

**Statutory Accounting Principles (E) Working Group
Hearing Agenda
May 18, 2026**

ROLL CALL

Kevin Clark, Chair	Ohio	Steve Mayhew/Kristin Hynes	Michigan
Dale Bruggeman, Vice Chair	Iowa	Ned Cataldo	New Hampshire
Sheila Travis/Richard (Hamp) 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
Shantell Taylor/Tom Travis	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 #2025-13: Residential Mortgage Loans Held in Statutory Trusts
2. Ref #2026-03EP: Various Editorial Revisions

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2025-13 (Wil)	Residential Mortgage Loans Held in Statutory Trusts	1 – Agenda Item 2 – Issue Paper	No Comments	2

Summary:

On March 23, 2026, the Statutory Accounting Principles (E) Working Group exposed an issue paper which details for historical purposes the discussions and conclusions that occurred when developing the guidance for residential mortgage loans held in qualifying statutory trusts. The guidance for residential mortgage loans held in qualifying statutory trusts was adopted during the 2025 Fall National Meeting, and permits qualifying structures to be captured in *SSAP No. 37—Mortgage Loans*, with individual mortgage loan reporting on Schedule B. The guidance was adopted with a January 1, 2027, effective date, with early application permitted.

Interested Parties’ Comments:

Interested parties have no comment on this item.

Recommendation:

NAIC staff recommend that the Working Group adopt, as final, the exposed Issue Paper No. 172 *Qualifying Statutory Trusts*.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-03EP (Julie)	2026 Spring Editorial and Maintenance Update	3 – Agenda Item 4 – IDAWG Referral	No Comments	6

Summary:

This agenda item details the following editorial revisions:

- 1) Revisions to *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 52—Deposit-Type Contracts* to remove the word “funding” from the beginning of the paragraph that describes FHLB agreements. Only FHLB agreements that are deposit-type contracts shall be captured as “funding agreements.”
- 2) Revisions to various SSAPs to replace the term “CUSIP” with “Security Identifier.” In limited instances, the sentence structure has been slightly revised to indicate “investment (by Security Identifier)” for clarity.
- 3) Revisions to add “U.S.” before generally accepted accounting principles or GAAP as appropriate.

Interested Parties’ Comments:

Interested parties have no comment on this item.

Recommendation:

NAIC staff recommend that the Working Group receive the Investment Designation Analysis (E) Working Group referral and adopt the exposed editorial revisions.

The Investment Designation Analysis (E) Working Group referral addresses revising references from CUSIP to security identifier. This was addressed within this editorial change.

REVIEW of COMMENTS on EXPOSED ITEMS

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

1. Ref #2026-01: Disclosure of FABNs and Similar Structures
2. Ref #2026-02: Valuation of Funds Withheld
3. Ref #2025-27: SSAP No. 1 Modco/FWH Code
4. Ref # 2024-15: Asset Liability Management Derivatives

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-01 (Julie)	Disclosure of FABNs and Similar Structures	5 – Agenda Item	Comments Received	3

Summary:

On March 23, 2026, the Working Group exposed an agenda item which was prepared in response to a February 17, 2026, referral received from the Macroprudential (E) Working Group to incorporate proposed disclosures for funding agreement backed notes (FABNs) and other funding agreement backed structures.

FABNs are debt instruments issued by Special Purpose Vehicles (SPVs) generally formed by life insurance companies. A life insurance company issues a funding agreement to the SPV, which is accounted for in accordance with SSAP No. 52—*Deposit-Type Contracts*, and the SPV then issues debt instruments (FABNs) that are backed by the principal and interest of the issued funding agreement. Although all funding agreements issued by the insurer are required to be captured in current reserves and detailed in Exhibit 7 – Deposit-Type Contracts, there is no current reporting of whether the issued funding agreements back FABNs or other similar structures. The Macroprudential (E) Working Group requests disclosures of this activity to allow for monitoring under their financial stability monitoring objectives. The referral identifies that the proposed disclosure will provide the Financial Stability (E) Task Force with the ability to identify transmission channels of potential risk to and from the insurance industry and the interconnectedness to the capital markets.

The disclosures recommended in the referral capture the total of all funding agreements that back SPV issuances, with reporting that divides based on the type of agreement, whether the SPV-issued debt instruments are puttable, and if the terms of the debt agreement differ from the backing funding agreement. The disclosure recommendation also captures information on the maturity distribution of the funding agreements that back SPV issuances, including whether the funding agreement has a fixed or floating rate. Lastly, as the SPV could issue debt instruments backed by a non-U.S. currency, the recommendation proposes to capture info on currency denominations and whether the foreign currency exposure is hedged.

The proposed disclosures detailed in the agenda item are consistent with the referral received from the Macroprudential (E) Working Group with the following two additions:

- The disclosure is proposed to be expanded to capture the amount of BACV collateral pledged by the reporting entity to the SPV under the funding agreement backed structures. From preliminary information received, this collateral pledged is common in funding agreement backed repurchase agreements and funding agreement backed loans.
- The SSAP No. 52 revisions are proposed to be expanded to include a “glossary” for the different funding agreement backed structures. (These descriptions are captured in the agenda item.)

- Funding Agreement Backed Notes
- Funding Agreement Backed Commercial Paper
- Funding Agreement Backed Repurchase Agreements
- Funding Agreement Backed Loans
- Funding Agreements Issued into Muni Prepay Structures
- Other Funding Agreements Backing SPV Issuances

Interested Parties Comments:

ACLI suggests that the 'Issue' at the beginning of the exposure be changed to "Disclosure of Funding Agreement-Backed SPV Issuances" to better reflect the changes being made.

ACLI recommends the following revisions to paragraph 23a in SSAP No. 52 to enhance clarity as to what is being reported. This will be consistent with our comments on the corresponding Blanks (E) Working Group exposure:

~~Balance of funding agreements per type of issuance, per type of issuance where the transaction contains a put feature or embedded option, and per type of issuance where the terms of the SPV Issuance differ from the terms of the corresponding funding agreement, and the BACV amount of collateral pledged by the reporting entity by type of transaction:~~

For each type of issuance, report the total balance of funding agreements, the balance where the transaction contains a put feature or embedded option¹, the balance where the terms of the SPV Issuance differ from the terms of the corresponding funding agreement², and the book adjusted carrying value (BACV) amount of invested assets collateral (i.e., not including the funding agreements) pledged by the reporting entity by type of transaction:

ACLI recommends the following edits to certain items under the proposed Glossary in SSAP No. 52 for clarification:

~~*Funding Agreement-Backed Commercial Paper:* Under funding agreement-backed commercial paper (FABCP) structures, the insurer issues a master funding agreement to an SPV. The FABCP master funding agreement contains a deposit schedule that is updated to reflect the terms of each new deposit under an FABCP program (each, a "Deposit"). The terms of a Deposit mirror the terms of a corresponding FABCP Issuance. The assets backing the master funding agreement consist of commercial paper with maturities of 360 days or less that are purchased by the insurer with the FABCP investors' cash proceeds. The principal and interest payments on FABCPs are generally structured to align with the dollar amount of commercial paper backing the transaction. However, the insurer may not always be able to fully invest the proceeds due to the short maturities and frequent rollovers of commercial paper, which can create a duration mismatch. The short-term nature and high liquidity of the underlying commercial paper partially mitigate this ALM mismatch.~~

~~*Funding Agreement-Backed Repurchase Agreements:* In a funding agreement-backed repurchase (FABR) agreement transaction, an SPV purchases a funding agreement issued by an insurer and then uses that funding agreement to enter into a repurchase agreement (repo) with a bank counterparty. In addition, the insurer pledges collateral into an account controlled by the SPV to support the repurchase transaction. The bank counterparty may rehypothecate, or repledge, all or a portion of the collateral pool. This FABR structure expands repurchase capacity and balance sheet flexibility for the insurer while reducing the bank counterparty's regulatory capital charge.~~

~~Funding Agreement-Backed Loans: Funding agreement-backed loan (FABL) structures work similarly to FABNs, except the SPV is established by the bank counterparty, not the insurer. Another key difference from FABNs is that the FABL SPV enters into a loan directly with a bank instead of issuing notes. Effectively, though, the cash flows of the loan and notes operate similarly. Funding agreement-backed loans (FABL) are loans issued to bankruptcy-remote SPVs that are secured by funding agreements (FA) issued by the sponsoring insurance company to the SPV. Additionally, with FABLs, the insurer may pledges securities to a collateral into an account, for which the bank counterparty has a security interest pursuant to an account control agreement.~~

~~Funding Agreement-Backed Municipal Pre-Pay/Energy Bonds-Funding Agreements Issued into Muni Prepay Structures: Funding agreement-backed municipal gas and electric prepayment bonds (FABMBs) These are a specialized segment of the municipal bond market that allows municipalities to secure a long-term, discounted supply of energy from a utility company. As part of this transaction an insurer issues a funding agreement to an SPV. The municipality issues a tax exempt bond to investors and uses the proceeds to prepay for typically 20 to 30 years of energy delivery. The insurer's funding agreement provides known scheduled principal payments to the SPV that supports the purchase of energy. provides interest payments on the bonds until such payments are recouped from consumers paying their utility bills. The SPV's is a single purpose entity whose sole purpose is to execute the prepayment with the commodity supplier, which is typically the commodity trading entity of an investment bank.~~

We welcome the opportunity to discuss our comments further and to support SAPWG's continued work on this issue.

Recommendation:

NAIC staff recommend that the Working Group adopt revisions to *SSAP No. 52—Deposit-Type Contracts* with revisions to reflect interested parties' comments to incorporate disclosures for Funding Agreement Backed Notes and other similar structures as well as glossary to define the different structures.

Revisions are proposed from the exposure that predominantly reflect the interested parties' comments, revising paragraph 23a and modifying the proposed glossary definitions. The revisions streamline the guidance and definitions and do not appear to alter the original intent. In response to questions on the "book value" reference in brackets in the puttable definition, NAIC has incorporated revised language suggested by the ACLI. The original definition was provided by the ACLI to the Macroprudential (E) Working Group.)

Proposed Revisions to *SSAP No. 52—Deposit-Type Contracts*: Shading reflects changes from the exposure.

Disclosures are captured in paragraphs 18-23. The new disclosures are proposed to be included after the FHLB agreement disclosure (after paragraph 21) and before the retained asset disclosure. The remaining SSAP paragraphs will be renumbered according.

22. For FHLB agreements accounted for under this statement, include information for the FHLB funding agreements with other reporting and disclosure requirements for deposit-type contracts under this statement and complete additional disclosure requirements in *SSAP No. 30—Unaffiliated Common Stock*, paragraph 20.

23. Each reporting entity shall disclose information on funding agreements issued by such reporting entity that support funding agreement backed SPV Issuances. (This disclosure is required for all known instances, even in situations in which the SPV was not sponsored or formed by the reporting entity and when the relevant SPV is bankruptcy remote from the reporting entity.) The balance of funding agreements supporting funding agreement backed SPV issuances shall be reported before reinsurance.

- a. For each type of funding agreement backed transaction issuances, report the total balance (outstanding issued amount) of funding agreements, the balance where the transaction contains a put feature or embedded option¹, the balance where the terms of the SPV Issuance differ from the terms of the corresponding funding agreement², and the book adjusted carrying value (BACV) amount of invested assets (i.e., not including the funding agreements) pledged by the reporting entity by type of transaction:

Balance of funding agreements per type of issuance, per type of issuance where the transaction contains a put feature or embedded option¹, and per type of issuance where the terms of the SPV Issuance differ from the terms of the corresponding funding agreement², and the BACV amount of collateral pledged by the reporting entity by type of transaction:

(Staff Note: Paragraph 23a has been revised to reflect the interested parties' comments with the addition of "funding agreement backed transaction" to clarify the scope and "outstanding issued amount" to clarify the term "balance.")

- i. Funding Agreement Backed Notes (FABN)
 - ii. Funding Agreement Backed Commercial Paper (FABCP)
 - iii. Funding Agreement Backed Repurchase Agreements (FABR)
 - iv. Funding Agreement Backed Loans (FABL)
 - v. Funding Agreements Issued into Muni Prepay Structures
 - vi. Other Funding Agreements Backing SPV Issuances (Other)
- b. For instances in which the SPV is sponsored or formed by the reporting entity and the terms (e.g., principal, interest rate, maturity, rating, or currency) of a funding agreement differ from the terms of the corresponding SPV Issuance, include a narrative description identifying the different terms. For example, if the funding agreement matures in 3 years, but the FABL matures in 3 months, instances of different interest rates, etc. For FABCP, reporting entities shall identify instances in which the terms of the SPV issuance do not match the terms of the deposit made under an FABCP master funding agreement. This disclosure is not required for funding agreements backed by muni prepay structures as the terms of the funding agreement are designed to be different from the SPV issuances.
- c. Disclose the maturity distribution of funding agreements backing SPV Issuances, separately identifying the funding agreements issues as fixed or floating interest rate prior to execution of any interest rate swaps.
- d. For SPV issuances backed by funding agreements issued in a non-US currency, disclose the currency denominations and whether all foreign currency exposure related to each currency denomination is hedged.

