separate accounts, pursuant to paragraph 18, are required to maintain an Interest Maintenance Reserve (IMR). Separate accounts with assets reported at fair value are not required to maintain an IMR. Once an IMR is required for a separate account, all of the investments in that separate account are subject to the requirement. If an IMR is not required for a separate account, none of the investments in that separate account are subject to the requirement.

27. As detailed in the Annual Statement Instructions, Separate account IMR is kept separate from the general account IMR and accounted for in the separate accounts statement.

28. The AVR and IMR shall be calculated and reported in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* and the Annual Statement Instructions.

4. ***INT 22-01: Freddie Mac When Issued K-Deals (WI Trust) Certificates***

The adoption of *SSAP No. 43—Asset-Backed Securities* as part of the principles-based bond project resulted in an explicit scope reference to Freddie Mac When Issued K-Deal (WI Trust) Certificates. Additionally, the guidance in SSAP No. 43 was revised and no longer includes the terms of "loan-backed" or "structured securities" or the historical definitions for those terms.

This editorial item is to remove the outdated guidance referring to loan-backed and structured securities from INT 22-01. As these structures are now named inclusions in SSAP No. 43, paragraph 2.b., consideration was given to nullifying the INT; however, per correspondence with a Freddie Mac representative, the INT is useful in explaining the structures and rationale for the SSAP No. 43 inclusion and they would like for it to be retained. The proposed deletion is shown below:

INT 22-01 Discussion

6. This interpretation clarifies that investments in the Freddie Mac WI Program shall be captured in scope of SSAP No. 43 from initial acquisition, and not as a derivative forward contract, for the following reasons:

   a. The WI Program is fully guaranteed by Freddie Mac and ensures that the investor will receive pass-through certificates, backed my mortgage loans held in trust, that reflect the terms of the investment set at original acquisition. In the event that the K-Deal certificates cannot be acquired, Freddie Mac is guaranteed to provide payment to the investor that reflects the full principal and interest per the original terms of the agreement, which reflects the payments that would have been received overtime if K-Deal certificates had been acquired.

   b. The definition of a forward contract in SSAP No. 86 reflects an agreement between two parties that commit one party to purchase and another party to sell the instrument underlying the contract at a specified future date. With the WI Trust Program, the investor does not have a future commitment to acquire securities, as the investor acquires the WI Trust certificate on day one of the transaction and the investor is not required to convert the WI Trust certificates at any time. This WI Trust certificate is not a derivative instrument, as at the time of acquisition, the certificate reflects a tradeable investment in a trust structure backed by cash and a Freddie Mac guarantee of cash flows in accordance with terms established at original acquisition. In addition to having no variation to the investor as a result of an underlying interest, there is no requirement on the investor to take delivery of a different investment. The ability to convert the WI Trust certificate to a K-Deal certificate is strictly an election to the investor and is not a requirement to receive the pass-through cash flows per the terms of the initial investment.

c. The WI Program, and resulting obligation of Freddie Mac, ultimately reflects an investment where the investor receives pass-through cash flows generated from mortgage loans acquired and held in trust. ~~This investment dynamic is within the scope of SSAP No. 43R, paragraphs 2-4:~~

~~2. Loan-backed securities are defined as securitized assets not included in structured securities, as defined below, for which the payment of interest and/or principal is directly proportional to the payments received by the issuer from the underlying assets, including but not limited to pass-through securities, lease-backed securities, and equipment trust certificates.~~

~~3. Structured securities are defined as loan-backed securities which have been divided into two or more classes for which the payment of interest and/or principal of any class of securities has been allocated in a manner which is not proportional to payments received by the issuer from the underlying assets.~~

~~4. Loan-backed securities are issued by special-purpose corporations or trusts (issuer) established by a sponsoring organization. The assets securing the loan-backed obligation are acquired by the issuer and pledged to an independent trustee until the issuer's obligation has been fully satisfied. The investor only has direct recourse to the issuer's assets, but may have secondary recourse to third parties through insurance or guarantee for repayment of the obligation. As a result, the sponsor and its other affiliates may have no financial obligation under the instrument, although one of those entities may retain the responsibility for servicing the underlying assets. Some sponsors do guarantee the performance of the underlying assets.~~

d. The WI Program, and treatment as a SSAP No. 43 security, is consistent with the current guidance for TBA securities when an insurer intends to take possession of the resulting mortgage-backed security. A TBA security reflects the pre-purchase of mortgage-backed securities prior to the finalization of the security issuance. Pursuant to the annual statement instructions, TBA securities are to be reported on Schedule D-1: Long-Term Bonds unless the structure more closely resembles a derivative. This determination depends on how a company uses the TBA. (For example, if a company intended to assume the mortgage-backed security once issued, the TBA would be captured on Schedule D-1 at initial acquisition. If a reporting entity was to continually trade/roll TBA exposures, this would be more characteristics of a derivative and would be captured on Schedule DB as a derivative.)