¹ As used herein, a funding agreement is "Puttable" or contains a "put feature or embedded option" if such funding agreement contains a provision that allows a contract holder to withdraw from their account value at the amount specified in the issuance {book value} at any time, without being tied to a specific triggering event; under such provision, the insurer has no contractual alternatives to paying out at the amount specified in the issuance {book value}.

² Instances in which the terms of the funding agreement are designed to be different from the SPV issuances should be reported as an Amount with Different Terms (even in instances where the SPV is not sponsored or formed by the reporting entity such as funding agreements issued into muni prepay structures).

Proposed Glossary to SSAP No. 52:

- Funding Agreement Backed Note: Funding agreement backed notes (FABNs) are notes or bonds issued by bankruptcy-remote special-purpose vehicles (SPVs) that are secured by funding agreements (FAs) issued by the sponsoring insurance company to the SPV. The insurance company pays principal and interest under the terms of the FA to the SPV, which the SPV uses to pay principal and interest on the FABN.
- Funding Agreement-Backed Commercial Paper: Under funding agreement-backed commercial paper (FABCP) structures, the insurer issues a master funding agreement to an SPV. The FABCP master funding agreement contains a deposit schedule that is updated to reflect the terms of each new deposit under an FABCP program (each, a “Deposit”). The terms of a Deposit mirror the terms of a corresponding FABCP Issuance. The assets backing the master funding agreement consist of commercial paper with maturities of 360 days or less that are purchased by the insurer with the FABCP investors’ cash proceeds. The principal and interest payments on FABCPs are generally structured to align with the dollar amount of commercial paper backing the transaction. However, the insurer may not always be able to fully invest the proceeds due to the short maturities and frequent rollovers of commercial paper, which can create a duration mismatch. The short-term nature and high liquidity of the underlying commercial paper partially mitigate this ALM mismatch.
- Funding Agreement-Backed Repurchase Agreements: In a funding agreement-backed repurchase (FABR) agreement transaction, an SPV purchases a funding agreement issued by an insurer and then uses that funding agreement to enter into a repurchase agreement (repo) with a bank counterparty. In addition, the insurer pledges collateral into an account controlled by the SPV to support the repurchase transaction. The bank counterparty may rehypothecate, or repledge, all or a portion of the collateral pool. This FABN structure expands repurchase capacity and balance sheet flexibility for the insurer while reducing the bank counterparty’s regulatory capital charge.
- Funding Agreement-Backed Loans: Funding agreement-backed loans (FABL) are loans issued to bankruptcy-remote SPVs that are secured by funding agreements (FA) issued by the sponsoring insurance company to the SPV. Funding agreement backed loan (FABL) structures work similarly to FABNs, except the SPV is established by the bank counterparty, not the insurer. Another key difference from FABNs is that the FABL SPV enters into a loan directly with a bank instead of issuing notes. Effectively, though, the cash flows of the loan and notes operate similarly. Additionally, with FABLs, the insurer pledges securities to a collateral account, for which the bank counterparty has a security interest pursuant to an account control agreement.
- Funding Agreements Issued Into Muni Prepay Structures: Funding Agreement-Backed Municipal Pre-Pay/Energy Bonds: Funding agreement backed municipal gas and electric prepayment bonds (FABMBs) These are a specialized segment of the municipal bond market that allows municipalities to secure a long-term, discounted supply of energy from a utility company. As part of this transaction an insurer issues a funding agreement to an SPV. The municipality issues a tax-exempt bond to investors and uses the proceeds to prepay for typically 20 to 30 years of energy delivery. The insurer’s funding agreement provides known scheduled principal payments to the SPV that supports the purchase of energy. The SPV is a single purpose entity whose sole purpose is to execute the prepayment with the commodity supplier, which is typically the commodity trading entity of an investment bank. The insurer’s funding agreement provides interest payments on the bonds until such payments are recouped from consumers paying their utility bills.

Glossary terms shown clean:

- *Funding Agreement Backed Note:* Funding agreement backed notes (FABNs) are notes or bonds issued by bankruptcy-remote special-purpose vehicles (SPVs) that are secured by funding agreements (FAs) issued by the sponsoring insurance company to the SPV. The insurance company pays principal and interest under the terms of the FA to the SPV, which the SPV uses to pay principal and interest on the FABN.
- *Funding Agreement-Backed Commercial Paper:* Under funding agreement-backed commercial paper (FABCP) structures, the insurer issues a master funding agreement to an SPV. The FABCP master funding agreement contains a deposit schedule that is updated to reflect the terms of each new deposit under an FABCP program (each, a “Deposit”). The terms of a Deposit mirror the terms of a corresponding FABCP Issuance.
- *Funding Agreement-Backed Repurchase Agreements:* In a funding agreement-backed repurchase (FABR) agreement transaction, an SPV purchases a funding agreement issued by an insurer and then uses that funding agreement to enter into a repurchase agreement (repo) with a bank counterparty. In addition, the insurer pledges collateral into an account controlled by the SPV to support the repurchase transaction. The bank counterparty may rehypothecate, or repledge, all or a portion of the collateral pool.
- *Funding Agreement-Backed Loans:* Funding agreement-backed loans (FABL) are loans issued to bankruptcy-remote SPVs that are secured by funding agreements (FA) issued by the sponsoring insurance company to the SPV. Additionally, with FABLs, the insurer pledges securities to a collateral account, for which the bank counterparty has a security interest pursuant to an account control agreement.
- *Funding Agreements Issued Into Muni Prepay Structures:* These are a specialized segment of the municipal bond market that allows municipalities to secure a long-term, discounted supply of energy from a utility company. As part of this transaction an insurer issues a funding agreement to an SPV. The insurer’s funding agreement provides known scheduled principal payments to the SPV that supports the purchase of energy. The SPV whose sole purpose is to execute the prepayment with the commodity supplier.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-02 (Robin)	Valuation of Funds Withheld	6 – Agenda Item	Comments Received	IP – 5 ACLI – 8

Summary:

On March 23, 2026, the Working Group exposed an agenda item to address inconsistent guidance regarding the valuation of the liability for funds withheld in a life or health reinsurance agreement. The Reinsurance (E) Task Force was also notified of the exposure. Funds withheld assets are often held by the ceding entity as reinsurance collateral to mitigate credit exposure (with all types of reinsurers) and/or to secure credit for reinsurance on amounts ceded to unauthorized or certified reinsurers. Pursuant to the *Credit for Reinsurance Model Law* (#785), funds withheld can be used as acceptable collateral to secure reinsurance credit with a variety of reinsurance contract types.

In a funds withheld reinsurance contract, the ceding entity withholds assets for collateral that would otherwise be paid to the reinsurer, in addition, the reinsurer may also provide additional collateral if needed. If the reinsurer provides additional collateral, it is typically referred to as funds deposited by the reinsurer. Because the funds withheld or deposited by the reinsurer are payable under the reinsurance contract to the assuming reinsurer, the ceding entity reports a liability for the funds withheld. The guidance related to the liability for the funds withheld reported by the ceding entity is inconsistent.

Reporting - Assets - The assets withheld from the reinsurer are reported in the investment schedules of the ceding entity at their statutory book adjusted carrying value in accordance with the applicable statements of statutory accounting principles (SSAPs).

Reporting - Liabilities - The ceding entity records a liability for funds withheld on the following liabilities lines:

- **line 24.03 – Funds Held Under Reinsurance Treaties with Unauthorized and Certified Reinsurers.**
The line 24.03 instructions reference Schedule S reinsurance columns which are unclear in the accounting basis as described in the agenda item.
- **line 24.07 – Funds Held Under Coinsurance**
The instructions for line 24.07 do not reference a valuation, but reference that line is for other than amounts held on line 24.03.

SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance and Model #785 both discuss funds withheld from reinsurers and funds deposited by reinsurers.

The Schedule S Parts 4 and 5 collateral columns for funds withheld, letters of credit and funds in trust play an important role in determining if total collateral for unauthorized and certified reinsurers is adequate under Model #785 to allow credit for reinsurance. If the collateral is insufficient, a liability is reported on line 24.02 – Reinsurance in Unauthorized and Certified Reinsurers. To the extent the annual statement instructions are clarified for the valuation of funds withheld it affects amounts used in the calculation of this liability.

Interested Parties and ACLI Comments:

The ACLI appreciates the opportunity to comment on the Statutory Accounting Principles (E) Working Group (SAPWG) Ref #2026-02, Valuation of Funds Withheld. While the ACLI agrees with the spirit of the exposed changes, we believe the proposed edits to SSAP No. 61 and the annual statement instructions require some modifications. The suggestions offered below are designed to provide for the diversity in funds withheld reinsurance transactions and ensure consistent accounting guidance for all funds withheld transactions regardless of the details of their structure.

Our suggestions, which are provided in Attachment A, would revise the description of the funds withheld liability in paragraphs 41.a and 53 of SSAP No. 61. While we appreciate the simplicity of the language proposed in the exposure, we found that interpretations vary with the terms of companies' reinsurance agreements. Although the funds withheld liability will often equal the carrying value of the invested assets held on the ceding entity's balance sheet, there are instances where that is not the case.

The funds withheld liability is a contractual liability, and it is determined based on the terms of the underlying reinsurance agreement. Some agreements do not associate the funds withheld liability with a specific quota share of invested assets, do not segregate invested assets, or have timing considerations that would make a literal interpretation of the proposed language more difficult. For example, some agreements that are not required to transfer investment risk, such as those covering term life insurance, may not specify which assets are associated with the funds withheld liability.

We believe these suggestions represent a conceptual change to the proposed language in SSAP No. 61, and we would appreciate the opportunity to discuss the appropriate implementation of these concepts in the annual statement instructions. ACLI members stand ready to discuss these details with NAIC staff and regulators.

In closing, we would like to thank SAPWG members and NAIC staff for the time they have already taken to discuss these issues with us, and for proactively working to improve statutory accounting guidance. We would welcome further discussion on the best way to ensure clear and consistent reporting for funds withheld liabilities.

ACLI suggests updating the proposal as follows. Please note that the section below reflects NAIC staff additions in italics and the ACLI additions in bold:

1. SSAP No. 61

Accounting for Coinsurance With Funds Withheld Arrangements

40. The following accounting applies to coinsurance arrangements with funds withheld:

- a. Ceding Entity - Premiums paid or payable to the reinsurer net of any experience refunds shall reduce premium income. Policy benefit payments paid by the reinsurer shall reduce the ceding entity's reported policy benefits. Expense allowances paid by the reinsurer shall be reported separately in the summary of operations as they are earned. A net reduction to policy reserves shall be taken for the portion of the obligation assumed by the reinsurer. ~~Any amounts withheld by the ceding entity shall be recorded as a separate liability. The liability is based on the book adjusted carrying value of the assets held by the ceding entity to the extent that such funds were included as a part of the total assets and were not offset by a directly related credit on the asset page.~~ **A funds withheld liability is established, which is determined based on the terms of the reinsurance agreement. The assets held on the ceding entity's balance sheet to support the funds withheld liability are accounted under the appropriate statutory accounting principles for the specific asset(s).** Reporting entities filing the annual statement for life and accident and health insurers shall record any interest due or payable on the amounts withheld as a component of aggregate write-ins for miscellaneous deductions. Reporting entities filing the health annual statement shall record any interest due or payable on the amounts withheld as a component of aggregate write-ins for other income or expense.
- b. Assuming Entity (Reinsurer) - Premiums received or receivable by the reinsurer net of any experience refunds shall increase premium income and policy benefit payments paid by the reinsurer shall increase the reported policy benefits. Expense allowances paid by the reinsurer shall be reported separately in the summary of operations when payable. The reinsurer shall record its share of the statutory policy reserves attributable to the business identified in the contract. Any funds withheld by the ceding entity shall be recorded as an accounts receivable. For reporting entities filing the annual statement for life and accident and health insurers shall record any interest earned or receivable on the funds withheld as a component of aggregate write-ins for miscellaneous income. Reporting entities filing the health annual statement shall record any interest earned or receivable on the funds withheld as a component of aggregate write-ins for other income or expense.

Funds Held Under Reinsurance Treaties with Unauthorized Reinsurers or Certified Reinsurers

53. This liability is established for funds deposited by or contractually withheld from unauthorized reinsurers or certified reinsurers. ~~The liability is based on the book adjusted carrying value of the assets held by the ceding entity to the extent that such funds were included as a part of the total assets and were not offset by a directly related credit on the asset page.~~ The funds withheld liability is determined based on the terms of the reinsurance agreement.

Recommendation:

NAIC staff recommend that the Working Group expose modified guidance illustrated below. Note that there is a corresponding blanks proposal concurrently exposed with a December 31, 2026 effective date, this proposal would require modification, depending on the Working Group direction. No specific comments were received by the Blanks (E) Working Group on proposal 2026-10BWG as the comments referred to the comments made to the SAPWG. If this item is modified and exposed then it would require a deferral or re-exposure during the Blanks May 28 call, which would defer the proposed effective date from the year-end 2026 until 2027. The following modifications to the previously exposed guidance are recommended:

1. SSAP No. 61, paragraph 40a, recommends adding the following IP/ ACLI recommendation to SSAP No. 61, paragraph 40a and to paragraph 53. "The assets held on the ceding entity's balance sheet to support the funds withheld liability are accounted under the appropriate statutory accounting principles for the specific asset(s)."
2. NAIC staff recommends keeping the existing language in paragraph 40a "Any amounts withheld by the ceding entity shall be recorded as a separate liability."
3. NAIC staff recommend keeping the exposed language regarding the liability with the addition of a reference to using the appropriate statutory accounting principles in SSAP No. paragraph 40 and SSAP No. 53.
4. NAIC staff does not recommend incorporating the following comment to SSAP No. 61, paragraph 40a or paragraph 53. "A funds withheld liability is established, which is determined based on the terms of the reinsurance agreement."

The agenda item is to clarify that the amount reported for the funds withheld liability should match the assets held by the ceding entity on its balance sheet. If a ceding entity does not have adequate funds withheld from the assuming entity and the assuming entity has not provided such additional assets to the ceding entity for reinsurance collateral purposes, the amount reported as a funds withheld liability should match the actual funds withheld by the ceding entity, not the amount that the reinsurer is required to provide that has not yet been received.

For example, if an unauthorized assuming entity is contractually required to provide collateral of \$100 million, and the ceding entity as of the reporting date, has withheld \$80 million and requested the additional amount of \$20 million from the assuming entity, if it has not been provided, the ceding entity would only report a funds withheld liability of \$80 million on line 24.03 Funds withheld under reinsurance treaties with unauthorized and certified reinsures. Because the reinsurer is unauthorized, the ceding entity would record a \$20 million liability on Line 24.02 Reinsurance in Unauthorized and Certified Companies for the collateral shortfall (\$100-\$80 collateral held =20) in accordance Appendix A-785 Credit for Reinsurance.

Working Group Discussion point - Interim discussion with interested parties indicated that when they

have a collateral shortfall, they record a receivable from the reinsurer, which they are including as FWH asset, and grossed up the funds withheld liability for the receivable. With this treatment, if the receivable is included as a funds withheld asset, there would not be a collateral shortfall noted. NAIC staff do not believe this was the intent as it does not allow for verification under the credit for reinsurance calculation. NAIC staff recommends that the funds withheld liability should reflect actual assets held as of the reporting date.

Proposed language for exposure consideration, new revisions shown as shaded text.

SSAP No. 61:

40. The following accounting applies to coinsurance arrangements with funds withheld:
- a. Ceding Entity—Premiums paid or payable to the reinsurer net of any experience refunds shall reduce premium income. Policy benefit payments paid by the reinsurer shall reduce the ceding entity's reported policy benefits. Expense allowances paid by the reinsurer shall be reported separately in the summary of operations as they are earned. A net reduction to policy reserves shall be taken for the portion of the obligation assumed by the reinsurer. Any amounts withheld by the ceding entity shall be recorded as a separate liability. The liability is based on the book adjusted carrying value (using applicable statutory accounting principles) of the assets held by the ceding entity to the extent that such funds were included as a part of the total assets and were not offset by a directly related credit on the asset page. The assets held on the ceding entity's balance sheet to support the funds withheld liability are accounted under the appropriate statutory accounting principles for the specific asset(s). Reporting entities filing the annual statement for life and accident and health insurers shall record any interest due or payable on the amounts withheld as a component of aggregate write-ins for miscellaneous deductions. Reporting entities filing the health annual statement shall record any interest due or payable on the amounts withheld as a component of aggregate write-ins for other income or expense.
 - b. Assuming Entity (Reinsurer)—Premiums received or receivable by the reinsurer net of any experience refunds shall increase premium income and policy benefit payments paid by the reinsurer shall increase the reported policy benefits. Expense allowances paid by the reinsurer shall be reported separately in the summary of operations when payable. The reinsurer shall record its share of the statutory policy reserves attributable to the business identified in the contract. Any funds withheld by the ceding entity shall be recorded as an accounts receivable. For reporting entities filing the annual statement for life and accident and health insurers shall record any interest earned or receivable on the funds withheld as a component of aggregate write-ins for miscellaneous income. Reporting entities filing the health annual statement shall record any interest earned or receivable on the funds withheld as a component of aggregate write-ins for other income or expense.

Funds Held Under Reinsurance Treaties with Unauthorized Reinsurers or Certified Reinsurers

53. This liability is established for funds deposited by or contractually withheld from unauthorized reinsurers or certified reinsurers. The liability is based on the book adjusted carrying value (using applicable statutory accounting principles) of the assets held by the ceding entity to the extent that such

funds were included as a part of the total assets and were not offset by a directly related credit on the asset page.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2025-27 (Jake)	SSAP No. 1 Modco/FWH Code	7 – Agenda Item	Agreement	IP – 2 MIA - 13

Summary:

On March 23, 2026, the Statutory Accounting Principles (E) Working Group re-exposed this agenda item which is 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. The March 2026 re-exposure includes a specific request for regulator comments on the use of the restricted asset code in the investment schedules. The discussion identified that the restricted asset code is attributed to the entire reported investment, whereas only a portion of the investment may be restricted, and with substitutability requirements, the asset noted as restricted in the year-end investment schedules may not be the asset restricted subsequently. With the financial statement note disclosures, that identifies the amount of restricted assets by broad category, consideration will occur to delete the restricted asset codes from the investment schedules. However, before proceeding with that potential deletion, confirmation is first requested on any regulatory use and benefits of the codes. This agenda item will not result in changes to the *Accounting Practices and Procedures Manual*.

Interested Parties’ Comments:

Interested parties agree with the removal of the codes consistent with our prior comments on this proposal.

Comments from Maryland Insurance Administration:

We're in favor of keeping restricted asset codes in the investment schedules. We've found them to be very useful as part of my annual review of investment company investments, and also in support of the exam teams.

For example, part of our regular review and exams include ensuring that securities held for statutory deposits consist of eligible securities, e.g. cash, Treasuries, etc. By keeping the restricted asset code, it allows us to quickly match the deposits listed in Schedule E3 with securities listed in Schedule D. It also allows us to do a similar exercise when it comes to reconciling other collateral, e.g. sec lending, etc.

Recommendation:

NAIC staff recommend that the Working Group adopt the revisions to SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures to add 1) collateral assets received and on balance sheet, 2) assets under modco reinsurance agreements, and 3) assets held under funds withheld reinsurance agreements. This adoption action is recommended to occur regardless of the decision to retain the investment asset code category within the investment schedule so that the disclosure in SSAP No. 1 matches the already adopted reporting components detailed in Note 5.

NAIC staff also recommend that the Working Group retain the restricted asset code column in the investment schedules and include three new code categories to identify 1) collateral assets received and on balance sheet, 2) assets under modco reinsurance agreements, and 3) assets held under funds withheld reinsurance agreements. Currently, the assets restricted in these three categories are identified within the “other” restricted asset category, when all other restricted asset categories have a designated code. By capturing individual codes for these specific purposes, then the reporting codes will be consistent with what exists for

other restricted asset categories.

Previously Exposed Revisions to SSAP No. 1:

23. Reporting entities shall disclose(FN) the following information in the financial statements:
- a. Amounts not recorded in the financial statements that represent segregated funds held for others, the nature of the assets and the related fiduciary responsibilities associated with such assets. One example of such an item is escrow accounts held by title insurance companies; and
 - b. The total combined (admitted and nonadmitted) book adjusted carrying value (BACV) of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category, and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.)(FN) in the general and separate accounts(FN) by the reporting entity in comparison to total assets and total admitted assets. (Pursuant to SSAP No. 4, paragraph 6, all assets pledged as collateral or otherwise restricted shall be reported in this disclosure regardless if the asset is considered an admitted asset.) Reporting entities shall also disclose differences in the amounts reported in this note versus the amounts reported for the same categories in the general interrogatories. This disclosure shall include the following restricted asset categories:
 - i. Reported assets subject to contractual obligation for which liability is not shown;
 - ii. Collateral held under security lending agreements;
 - iii. Assets subject to repurchase agreements;
 - iv. Assets subject to reverse repurchase agreements;
 - v. Assets subject to dollar repurchase agreements;
 - vi. Assets subject to dollar reverse repurchase agreements;
 - vii. Assets placed under option contracts;
 - viii. Letter stock or securities restricted as to sale(FN) – excluding FHLB stock;
 - ix. FHLB capital stock;
 - x. Assets on deposit with states;
 - xi. Assets on deposit with other regulatory bodies;
 - ~~xii.~~ xii. Pledged as collateral to the FHLB (including assets backing funding agreements);
 - ~~xiii.~~ xiii. Collateral assets received and on the balance sheet, excluding collateral held under security lending and repurchase agreements reported on the balance sheet.
 - ~~xiv.~~ xiv. Assets held under modco reinsurance agreements.
 - ~~xv.~~ xv. Assets held under funds withheld reinsurance agreements.
 - ~~xvi.~~ xvi. Assets pledged as collateral not captured in other categories(FN); and

xvii. Other restricted assets.

Previously Exposed Revisions to Investment Schedules Restricted Asset Codes: (Annual Statement Instructions)

Restricted Asset Code: For the columns that disclose information regarding investments that are not under the exclusive control of the reporting entity, and also including assets loaned to others, the following codes should be used:

- LS – Loaned or leased to others
- RA – Subject to repurchase agreement
- RR – Subject to reverse repurchase agreement
- DR – Subject to dollar repurchase agreement
- DRR – Subject to dollar reverse repurchase agreement
- C – Pledged as collateral – excluding collateral pledged to FHLB
- CF – Pledged as collateral to FHLB (including assets backing funding agreements)
- DB – Pledged under an option agreement
- DBP – Pledged under an option agreement involving “asset transfers with put options”
- R – Letter stock or otherwise restricted as to sale – excluding FHLB capital stock
(Note: Private placements are not to be included unless specific restrictions as to sale are included as part of the security agreement.)
- RF – FHLB capital stock
- SD – Pledged on deposit with state or other regulatory body
- M – Not under the exclusive control of the reporting entity for multiple reasons
- SS – Short sale of a security
- O – Other

CX - Collateral assets received and on the balance sheet, excluding collateral held under security lending and repurchase agreements reported on the balance sheet.

MR - Assets held under modco reinsurance agreements.

FWR - Assets held under funds withheld reinsurance agreements.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-15 (Julie)	Asset Liability Management Derivatives	8 – Agenda Item 9 – Issue Paper 10 – SSAP No. 109 (Clean) 11 – SSAP No. 109 (Tracked)	Comments Received	IP – 1 ACLI – 11

Summary:

During the Spring 2025 National Meeting, the Working Group exposed SSAP guidance and an issue paper for interest-rate hedging derivatives used for asset-liability management. The drafting of this guidance occurred pursuant to the Working Group’s direction from the 2025 Fall National Meeting, reflecting an amortized cost measurement method and the exclusion of asymmetrical derivatives.

The exposed documents included a clean version of the proposed SSAP, as well as a version that illustrates tracked changes from the ACLI draft previously exposed. In addition to modifications from the prior ACLI version, NAIC staff highlighted the guidance established for transition, reporting and admittance for regulator review. Those components are again highlighted below:

- **Transition:** Transition guidance was proposed for reporting entities with open derivatives in an existing approved program as of the effective date. This guidance would allow those reporting entities to make a one-time adjustment to reclassify recognized unrealized gains and losses from derivative fair value changes. Then, the fair value of the derivative at transition would represent the initial amortized cost basis and follow the provisions in the guidance for future measurement. This transition guidance was incorporated primarily to accommodate companies that have not historically taken derivative gains/losses to IMR (which would have been in-line with the intent of SSAP No. 86) and had followed the fair value measurement method pursuant to SSAP No. 86.
- **Reporting:** NAIC staff requested feedback on the reporting for these derivatives. The proposal would incorporate new reporting lines to Schedule DB to separately capture these derivative structures. This would be consistent with past approaches when derivative categories are added.
- **Admittance:** The proposed SSAP guidance permits admittance of all deferred losses recognized under the ALM derivative standard. This is proposed to not disincentivize prudent hedging activities. Comments were requested on this guidance and if further disclosure (e.g., accumulated IMR, deferred derivatives, other “soft” assets) should occur to provide regulators with the aggregated amounts.

Staff Note: As noted in the interested parties/ACLI comment letters, revisions were only suggested to the proposed transition guidance to make it surplus neutral. No comments received on the reporting or admittance concepts.

Interested Parties / ACLI Comments: (Note separate identical letters were received. Comments only included once.)

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the SAPWG exposure draft Ref #2024-15 Asset Liability Management (ALM) Derivatives. We strongly support this exposure draft of statutory accounting guidance for interest-rate hedging derivatives used for ALM, also referred to as “ALM Derivatives”.

ACLI is very appreciative of the on-going dialogue with SAPWG and offers the following additional comment on this topic:

- Regarding the transition guidance in paragraph 24, we recommend that transition be a surplus neutral event on the transition date. ALM Derivative hedges are designed to hedge surplus, i.e., keep surplus / liquidation value unchanged due to market interest rate changes. Accordingly, for transition, we suggest the following adjustment to paragraph 24 of the exposure draft:

24. On the effective date, reporting entities with open derivatives in an existing approved program that qualifies as a highly effective hedge in scope of this statement are permitted to make a one-time adjustment to reclassify recognized unrealized gains and losses from derivative fair value changes to ~~deferred assets and deferred liabilities~~ realized gains/losses in the statement of operations. This is permitted even though the derivative is still open. With the reclassification, the derivative's then current fair value shall represent the initial amortized cost basis. This cost basis should be amortized into the statement of operations over the remaining life of the derivative instrument not to exceed a 10-year period. The derivative ~~and~~ should and follow the provisions of this statement for future measurement. As such, future fair value fluctuations in the derivative shall not be recognized as unrealized gains or losses unless the derivative no longer qualifies in scope of this statement. At derivative maturity or qualifying de-designation (rebalancing), the change in fair value from initial application and the maturity/de-

designation date shall be recognized as a deferred asset or liability pursuant to paragraphs 15.a and 15.b.

Once again, the ACLI appreciates the opportunity to provide comments and looks forward to continued dialogue on new statutory guidance for ALM Hedges.

Recommendation:

NAIC staff supports the suggested concept edits to the ALM transition guidance in which the unrealized change (from prior fair value fluctuations) for existing, qualifying derivatives, is recognized as a realized impact and then the reported derivative asset/liability BACV (adjusted for the prior FV changes) is amortized over 10 years. This allows for surplus neutrality (taking the current unrealized impact to realized), with a specified treatment on how to eliminate the previously recognized fair value changes to the reported derivative.

NAIC staff noted that the proposed language from the IPs/ACLI did not reflect the full edits needed to paragraph 24 (deletions were not fully shown). NAIC staff have worked with the key industry representations to clarify the edits and the revisions shown below to paragraph 24 reflects the proposed change to the SAP guidance.

NAIC staff identifies that the ALM derivative guidance is a new standard that has potential to alter the accounting for many derivatives. Further, the guidance corresponds with edits proposed to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* to eliminate a historical interpretation from some companies that allowed non-accounting effective hedges to be recognized and deferred through the IMR. With this, NAIC staff recommends that the Working Group expose the draft SSAP and Issue Paper with revisions to the transition guidance proposed by interested parties/ACLI with a comment deadline ending June 22, 2026. Discussion of the guidance can continue at the Summer National Meeting in conjunction with the discussion of the edits to SSAP No. 7 and the overall revisions to IMR. Exposure is recommended as it would allow for the revisions to coincide with the IMR project as well as give additional time for regulators to assess the proposed derivative concepts and provide confirmation or comments on the transition, reporting and admittance provisions.

Proposed revisions to SSAP No. 109, Paragraph 24 – Transition Guidance: (NAIC staff proposal)

24. On the effective date, reporting entities with open derivatives in an existing approved program that qualifies as a highly effective hedge in scope of this statement are permitted to make a one-time adjustment to reclassify recognized unrealized gains and losses from derivative fair value changes to realized gains and losses in the statement of operations ~~deferred assets and deferred liabilities and begin amortization over a 10-year period.~~ This is permitted even though the derivative is still open. The reported derivative asset/liability book/adjusted carrying value at the date of transition shall be amortized to income over the remaining life of the derivative instrument over a period not to exceed 10 years. Subsequent to transition, the derivative shall ~~With the reclassification, the derivative's then-current fair value shall represent the initial amortized cost basis and~~ follow the provisions of this statement ~~for future measurement.~~ As such, future fair value fluctuations in the derivative shall not be recognized as unrealized gains or losses unless the derivative no longer qualifies in scope of this statement. At derivative maturity or qualifying de-designation (rebalancing), the change in fair value from initial application and the maturity/de-designation date shall be recognized as a deferred asset or liability pursuant to paragraphs 15.a and 15.b.

The comment letters (14 pages) are included in Attachment 12.

**Statutory Accounting Principles (E) Working Group
Meeting Agenda**

A. Consideration of Maintenance Agenda – Pending List

1. Ref #2026-04: ASU 2025-10, Accounting for Government Grants Received by Business Entities
2. Ref #2026-05: Securities Lending Restricted Asset Reporting
3. Ref #2026-06: Fair Value Disclosures
4. Ref #2026-07: Referral on AVR affiliated common stock

Ref #	Title	Attachment #
2026-04 (Wil)	ASU 2025-10, Accounting for Government Grants Received by Business Entities	A – Form A

Summary:

In December 2025, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2025-10, Accounting for Government Grants Received by Business Entities which establishes a new topic to provide accounting for a government grant received by a business entity, including guidance for (1) a grant related to an asset and (2) a grant related to income. Under ASU 2025-10, a grant related to an asset is a government grant, or part of a government grant, which is conditioned on the purchase, construction, or acquisition of an asset (for example, a long-lived asset or inventory). A grant related to income is a government grant, or part of a government grant, other than a grant related to an asset (for example, a grant that reimburses a business entity for operating expenses).

ASU 2025-10 continues to utilize the existing U.S GAAP disclosures in Topic 832: Government Grants, which were initially established through ASU 2021-10, Government Assistance and applied to government grant/assistance transactions accounted for by analogy using either the grant accounting model (IAS 20) or the contribution accounting model (Topic 958). ASU 2025-10 revised the scope of these disclosures so that they apply to a government grant received by a business entity and adopt many of the same accounting principles used under the grant accounting model. The Statutory Accounting Principles (E) Working Group previously addressed and rejected ASU 2021-10 and determined that neither the grant nor contribution methods of accounting for government grant/assistance transactions were permitted under SAP. Rather, government grants/assistance are to be recorded in accordance with gain contingency guidance per *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets* (recognition allowed once realized), and are subject to the reporting disclosure requirements of both *SSAP No. 5* and *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items*.

NAIC staff's recommendation is that adoption of ASU 2025-10 is not necessary, as the guidance would be rarely utilized by insurance entities and the Working Group has already rejected the grant or contribution accounting models. Outside of the COVID-19 era programs such as the Paycheck Protection Program (PPP), Economic Injury Disaster Loans (EIDL), and Employee Retention Credits (ERC), government grant/assistance revenues are unusual and infrequent occurrences for insurers and existing guidance in *SSAP No. 5* and *SSAP No. 24* is sufficient to address such transactions.

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. 24—Discontinued Operations and Unusual or Infrequent Items* to reject *ASU 2025-10, Accounting for Government Grants Received by Business Entities*. NAIC staff also recommend updating *SSAP No. 24* to change the term “government assistance” to “government grants” as

the term “government assistance” is no longer used within U.S. GAAP and add an additional sentence to clarify that government grants are to be recorded in accordance with gain contingency guidance.

Recommended Revisions to SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items:

Unusual/Infrequent Items

16. The nature, including a general description of the transactions, and financial effects of each unusual or infrequent event or transaction shall be disclosed in the notes to the financial statements. Gains or losses of a similar nature that are not individually material shall be aggregated. This disclosure shall include the line items which have been affected by the event or transaction considered to be unusual and/or infrequent. If the unusual or infrequent item is ~~as~~ the result of government ~~assistance grants~~, ~~the~~ disclosures shall ~~additionally~~ include the form in which the ~~assistance grant~~ has been received (for example, cash or other assets), and information regarding significant terms and conditions of the transaction, with items including, to the extent applicable, the duration or period of the agreement, and commitments made by the reporting entity, provisions for recapture, or other contingencies. Government grants are to be treated as gain contingencies and shall be recognized and disclosed in accordance with SSAP No. 5—Liabilities, Contingencies and Impairments of Assets.

Relevant Literature

24. This statement rejects *ASU 2021-10, Government Assistance: Disclosure by Business Entities about Government Assistance*. However, it does incorporate general disclosures about government assistance for all reporting entity types. This statement also rejects ASU 2025-10, Accounting for Government Grants Received by Business Entities.

Ref #	Title	Attachment #
2026-05 (Julie)	Securities Lending Restricted Asset Reporting	B – Form A

Summary:

This agenda item has been prepared to clarify restricted asset reporting for securities lending transactions, particularly to clarify what should be reported as a restricted asset, and to address questions for potential double-counting that could occur based on existing guidance.

- For securities lending, current SSAP and annual statement instruction language refers to “collateral held” as the restricted asset, but in other similar situations, it is the lent asset still on the books that is reported as the restricted asset. Further, the RBC reference in LR017 for securities lending transactions refers to the asset “loaned to others” for the corresponding RBC charge, but pulls from the GI lines for “collateral held” under securities lending agreements.
- For securities lending, in *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures* and the corresponding financial statement restricted asset disclosure in Note 5L, there is a distinct restricted asset reporting line for “collateral held under security lending agreements” as well as a reporting category for assets received as collateral reported on the financial statements when there is a recognized liability to return. With the expansion of Note 5L, many questions have been received as companies seem to have interpreted the guidance to require the securities lending collateral in both locations, resulting with questions on double counting of collateral held under these agreements.

To provide an overview of a securities lending transaction:

A security lending transaction involves the temporary transfer of securities from one party (security lender) to another party (security borrower) and with the lender receiving collateral from the borrower to protect against the risk of loss. The lender receives a fee for the use of the security.

Under statutory accounting, when a reporting entity has entered into a securities lending arrangement, the lent asset is retained on the insurance company's investment schedule and included within the financial statements and subject to the corresponding RBC factor for that asset. This lent asset is restricted and not under the control of the reporting entity. This classification should exist regardless of whether the reporting entity lender has received collateral in exchange for that asset that they can pledge or sell:

- If the reporting entity has received collateral that they can pledge or sell, the reporting entity is to recognize the collateral received on their financial statements with an obligation to return the collateral. As this collateral is recognized on the insurance entity's books, it would be captured on an investment schedule and be subject to the corresponding RBC factor for that asset.
- If the reporting entity has received collateral that they cannot pledge or sell, then the reporting entity does not recognize that collateral on their financial statements and they do not recognize a liability to return. As this collateral is not recognized as an investment, there is no RBC asset charge.

Fundamentally, the asset loaned to the counterparty still reported on the insurance company's investment schedule should be what is captured as the "restricted asset" under a securities lending agreement. This agenda item proposes to incorporate changes to SSAP No. 1, the annual statement instructions and blanks to remove reference to "collateral held" and instead refer to the loaned asset.

For RBC purposes, the factor applied to this restricted asset will be influenced by whether the program qualifies as a conforming or non-conforming program (which is impacted by the type of collateral received) under the RBC requirements. However, the restricted asset classification will be to the lent asset still on the reporting entity's books and not to the collateral received.

- With this terminology change, collateral held for which the reporting entity does not have the ability to sell or pledge will not be captured as a restricted asset and under existing provisions, and will not be subject to any RBC factors. (This is because this collateral is not recognized on the reporting entity's financial statements.)
- With the terminology change, collateral held for which the reporting entity has the ability to sell or pledge shall be captured as a restricted asset on the investment schedule it is reported, and captured in Note 5L, in the category for which the entity has recognized collateral with the obligation to return. With the reporting in this category, under existing provisions, the collateral asset will not be subject to any additional RBC factors outside of the asset charge.

The revisions proposed in this agenda item should address both noted issues for 1) clarity in what should be reported as a restricted asset from securities lending transactions and 2) eliminate double counting for "collateral held" under securities lending agreements within the restricted asset disclosure. The restricted asset disclosure will capture the lent asset, and then if the entity has the ability to pledge or sell collateral received, the collateral received which is offset by a liability to return.

Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing categorized as a SAP clarification and expose revisions to *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures* to clarify that the restricted asset reporting for securities lending transactions shall reflect the asset lent by the reporting entity that is still reflected on the reporting entity’s financial statements and not the collateral held. If collateral has been received that can be sold or pledged, then that collateral shall be reported in the restricted asset disclosure as collateral recognized on the financial statements with an obligation recognized to return. This collateral reporting shall not impact the reporting of the asset lent under the securities lending agreement.

With this revision, it is recommended that the Working Group sponsor a blanks proposal to make corresponding revisions to Note 5L as well as the General Interrogatories. It is also recommended that the Working Group send a referral to the Capital Adequacy (E) Task Force to clarify references as appropriate within the RBC instructions. (NAIC staff has included the life RBC instructions to illustrate potential revisions. As shown, the existing reference on form LR017 for “Loaned to Others” is consistent with the proposed edits in this agenda item and does not need revision.)

Although it is too late to incorporate blanks template changes for YE 2026, NAIC staff recommend that this item proceed to provide guidance on the reporting of restricted assets and what should be captured in Note 5L, with revisions proposed to be reflected in the blanks for 1Q 2026 reporting. This item is proposed to be captured outside of the comprehensive securities lending / repurchase agreement project to provide needed immediate clarity on the disclosure reporting and address questions on the potential double-counting of securities lending collateral within the disclosure.

Proposed revisions to *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures*: (Corresponding revisions to the Annual Statement Instructions and proposed revisions for an RBC referral are detailed in the agenda item.)

23. Reporting entities shall disclose the following information in the financial statements:
- a. Amounts not recorded in the financial statements that represent segregated funds held for others, the nature of the assets and the related fiduciary responsibilities associated with such assets. One example of such an item is escrow accounts held by title insurance companies; and
 - b. The total combined (admitted and nonadmitted) book adjusted carrying value (BACV) of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category, and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.) in the general and separate accounts by the reporting entity in comparison to total assets and total admitted assets. (Pursuant to SSAP No. 4, paragraph 6, all assets pledged as collateral or otherwise restricted shall be reported in this disclosure regardless if the asset is considered an admitted asset.) Reporting entities shall also disclose differences in the amounts reported in this note versus the amounts reported for the same categories in the general interrogatories. This disclosure shall include the following restricted asset categories:
 - i. Reported assets subject to contractual obligation for which liability is not shown;
 - ii. ~~Collateral held under~~ Assets lent under security lending agreements;

(Other subparagraphs eliminated for brevity)

Ref #	Title	Attachment #
2026-06 (Julie)	Fair Value Disclosures	C – Form A

Summary:

This agenda item has been prepared to eliminate the disclosure exclusion for “equity method investments” from the aggregate disclosure on financial instruments captured in SSAP No. 100—*Fair Value*. With this current scope exclusion, investments in scope of SSAP No. 48—*Joint Ventures, Partnerships and Limited Liability Companies*, and investments in scope of SSAP No. 97—*Investments in Subsidiary, Controlled and Affiliated Entities*, which are reported under an equity method, are not being captured.

As background, the disclosure requirements in SSAP No. 100 were predominantly adopted to match U.S. GAAP when *FAS 157, Fair Value Measurements* was first adopted in SSAP No. 100 for statutory accounting in 2009. Since the December 31, 2010, effective date of SSAP No. 100, there have not been significant revisions to the original fair value disclosure requirements.

The U.S. GAAP financial instrument fair value disclosure has an exclusion for “investments accounted for under the equity method.” This exclusion was initially adopted for statutory accounting to match the U.S. GAAP disclosure, but has recently been questioned, as these investments are required to be disclosed with a fair value on Schedule BA (for SSAP No. 48 investments) and on D-2-2 (for SSAP No. 97 investments). There was also a question received on whether equity investments should be required to complete the fair value components on the new public/private security disclosure since they are not required to be disclosed under the SSAP No. 100 aggregate financial instrument fair value disclosure. Regardless of the financial instrument exclusion, for these, and all reported investments, fair value is required to be disclosed in the investment schedules in accordance with the fair value definition in SSAP No. 100:

Fair Value Definition: Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For investments reported under the equity method, the calculated equity method may not reflect an exit price fair value. If reporting entities are not using observable market inputs in the determination of fair value, which would include using the equity method as a proxy for fair value, then the reported fair value shall be identified as a level 3 fair value.

To eliminate questions, ensure consistency in reporting, and ensure that regulators have complete disclosures on financial instruments held as investments, including aggregate information on equity investments backed by level 3 fair values, this agenda item proposes to remove the “investments accounted for under the equity method” disclosure exclusion from the financial instrument fair value disclosure. This will create a U.S. GAAP to SAP disclosure mismatch in guidance requirements, but due to measurement method differences (e.g., investments held at fair value under U.S. GAAP may be held under a different standard under SAP), existing fair value disclosures already do not agree between U.S. GAAP and SAP.

This disclosure revision is proposed to be in effect for December 31, 2026. The existing disclosure illustration allows for variable lines; therefore, it is not required to revise the disclosure to implement this change. With adoption, a blanks proposal will be sponsored to capture the references to SSAP No. 48 and SSAP No. 97 investments within the disclosure illustration.

Although the focus of this agenda item is the current “investments accounted for under the equity method” exclusion from the financial instrument disclosure, NAIC staff has included the SSAP No. 100, paragraph 50 disclosure for review. This disclosure, which was also adopted from U.S. GAAP in 2009, is limited to assets measured and reported at fair value. This disclosure has historically generated numerous questions, as there are few investments routinely measured and reported at fair value under statutory accounting (e.g., common stock and derivatives), therefore only limited information is captured in this disclosure. The fair value level 3 roll-forward is captured within this disclosure scope. As such, it’s not possible for regulators to quickly assess the aggregate change in level 3 fair values from this disclosure, and regulators that would like to have that detail would need to complete an aggregation of the per investment reporting that occurs on the investment schedules.

If desired by regulators, a subsequent agenda item could occur to reconsider the fair value disclosures captured for investments that are measured and reported at fair value. With the limited scope, NAIC staff is uncertain how regulators use these disclosures and requests comments on their use and if they are beneficial.

Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing categorized as a SAP clarification and expose revisions to SSAP No. 100—Fair Value Disclosures to eliminate the disclosure exclusion for “investments accounted for under the equity method” from the fair value financial instrument disclosure. This disclosure revision is proposed to be effective Dec. 31, 2026, as the disclosure illustration can accommodate this change without an annual statement instruction or template change. It is recommended that the Working Group sponsor a blanks proposal to include reference to SSAP No. 48 and SSAP No. 97 investments within the disclosure illustration to provide further clarity that those investments should be included. Additionally, it is recommended that this blanks proposal complete a review of the Annual Statement Instructions to ensure that all references to fair value refer to the determination under SSAP No. 100, and any remaining references to use of the “SVO or NAIC published market value when available” be removed. Values obtained from the SVO reflect a mix of Level 2 and Level 3 fair values and should not be used if Level 1 fair value information is available.

With the exposure of this agenda item, comments are requested on the other disclosures in SSAP No. 100, particularly the disclosures limited to items measured and reported at fair value, and how those disclosures are utilized by regulators, and if further revisions would provide enhanced benefits to regulators.

Note: It is anticipated that the Invested Assets (E) Working Group may propose further revisions to Note 20C to ensure consistent reporting across reporting entities. (Currently, with the variable reporting lines, companies are reporting their financial instruments with different reporting captions, making comparisons and assessments difficult to complete.)

Proposed Revisions to SSAP No. 100—Fair Value

Disclosures about Fair Value of Financial Instruments

56. A reporting entity shall disclose in the notes to the financial statements, as of each date for which a statement of financial position is presented in the quarterly or annual financial statements, the aggregate fair value or NAV for all financial instruments and the level within the fair value hierarchy in which the fair value measurements in their entirety fall. This disclosure shall be summarized by type of financial instrument, for which it is practicable to estimate fair value, except for certain financial instruments identified in paragraph 57. Fair value disclosed in the notes shall be presented together with the related admitted values in a form that makes it clear whether the fair values and admitted values represent assets or liabilities and to which line items in the Statement of Assets, Liabilities, Surplus and Other Funds they relate. Unless specified otherwise in another SSAP, the disclosures may

be made net of encumbrances, if the asset or liability is so reported. A reporting entity shall also disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. If it is not practicable for an entity to estimate the fair value of the financial instrument or a class of financial instruments, and the investment does not qualify for the NAV practical expedient, the aggregate carrying amount for those items shall be reported as “not practicable” with additional disclosure as required in paragraph 50.

57. The disclosures about fair value prescribed in paragraph 56 are not required for the following:
- a. Employers' and plans' obligations for pension benefits, other postretirement benefits including health care and life insurance benefits, postemployment benefits, employee stock option and stock purchase plans, and other forms of deferred compensation arrangements, as defined in *SSAP No. 12—Employee Stock Ownership Plans*, *SSAP No. 92—Postretirement Benefits Other Than Pensions*, *SSAP No. 102—Pensions* and *SSAP No. 104—Share-Based Payments*.
 - b. Substantively extinguished debt subject to the disclosure requirements of *SSAP No. 103—Transfer and Servicing of Financial Assets and Extinguishments of Liabilities*.
 - c. Insurance contracts, other than financial guarantees and deposit-type contracts .
 - d. Lease contracts as defined in *SSAP No. 22—Leases*.
 - e. Warranty obligations and rights.
 - ~~f. Investments accounted for under the equity method.~~
 - ~~g.f.~~ Equity instruments issued by the entity.
 - ~~h.g.~~ Deposit liabilities with no defined or contractual maturities.

Ref #	Title	Attachment #
2026-07 (Robin)	Referral on AVR affiliated common stock	D– Form A

Summary:

This agenda item is to respond to a referral from the Life Risk-Based Capital (E) Working Group which was received at the 2025 Summer National Meeting. The referral forwarded comments received on life risk-based capital proposal 2025-04-L Other Long-Term Assets (LR008). Specifically, the American Council of Life Insurers (ACLI) raised questions on the asset valuation reserve (AVR) equity reporting lines for subsidiary, controlled or affiliated (SCA) common stock on the AVR reporting schedule in the Life, Accident & Health/ Fraternal Annual Statement and requested clarifications to the AVR blanks and instructions.

The following four AVR equity schedule lines were highlighted in the referral for clarification:

Maximum Reserve Factor	2025 AVR Schedule Line Number and Name
.1580	15 - Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries (See SVO Purposes & Procedures Manual)

	68 - Investments with the Underlying Characteristics of Common Stock – Affiliated Certain Other (See SVO Purposes & Procedures Manual)
.1945	16 - Subsidiary, Controlled or Affiliated Common Stocks – Other
	69 - Investments with the Underlying Characteristics of Common Stock – Affiliated Other – All Other

AVR was first applicable in 1992, and the original instructions and line names included references to specific SCA valuation categories for the SCA common stock lines for “affiliated – certain other.” However over time specific references to SCA valuations associated with the “affiliated – certain other” were removed from the AVR schedule and instructions which caused the distinction between the line categories for “affiliated certain other” and “affiliated other” to become unclear.

This agenda item provides a recommendation to clarify the reporting for these categories based on an overview of key research points from using the NAIC library resources, to review historical AVR instructions and schedules and the references to the SCA valuation methods previously within in the *Securities Valuation Office (SVO) Purpose & Procedures Manual* (P&P Manual) and the guidance currently in the *Accounting Practices and Procedures Manual*.

As detailed below in the agenda item under “Key Points in Historical Research” NAIC staff has identified that the historical intent of what is “line 15 - Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries” is most similar to the current methods of SCA valuation in *SSAP No. 97—Investments in Subsidiary Controlled and Affiliated Entities* described below. Note that because of existing “Line 4 - Subsidiary, Controlled or Affiliated Common Stocks – Life Insurers with an AVR” are excluded from line 15:

1. U.S. insurance companies using the methodology detailed in SSAP No. 97, paragraph 8.b.i. This is an equity method using audited statutory accounting principles valuation. The historical wording referenced in the in the SVO P&P Manual for this line was book equity of common stock issued by a U.S. insurer.
2. Non-insurance companies (foreign and domestic) using the methodology detailed in SSAP No. 97, paragraph 8.bii. This is an equity method using audited generally accepted accounting principles (GAAP) with limited statutory adjustments. The historical wording for this line initially noted non-insurance companies and the value of assets if held directly by an insurer. The historical intent of this wording is to arrive at either a statutory accounting valuation or a SAP like valuation for the assets.

Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to the Life, Accident & Health/Fraternal Annual Statement blank and instructions as described below. In addition, the Life Risk-based Capital (E) Working Group should be notified of the exposure. No revisions to statements of statutory accounting principles are recommended. After exposure of this agenda item, NAIC staff recommend that the Working Group sponsor a blanks proposal to incorporate instruction changes to the noted AVR reporting lines, as well as to review other AVR reporting lines to ensure the instructions are accurate.

The proposed revisions detailed in the agenda include SCAs with statutory accounting impacted valuations (excluding life SCAs that have an AVR) in line 15, receiving a lower RBC charge as the “SCA – Certain Other” category, and all other SCAs captured in line 16.

1. Line 15 - Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries be updated to include:
 - a. Remove the reference to the SVO Purposes & Procedures Manual in the line name in the annual statement.
 - b. Add references to SSAP No. 97, paragraph 8.b.i (audited U.S. Insurers SAP equity) and paragraph 8.b.ii (audited GAAP for a non-insurance entity with limited SAP adjustments) to the instructions. This is consistent with specific historical SVO references that the line includes valuations with statutory adjustments. Note that historical information did not include foreign insurance entities.
 - c. Note that because of existing AVR Common Stock Line 4 - Affiliated Life insurance with AVR are excluded from line 15 and NAIC staff recommend that this be stated.

2. Line 68 - Investments with the Underlying Characteristics of Common Stock – Affiliated Certain Other (See SVO Purposes & Procedures Manual)
 - a. Remove the reference to the SVO Purposes & Procedures Manual in the line name in the annual statement. Add SAP equity to line 15 name.
 - b. Include in line 68 investments with more than a minor ownership interest as described in SSAP No. 48 which are valued in accordance with SSAP No. 97, paragraph 8.b.i.; or paragraph 8.b.ii. and explicitly note that this line does not include life entities with AVR which are reported in line 67.
 - c. Note that the instructions for lines 65-68 are quite brief, so NAIC staff would recommend further instructions to these lines. With the sponsored blanks proposal for this item, NAIC staff will work with the Blanks team to proposed clarifying edits to these lines, as well as the corresponding common stock lines.
 - d. Note the currently exposed blanks proposal number 2025-27BWG affects the AVR schedule and instructions to add a section on collateralized loan obligations (CLO), collateralized bond obligations (CBO) and collateralized debt obligations (CDO). This will require line renumbering of the AVR schedule and lines. The line numbers that will match the line numbers if that proposal is adopted are shown in the agenda item for ease of review.

Note: NAIC staff has also identified that Schedule S, Part 8, will need to be updated in a separate blanks proposal for 2027 to match the new AVR reporting categories in 2025-27BWG. This will be an ongoing coordination that will occur at the Blanks (E) Working Group as the intent is for Schedule S, Part 8 to match the AVR schedule reporting categories.

3. Line 69 - Investments with the Underlying Characteristics of Common Stock – Affiliated Other – All Other revisions have been proposed to add instruction for line 69 that parallels the guidance for line 16 - Subsidiary, Controlled or Affiliated Common Stocks – Other.

Comment deadline for items exposed is Monday, June 22.

**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	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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 participation¹. 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.

Footnote 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.

Footnote 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.)

SSAP No. 46—Investments in Subsidiary, Controlled and Affiliated Entities
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);

SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities

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*

Footnote 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.**

2023 RBC Forecasting and Instructions:

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 – 5/22 Interim Meeting:

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 participation¹, or mortgage loans acquired through a qualifying investment in a statutory trust. Investments that reflect “participating mortgages,” “mortgage loan fund,” “bundled mortgage loans²” or the “securitization of assets” are not considered mortgage loans within scope

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

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 trust³.
 - 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.)

³ 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.
- 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

27. 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.

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 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 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 REPAYED 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 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.

Status:

On May 22, 2025, the Statutory Accounting Principles (E) Working Group exposed revisions SSAP No. 37— *Mortgage Loans* to expand the scope to include qualifying investment trusts holding residential mortgage loans for reporting on Schedule B – Mortgage Loans.

On July 8, 2025, the Statutory Accounting Principles (E) Working Group received formal comments from interested parties on the draft exposed on 5/22. These comments were in addition to informal interim discussions on the draft prior to the comment letter. The following represent a summary of interested parties comments:

1. Regarding ownership of the trust’s assets, title to the RMLs is held by the trustee on behalf of the trust. The books and records of the trust then allocate a beneficial interest in each loan to a specific series. Same goes for any other assets of the trust. Some updates will be needed to the current Exposure Draft to reflect how these structures operate from a legal perspective.
 - a. *NAIC Staff have made some additional changes to better reflect this dynamic in the draft below, but welcome further recommendations from interested parties to ensure SSAP language accurately reflect these structures.*

2. Interested parties believe that the same requirements that apply to RMLs directly held and accounted for under SSAP No. 37 – *Mortgage Loans* should apply to the RMLs owned through a trust. As stated above, since all the risks and rewards related to ownership of the RMLs pass through to the insurer, this makes the most sense from a reporting perspective. Therefore, second lien loans should be allowed and RML participations of less than 100% should be allowed as well, consistent with SSAP No. 37.
 - a. *NAIC staff agree with this change and have updated the draft below with language which would*

- allow the same types of RML allowed under SSAP No. 37 as long as the mortgage loans are legally separate and divisible.*
3. The trust should be allowed to pledge the RMLs for the benefit of the insurer. Suggested language was discussed to make this clear in the Exposure Draft.
 - a. *NAIC staff agree that clarification is necessary. As discussed, RMLs are frequently pledged as collateral for lines of credit or other borrowings (e.g. FHLB), and these arrangements are not problematic as long as the insurer is the pledgor. The primary concern arises when trust assets are pledged or encumbered by the statutory trust to a third party, and not on behalf of the insurer. To address this, NAIC staff consolidated the pledge guidance into a new paragraph in the admittance section of the SSAP clarifying that assets held in a qualifying statutory trust may be pledged by the insurer but will be non-admitted to the extent they are pledged or encumbered to a third party due to actions taken by the trust.*
 4. The Exposure Draft included a request for input on the appropriate reporting for foreclosed real estate that becomes an asset of the trust. Interested parties believe that any real estate assets, cash, or other assets related to investing in the RMLs such as receivables as well as liabilities, should be reported as if held directly by the insurer since the insurer gets all the risks and rewards of ownership. We also understand that it may be common for the trust to set up an LLC to own foreclosed real estate. If that is the case, since SSAP No. 40 – *Real Estate Investments* allows for single, wholly-owned real estate held in an LLC to be directly reported on Schedule A, we believe the same look-through provision would apply here and the insurer would report the real estate as directly owned.
 - a. *NAIC staff do not disagree with the inclusion of real estate acquired via foreclosure, especially as this situation is likely to occur at some point or another and have reflected this as an allowable asset within a qualifying statutory trust. However, we do not agree with the recommendation to allow foreclosed real estate to be held within an LLC wholly owned by the qualifying statutory trust. This would result in qualifying statutory trusts with subsidiary holdings which introduces another layer of complexity; the original intent of this project was to draft guidance to allow for pass-through accounting and reporting for RMLs held within statutory trusts and while some allowances have been made to allow for necessary activity NAIC staff does not believe these allowance should include wholly-owned subsidiaries.*
 5. We suggest changing the name from statutory trust to a qualifying trust. A trust can be a statutory trust or a common law trust. We understand that a statutory trust can have series whereas common law trusts do not, but both types can be used to hold RMLs on behalf of the insurer.
 - a. *NAIC staff disagree with this recommendation. Statutory trusts are created under and governed by specific state statutes, are recognized as separate legal entities, and typically require formal registration or filing with a state authority, such as the Secretary of State. These trusts operate within a clearly defined legal framework that establishes governance, liability protections, and oversight requirements. This statutory structure provides greater legal certainty, consistency across jurisdictions, and more reliable protections for both the trust and its beneficiaries or investors.*
In contrast, common law trusts are established under general legal principles derived from case law and judicial precedent. Formation does not require registrations with state agencies and can be formed simply through a trust agreement or declaration. Common law trusts are also often not treated as separate legal entities, but rather as a fiduciary relationship depending on the

jurisdiction. Common law trusts offer broader structural flexibility, but this comes at the cost of legal certainty, consistency, and enforceability. Liability protections are less robust, and courts in other jurisdictions may not recognize the trust as a distinct legal entity or uphold provisions such as limited liability for investors.

The primary concern with allowing common law trusts is the potential for regulatory uncertainty and increased risk. Their flexible nature and lack of standardized governance could result in inconsistent treatment, complicate oversight, and increase the risk profile of the assets held in trust. There is also a material risk that certain jurisdictions may refuse to recognize the trust structure entirely or may not enforce key provisions, undermining regulatory safeguards and investor protections.

6. Interested parties question whether disclosure of fees paid to the servicer is a critical disclosure. We have received feedback that this information is confidential and could impact competitive market practices among servicers. Since such disclosure is not required for RMLs/CMLs directly owned and managed by a third-party servicer, we suggest that this disclosure be removed. In addition, the last sentence of paragraph 2 b (iv) implies that the loans will not be disclosed individually as it states “the detail must contain at a minimum, the same information as would be required were the mortgage loans to be individually reported on Schedule B.” If the ultimate decision is to report the loans individually on Schedule B, then this sentence should be removed.
 - a. *NAIC staff noted that the main concern the fee disclosure was to trying to address was excessive fees. However, based on the comments from IPs and discussions amongst the NAIC staff team, this disclosure was eliminated. This situation would be highly unlikely to occur unless a related party or affiliate were involved in administering the trust. It was also noted that since revenue and expenses are to be reported as if directly incurred by the insurer, then these activities would be subject to the related party and affiliate disclosure required by SSAP No. 25. To be clear on this point, the following paragraph was added to the draft revisions:*

“Revenue and expenses shall be accounted for as if they were directly incurred by the insurer and, accordingly, are subject to the same reporting and disclosure requirements that would normally apply. This includes, but is not limited to, the related party and affiliate disclosures required under SSAP No. 25, Affiliates and Other Related Parties.”
7. In item 27.b., interested parties believe the materiality qualifier should apply to both parts of the disclosure (litigation and state or federal regulatory review).
 - a. *NAIC staff agree with this comment and have updated the draft accordingly.*
8. Interested parties suggest adding a code to the residential mortgage loan sections of Schedule B to note loans that are held in statutory trusts so that directly held loans versus loans held in trust are easily identifiable by the regulators.
 - a. *NAIC staff agree with this comment and have updated the draft accordingly.*
9. Interested parties also suggest adding guidance in the Exposure Draft for RMLs held in trusts that do not meet the proposed criteria, so that it is clearer how those investments should be accounted for and reported.
 - a. *NAIC staff agree with this comment and have revised the draft to clarify that non-qualifying statutory trusts must comply with the applicable SSAP. No single SSAP was referenced as trust*

structures and their uses vary widely. As a result, referencing only one SSAP would be inappropriate, and it would be impractical to address all possible trust types and provide specific SSAP references for each.

10. *During interim discussions, interested parties also recommended revisions to allow qualifying statutory trusts to receive other assets that constitute proceeds of such mortgage loan. However, NAIC staff are concerned that this language could permit virtually any type of asset to be held and reported within a qualifying statutory trust, so long as it is received as proceeds from RMLs. It is unclear how often non-cash assets are received in these situations, and additional detail would be helpful. Specifically, the types of assets received, how frequently this occurs, and whether such assets are typically converted to cash by the trust.*

STAFF RECOMMENDATION – 2025 SUMMER NATIONAL MEETING:

NAIC staff met with industry representatives in the interim and have incorporated revisions for consideration. We recommend that the Working Group expose an updated draft of revisions to expand the scope of SSAP No. 37—Mortgage Loans to include qualifying investment trusts holding residential mortgage loans to be reported Schedule B – Mortgage. Key revisions include:

- Proposed updates to permit qualifying statutory trusts to hold cash and cash equivalents, and real estate obtained through foreclosure, along with clarification on the applicability of SSAP No. 2 and SSAP No. 40.
- Replacement of the restriction to first-lien mortgages with broader language permitting any single residential mortgage loan eligible under SSAP No. 37 to be held in a qualifying statutory trust.
- Removal of the requirement that qualifying statutory trusts may only hold first lien single residential mortgage loans and the requirement to hold the entire loan.
- Additional criteria for a qualifying statutory trust series which requires the qualifying trust to maintain separate and distinct records from the overall statutory trust and other series.
- Clarification that an insurer may pledge qualifying statutory trust assets as collateral; however, assets encumbered or pledged to a third party by action of the statutory trust itself are nonadmitted.
- Eliminated the management fee disclosure.
- New requirement to disclose a summary of assets and liabilities held within qualifying statutory trusts. Since such balances are to be reported as if directly held by the insurer, this disclosure is intended to provide regulators with a high-level overview of the balances held within the trust(s).

Proposed Revisions – Summer National Meeting:

Drafting Note: Changes made since previous exposure shown with grey fill.

SSAP No. 2—Cash, Cash Equivalents, Drafts, and Short-Term Investments

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles and related reporting for cash, cash equivalents, drafts and short-term investments. Cash and cash equivalents which are beneficially owned by the

insurer through an investment in a qualifying statutory trust, as defined under *SSAP No. 37—Mortgage Loans*, fall within the scope of this statement and shall be reported as if directly held by the reporting entity. If the qualifying statutory trust is part of a trust series where cash is held in a joint account and each series holds a beneficial interest, only the portion beneficially owned by the insurer through the qualifying statutory trust shall be reported.

SSAP No. 40—Real Estate Investments
SUMMARY CONCLUSION

3. Real estate investments include certain acquisition, development and construction arrangements (ADC) as defined in *SSAP No. 38—Acquisition, Development and Construction Arrangements*; and real estate held within a qualifying statutory trust(s) that was acquired due to events described in *SSAP No. 37—Mortgage Loans*, paragraph 18, and shall be reported as if directly held by the reporting entity.

DISCLOSURES

27. An entity that holds real estate investments through an LLC, which qualifies for inclusion in this statement because all the criteria in paragraph 4 are met, shall separately report each investment on Schedule A, and code the real estate as wholly-owned through an LLC. A reporting entity that holds real estate investments through a qualifying statutory trust in accordance with *SSAP No. 37*, shall separately report each investment on Schedule A, and code the real estate as owned through a qualifying statutory trust.

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 participation⁴, or mortgage loans acquired through an

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

investment in a qualifying statutory trust as defined in paragraph 2.b. Investments that reflect “participating mortgages,” “mortgage loan fund,” “bundled mortgage loans⁵” or the “securitization of assets” are not considered mortgage loans within scope of this SSAP. Nonqualifying statutory trusts shall be accounted for and reported in accordance with the applicable statement of statutory accounting principle. Regardless of whether reported on Schedule B or another schedule, all statutory trusts beneficially or directly 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, an unincorporated association 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 be considered a qualifying statutory trust and reported as a mortgage loan within scope of this statement, the statutory trust being invested in must have and maintain all of the following characteristics:
 - i. The statutory trust must be domiciled in a U.S. state or territory.
 - i. Beneficial ownership in the statutory trust must be evidenced by a certificate or registered as an uncertificated interest within the statutory trust register.
 - ii. The reporting entity must hold an ~~has exclusive~~, 100% undivided beneficial ownership interest in all assets of the statutory trust, or in all assets of a specific series of a statutory

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 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.)

trust that has separate series⁶. Such beneficial ownership interest must be evidenced by a certificate or registered as an uncertificated interest within the statutory trust register.

- iii. All assets of the statutory trust may only consist of are to be in first lien single residential mortgage loan agreements (meaning each to be legally separate and divisible) of a type that could otherwise be directly held by the reporting entity under SSAP No. 37; real estate of which the statutory trust acquires ownership due to events described in paragraph 18; or cash and cash equivalents that constitute proceeds of such mortgage loans or are required for the acquisition, ownership and management of such mortgage loans. The insurer shall also report and account for assets and liabilities of the statutory trust as if they were directly held by the insurer. Statutory trusts which have pledged, or otherwise encumbered, trust assets to secure financing would fail this criterion.
 - (a) Mortgage loans shall be reported on Schedule B in accordance with this statement.
 - (b) Cash and cash equivalents shall be reported in accordance with *SSAP No. 2—Cash, Cash Equivalents, Drafts and Short-Term Investments*.
 - (c) Real estate directly held by statutory trust shall be reported on Schedule A and as “Held for Sale” in accordance with *SSAP No. 40—Real Estate Investments*.
 - (d) Liabilities of the statutory trust shall be reported in accordance with the applicable statement of statutory accounting principle.
 - (e) Revenue and expenses shall be accounted for as if they were directly incurred by the insurer and, accordingly, are subject to the same reporting and disclosure requirements that would normally apply. This includes, but is not limited to, the related party and affiliate disclosures required under *SSAP No. 25, Affiliates and Other Related Parties*.
- iv. The statutory trust must maintain all requisite documents and records in accordance with the applicable state statutes. The trust must also maintain (either directly or through a custodian) 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.

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 of a statutory trust to meet the criterion described in paragraph 2b.ii, the trust agreement must explicitly provide for the limitation of liabilities of each series, the reporting entity must hold 100% undivided beneficial ownership interest in all assets of that the statutory trust series, the series must own all of each single mortgage loan agreement held as asset, the reporting entity’s ownership and ability to divest its interest in the series must not be contingent upon its ownership interest in any other series of the statutory trust, and the series trust must maintain distinct and separate records from those of the overall trust and other series.

For example, if a statutory trust has Series A through C, and the reporting entity has a 100% beneficial ownership interest in of Series A but only a 50% ownership interest in 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.

v. 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, facilitating financing arrangements, etc.). Transactions of the qualifying statutory trust shall be reported as transactions of the reporting entity pursuant to the guidance in this statement.

ii-vi. All cash flows from the single residential mortgage loan agreements must flow through the statutory trust directly to the reporting entity, with the exception of customary and reasonable fees to the statutory trust manager/servicer, trustee, custodian or similar third-party service providers, or to make payment on any financing secured by the residential mortgages.

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.

a. Statutory trust assets that are pledged as collateral or otherwise encumbered through action of the insurer, or by the trustee acting on the insurer’s behalf, shall be reported as restricted assets and are permitted for admittance subject to the provisions of *INT 01-31: Assets Pledged as Collateral*. Statutory trust assets that are pledged or otherwise encumbered to a third party due to actions taken by the statutory trust (including pledges of trust assets not on behalf of the insurer) shall be nonadmitted in accordance with *SSAP No. 4, footnote 2*.

Disclosures

28. 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*. Transactions of the statutory trusts within the scope of *SSAP No. 25* shall also be disclosed.

ii. Description of each statutory trust must include the U.S. state(s) in which the statutory trust is qualified to do business.

~~the aggregate 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.~~

iii. Summary of assets and liabilities held within qualifying statutory trusts; aggregated by total residential mortgage loans, real estate acquired through foreclosure, cash and cash equivalents, and liabilities (if any) to be shown by reporting line.

b. Disclosure of any material litigation and any kind of material 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. The underlying loans held by within qualifying investments in a statutory trust(s) must be disaggregated by group (loan standing) and subgroup (loan type), as shown below.

For accounting guidance related to foreign currency transactions and translations, refer to *SSAP No. 23—Foreign Currency Transactions and Translations*.

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 within 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.”

If the residential mortgage loan is held in a qualifying statutory trust, enter “T”.

If the mortgage loan is 100% first lien, enter “1”.

If the mortgage loan is not a first lien, including those with a combination of first and subordinate liens, enter “2”.

Otherwise, leave the column blank.

Column 21 – State of Domicile (Statutory Trust Only)
Report the two-character U.S. postal abbreviation for the U.S. state or territory 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."

If the residential mortgage loan is held in a qualifying statutory trust, enter "T".

If the mortgage loan is 100% first lien, enter "1".

If the mortgage loan is not a first lien, including those with a combination of first and subordinate liens, enter "2".

Otherwise, leave the column blank.

Column 15 – State of Domicile (Statutory Trust Only)

Report the two-character U.S. postal abbreviation for the U.S. state or territory 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.”
If the residential mortgage loan is held in a qualifying statutory trust, enter “T.”
If the mortgage loan is 100% first lien, enter “1.”
If the mortgage loan is not a first lien, including those with a combination of first and subordinate liens, enter “2”.
Otherwise, leave the column blank.
- Column 24 – State of Domicile (Statutory Trust Only)
Report the two-character U.S. postal abbreviation for the U.S. state or territory the statutory trust is domiciled within.

On August 11, 2025, the Statutory Accounting Principles (E) Working Group exposed an updated draft of revisions to expand the scope of SSAP No. 37 to include qualifying investment trusts holding residential mortgage loans to be reported Schedule B – Mortgage. This updated draft, as shown above under the 2025 Summer National Meeting Staff Recommendation, reflects changes made by NAIC staff based on further research as well as discussions with interested parties. Changes from the prior exposure are shaded.

On December 9, 2025, the Statutory Accounting Principles (E) Working Group adopted revisions to broaden the scope of SSAP No. 37 to include qualifying investment trusts that hold residential mortgage loans (RMLs) and require reporting of RMLs held in qualifying statutory trusts on Schedule B – Mortgage Loans. Additional revisions

to SSAP No. 2 and SSAP No. 40 establish guidance for the reporting of cash and cash equivalents and foreclosed real estate held within a qualifying statutory trust. The adopted revisions are shown on pages 24-33 under the “Fall National Meeting Updated Revisions.”

On March 23, 2026, the Statutory Accounting Principles (E) Working Group exposed a draft issue paper to detail for historical purposes the discussions and conclusions that occurred when developing the guidance for residential mortgage loans held in qualifying statutory trusts.

Fall National Meeting Updated Revisions:

Drafting Note: Changes made since previous exposure shown with grey fill.

SSAP No. 2—Cash, Cash Equivalents, Drafts, and Short-Term Investments
SCOPE OF STATEMENT

2. This statement establishes statutory accounting principles and related reporting for cash, cash equivalents, drafts and short-term investments. Cash and cash equivalents, which are beneficially owned by the insurer through an investment in a qualifying statutory trust, as defined under SSAP No. 37—Mortgage Loans, fall within the scope of this statement and shall be reported as if directly held by the reporting entity. If the qualifying statutory trust is part of a trust series where cash is held in a joint account and each series holds a beneficial interest, only the portion beneficially owned by the insurer through the qualifying statutory trust shall be reported.

SSAP No. 40—Real Estate Investments
SUMMARY CONCLUSION

3. Real estate investments also include:

a. ~~€~~Certain acquisition, development and construction arrangements (ADC) as defined in SSAP No. 38—Acquisition, Development and Construction Arrangements;

a-b. ~~and~~ Real estate held within a qualifying statutory trust(s), as defined in SSAP No. 37—Mortgage Loans, that was acquired ~~due to events described through an in-substance repossession or foreclosure in accordance with SSAP No. 37, paragraph 18,~~ and shall be reported as if directly held by the reporting entity.

4. A single real estate property investment that is wholly owned by an LLC that is directly- and wholly owned either by the reporting entity or a qualifying statutory trust shall be captured within this statement and reported on Schedule A, Real Estate, if all of the following criteria are met. Real estate owned through an LLC that meets the stated criteria shall follow all statutory requirements within this statement . Real estate owned through an LLC that does not meet the criteria shall be reported on Schedule BA, Other Long-Term Invested Assets. Regardless of whether reported on Schedule A or Schedule BA, all LLC's owned by the reporting entity shall be detailed in Schedule Y.

DISCLOSURES

27. An entity that holds real estate investments through an LLC, which qualifies for inclusion in this statement because all the criteria in paragraph 4 are met, shall separately report each investment on Schedule A, and code the real estate as wholly-owned through an LLC. A reporting entity that holds real estate investments through a qualifying statutory trust in accordance with SSAP No. 37 shall separately report each investment on Schedule A, and code the real estate as owned through a qualifying statutory trust.

38. The guidance on residential mortgage loans within qualifying statutory trusts adopted in SSAP No. 37—Mortgage Loans also addresses certain types of foreclosed real estate within such trusts that are held, either directly or through an LLC that is directly and wholly owned by a qualifying statutory trust. The effective date and transition guidance for impacted real estate within these structures shall follow the guidance detailed in SSAP No. 37.

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 participation⁷, or mortgage loans acquired through an investment in a qualifying statutory trust as defined in paragraph 2.b. Investments that reflect “participating mortgages,” “mortgage loan fund,” “bundled mortgage loans⁸” or the “securitization of assets” are not considered mortgage loans within scope of this SSAP. Nonqualifying statutory trusts shall be accounted for and reported in accordance with the applicable statement of statutory accounting principle. Regardless of whether reported on Schedule B or another schedule, all statutory trusts beneficially or directly owned by the reporting entity shall be detailed in Schedule Y. The accounting, reporting, and admittance guidance reflected for qualifying statutory trusts should not be inferred to apply to nonqualifying statutory trusts or any other type of trust.

- 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:

⁷ 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.

⁸ 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.)

- 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 an unincorporated association created as a trust under state statute, a common example of which would be Delaware statutory trusts (DSTs). To be considered a qualifying statutory trust and reported as a mortgage loan within scope of this statement, the statutory trust being invested in must have and maintain all of the following characteristics:
- i. The statutory trust must be domiciled in a U.S. state or territory.
 - ii. The reporting entity must hold a 100% undivided beneficial ownership interest in all assets of the statutory trust, or in all assets of a specific series of a statutory trust that has separate series⁹. Such beneficial ownership interest must be evidenced by a certificate or registered as an uncertificated interest within the statutory trust register.
 - iii. Assets of the statutory trust may only consist of single residential mortgage loan agreements (meaning each to be legally separate and divisible) of a type that could otherwise be directly held by the reporting entity under SSAP No. 37; residential real estate of which the statutory trust has acquired ownership due to events described in accordance with paragraph 18 through an in substance repossession or foreclosure; or cash and cash equivalents that constitute proceeds of such mortgage loans or are required for the acquisition, ownership, and management of such mortgage loans. The insurer shall also report and account for assets and liabilities of the statutory trust as if they were directly held by the insurer:
 - (a) Mortgage loans held by the qualifying statutory trust shall be reported on Schedule B in accordance with this statement.
 - (b) Cash and cash equivalents held by the qualifying statutory trust shall be reported in accordance with SSAP No. 2—Cash, Cash Equivalents, Drafts and Short-Term Investments.

⁹ 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 of a statutory trust to meet the criterion described in paragraph 2.b.ii., the trust agreement must explicitly provide that the liabilities of each series are enforceable only against the assets of that series. For the limitation of liabilities of each series, the reporting entity must hold 100% undivided beneficial ownership interest in all assets of that series, the reporting entity's ownership and ability to divest its interest in the series must not be contingent upon its ownership interest in any other series of the statutory trust, and the series trust must maintain distinct and separate records from those of the overall trust and other series.

For example, if a statutory trust has Series A through C and the reporting entity has a 100% beneficial ownership interest in Series A but only a 50% ownership interest in Series B, only the investment in Series A would meet this criterion.

- (c) Real estate directly held by the qualifying statutory trust shall be reported on Schedule A and classified as "Held for Sale" in accordance with SSAP No. 40—Real Estate Investments. Such properties must either be directly owned by the qualifying statutory trust or held by the qualifying statutory trust as single residential real estate investments that are directly and wholly owned through a limited liability company (LLC), provided they meet all requirements outlined in SSAP No. 40, paragraph 4.
 - (d) Liabilities of the qualifying statutory trust shall be reported in accordance with the applicable statement of statutory accounting principles.
 - (e) Revenue and expenses of the qualifying statutory trust shall be accounted for as if they were directly incurred by the insurer and, accordingly, are subject to the same reporting and disclosure requirements that would normally apply. This includes, but is not limited to, the related party and affiliate disclosures required under SSAP No. 25—Affiliates and Other Related Parties.
- iv. The statutory trust must maintain all requisite documents and records in accordance with the applicable state statutes. The trust must also maintain (either directly or through a custodian) 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.
 - v. 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, facilitating financing arrangements, etc.). Transactions of the qualifying statutory trust shall be reported as transactions of the reporting entity pursuant to the guidance in this statement.
 - vi. All cash flows from the single residential mortgage loan agreements must flow through the statutory trust directly to the reporting entity, with the exception of customary and reasonable fees to the statutory trust manager/servicer, trustee, custodian or similar third-party service providers, or to make payment on any financing secured by the residential mortgages.

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.

- a. Statutory trust Assets of a qualifying statutory trust that are pledged as collateral or otherwise encumbered through action of the insurer, or by the trustee acting on the insurer's behalf, shall be reported as restricted assets and are permitted for admittance subject to the provisions of INT 01-31: Assets Pledged as Collateral. Statutory trust assets that are pledged or otherwise encumbered to a third party due to actions taken by the qualifying statutory trust (including pledges of trust assets not on behalf of the insurer) shall be nonadmitted in accordance with SSAP No. 4, footnote 2.

Disclosures

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

- a. A description of the qualifying statutory trust(s). Mortgage loans held in qualifying statutory trusts must be separately reported on Schedule B in accordance with the annual statement instructions.
 - i. If the qualifying statutory trust(s) holds any amount of subprime mortgages, the reporting entity must disclose this fact in the description of the qualifying statutory trust(s) and complete the subprime mortgage disclosures as detailed in SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures. Transactions of the qualifying statutory trusts within the scope of SSAP No. 25 shall also be disclosed.
 - ii. The description of each qualifying statutory trust must include specify its state of domicile as well as each U.S. state(s) and/or foreign country, if applicable, in which the qualifying statutory trust is qualified holds residential mortgage loans.
 - iii. Summary of assets and liabilities held within qualifying statutory trusts; aggregated by total residential mortgage loans, real estate acquired through foreclosure, cash and cash equivalents, and liabilities (if any) to be shown by reporting line.
- b. Disclosure of any material litigation and any kind of material state or federal regulatory review and/or action concerning the qualifying statutory trust(s).
- c. Disclosure of financing transactions of any sort which are secured, directly or indirectly, by statutory trust assets.
- 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.

Effective Date and Transition

32. This statement is effective for years beginning January 1, 2001. Initial recognition of the impairment losses resulting from the application of this statement shall apply to mortgage loans held at January 1, 2001, and be based on management's best estimates as of that date. Insurers shall release all unamortized amounts included in IMR related to prepayment penalties upon adoption of Codification and recognize such change in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors. 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. The guidance in this paragraph related to unamortized amounts included in IMR was originally contained within INT 99-04: Recognition of Prepayment Penalties Upon Adoption of Codification and was effective March 8, 1999.

33. The adoption of ASU 2014-14 and the adoption with modification of ASU 2014-04 (detailed in paragraphs 18-22 and 26.e.) shall be applied prospectively from the date of adoption (March 28, 2015). With this prospective application, guidance adopted from ASU 2014-14 applies to all foreclosures that occur after the date of adoption, and guidance from ASU 2014-04 applies to all instances of the reporting entity receiving physical possession of real estate property collateralized by mortgage loans that occur after the date of adoption.

34. The guidance for qualifying statutory trusts adopted on December 9, 2025, shall be applied prospectively as of January 1, 2027, with early adoption permitted. For statutory trusts held prior to the effective date and

considered qualifying per this statement, the insurer shall transfer all trust activities, assets, and liabilities at book/adjusted carrying value and ensure each is reported in accordance with this statement. A change resulting from the adoption of this guidance shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors. Subsequent Measurement of transferred assets and liabilities are subject to the applicable SSAPs as described in paragraphs 5.b.iii.(a)-(d).

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. The underlying Residential mortgage loans held within qualifying statutory trust(s) are separately reported in this same manner must be reported disaggregated by group (loan standing) and subgroup (loan type), as shown below.

For accounting guidance related to foreign currency transactions and translations, refer to SSAP No. 23—Foreign Currency Transactions and Translations.

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 within qualifying 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.”
- If the residential mortgage loan is held in a qualifying statutory trust, enter “T”.
- If the mortgage loan is 100% first lien, enter “1”.
- If the mortgage loan is not a first lien, including those with a combination of first and subordinate liens, enter “2”.
- Otherwise, leave the column blank.

~~Column 21 – State of Domicile (Statutory Trust Only)~~

~~Report the two-character U.S. postal abbreviation for the U.S. state or territory 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.”

If the residential mortgage loan is held in a qualifying statutory trust, enter “T”.

If the mortgage loan is 100% first lien, enter “1”.

If the mortgage loan is not a first lien, including those with a combination of first and subordinate liens, enter “2”.

Otherwise, leave the column blank.

Column 15 – State of Domicile (Statutory Trust Only)

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

SCHEDULE B – PART 3

MORTGAGE LOANS DISPOSED, TRANSFERRED OR REPAYED 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.”
If the residential mortgage loan is held in a qualifying statutory trust, enter “T”.
If the mortgage loan is 100% first lien, enter “1”.
If the mortgage loan is not a first lien, including those with a combination of first and subordinate liens, enter “2”.
Otherwise, leave the column blank.

~~Column 24 – State of Domicile (Statutory Trust Only)
Report the two character U.S. postal abbreviation for the U.S. state or territory the statutory trust is domiciled within.~~

SCHEDULE A – PART 1

REAL ESTATE OWNED DECEMBER 31 OF CURRENT YEAR

Real estate includes land, buildings and permanent improvements (includes real estate owned under contract of sale). Also include single real estate property wholly owned by an LLC that meets the criteria set forth in SSAP No. 40—Real Estate Investments. All other real estate owned indirectly (such as through joint ventures) should be included in Schedule BA. The purpose for this schedule is to report individually each property owned, classified into categories that separately identify properties occupied by the reporting entity, properties held for the production of income, and properties held for sale.

Report each Real Estate project under development in the category where it will ultimately reside, (e.g., a project under development that will be owned for the production of income should be reported in properties held for the production of income category). Refer to SSAP No. 40—Real Estate Investments and SSAP No. 90—Impairment or Disposal of Real Estate Investments for accounting guidance.

Column 18 – Investment Characteristics

If the characteristic below does not apply, then leave the column blank.

1. Single real estate property wholly owned by an LLC that meets the criteria set forth in SSAP No. 40—Real Estate Investments. For LLCs that do not meet criteria set forth in SSAP No. 40—Real Estate Investments, report on Schedule BA.
2. A single real estate property that is directly and wholly owned by a qualifying statutory trust, which is defined in SSAP No. 37—Mortgage Loans.
3. A single real estate property that is directly owned through an LLC that is wholly owned by a qualifying statutory trust and meets the criteria in SSAP No. 40.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2026/03-23-26SpringNationalMeeting/Exposures/25-13-StatutoryTrusts.docx>

Statutory Issue Paper No. 172

Qualifying Statutory Trusts

STATUS

Exposure draft March 23, 2026

Authoritative Guidance under Revision: SSAP No. 2, SSAP No. 37, and SSAP No. 40

Type of Issue:

Common Area

SUMMARY OF ISSUE

1. The purpose of this issue paper is to document for the historical record the conceptual changes to statutory accounting guidance detailed in agenda item 2025-18: Residential Mortgage Loans Held in Statutory Trusts.
2. The conceptual revisions are primarily to *Statement of Statutory Accounting Principles (SSAP) No. 37—Mortgage Loans* which established new accounting guidance for residential mortgage loans held within qualifying statutory trusts effective January 1, 2027. The adopted revisions to *SSAP No. 2—Cash, Cash Equivalents, Drafts, and Short-Term Investments*, *SSAP No. 37*, and *SSAP No. 40—Real Estate Investments* are illustrated as tracked changes in Exhibit A, respectively.
3. Agenda item 2025-18 was drafted in response to interested parties' comments on agenda item 2024-21: Investment Subsidiaries. Comments from interested parties noted that a significant portion 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 laws, which allows for significant flexibility in structuring the trust. There are several reasons for reporting entities to hold residential mortgage loans in statutory trusts rather than through direct investment, but one of the main reasons communicated by industry is that the use of statutory trust to hold residential mortgages eliminates certain administrative issues. Were an insurer to invest directly in residential mortgages, they would have to maintain a state lending license for each state where they hold residential mortgage loan investments. However, if the insurer uses a statutory trust to hold its residential mortgage loan investments, a national or federal savings bank can be appointed as the trustee. Federal preemption exempts national banks and federal savings banks from state lending license requirements. When such an institution serves as trustee of a statutory trust, the origination, holding, and administration of residential mortgage loans by the trust are conducted in the bank's fiduciary capacity. Because the statutory trust holds legal title to the mortgage loans and the trustee bank exercises its federally authorized powers in administering those assets, the bank's activities are subject to federal banking law rather than state law.

DISCUSSION

Initial Draft

4. The initial draft of this project was directed by the Working Group at the 2025 Spring National Meeting and was initially specific to DSTs. The primary objective was to create a narrow exception within SSAP No. 37 that would allow reporting entities to hold residential mortgage loans in certain kinds of trusts. Regulators emphasized the need for sufficient guardrails to prevent this exception from inadvertently creating new regulatory challenges

or allowing risk-based capital (RBC) arbitrage involving risky or nonadmitted assets held in qualifying statutory trusts. These guardrails led to the development of the qualifying statutory trust concept, which places restrictions on the types of assets and mortgage loans permitted within qualifying statutory trusts and prohibits both activities unrelated to the ownership and management of the residential mortgages and nested subsidiaries (the trust owning limited liability companies (LLCs) within LLCs). The goal and purpose of the qualifying statutory trust concept is to ensure that only statutory trusts meeting strict structural and operational criteria fall under the scope of SSAP No. 37.

5. The revisions initially proposed to SSAP No. 37 were developed through research and discussions with both the Working Group and interested parties. This draft allowed for certain statutory trusts holding exclusively residential mortgage loans to be within scope of SSAP No. 37 and reported on Schedule B - Mortgage Loans. While performing research, it was noted that several states have statutory trust laws with varying levels of similarity to Delaware. In consideration of this, the proposed guidance was expanded to include statutory trusts domiciled in other U.S. states. The initial draft also introduced the concept of a qualifying statutory trust, under which a statutory trust must meet and maintain specific qualifying characteristics to be within the scope of SSAP No. 37.

Foundational Concepts

6. The following are concepts foundational to understanding statutory trusts and the adopted guidance:
- a. **Statutory Trusts** – A statutory trust is an unincorporated association created pursuant to a state trust statute operating within a defined statutory framework governing formation, governance, liability limitations, and fiduciary oversight. Statutory Trusts typically involve three principal parties: the Trust itself, the Trustee who administers the trust, and Beneficial Owners who hold beneficial interests in the trust. Statutory trust may also have another separate party involved, the sponsor. The sponsor forms the trust and selects properties for acquisition, and while the trustee and sponsor are often the same entity, this is not always the case. One important consideration is that statutory trusts are highly flexible structures that may be customized through their governing instruments. The specific rights, powers, and obligations of the trustee and beneficial owners are determined by the trust agreement, subject to compliance with applicable statutory requirements. As a result, trust structures and governing provisions may vary significantly from one statutory trust to another. In a typically statutory trust structure, the Trust itself owns its assets, while the Trustee holds title only in a representative capacity on behalf of the Trust. Income generated by the Trust's are allocated and distributed to Beneficial Owners of the Trust in accordance with the terms of the trust agreement.
 - b. **Beneficial Interest/Ownership** – Beneficial ownership refers to an investor's interest in a statutory trust and their associated right to share in the economic benefits of the trust's assets, including profits, losses, and distributions. As provided in the trust agreement, beneficial owners are entitled to receive allocations of profits and losses, distributions, and other economic returns in proportion to their beneficial interests. Beneficial ownership confers economic and contractual rights only and does not include legal title to, or direct control over, the statutory trust's assets, which are owned by the trust and administered by the trustee in a fiduciary capacity.
 - c. **Series Statutory Trusts** – Some statutory trusts may be formed with designated separate series, where each series is intended to operate distinctly from the statutory trust as a whole and from other series within the same trust. Typically, the creation, rights, and limitations of series statutory trusts are to be expressly established in the statutory trust agreement, and each series is required

to maintain separate and distinct records, assets, and liabilities, segregated from those of the overall trust and from other series. One of the key features of a series statutory trust is its ability to insulate each of the series from liabilities incurred by other series.

It should be noted that inter-series limitation of liability is a conditional feature of a statutory trust. To be valid, series statutory trusts must be in compliance with applicable state statutory requirements, including explicit authorization in the governing instrument and maintenance of segregated books, records, and asset accounting. Statutory trust statutes vary by state, so investors and other stakeholders should review the specific statutory provisions and any additional requirements in the jurisdiction of domicile to determine what conditions must be met for a series to have enforceable liability segregation.

SSAP No. 37, footnote 3, provides the criterion which must be met and maintained for a series statutory trust to be considered qualifying.

Scope of Adopted Revisions

7. In the initial draft of the exposed revisions to SSAP No. 37, the proposed guidance limited qualifying statutory trusts to holding only fully owned first lien residential mortgage loans. Interested parties provided comments noting that the same requirements that apply to residential mortgage loans directly held and accounted for under SSAP No. 37 should apply to the residential mortgage loans (RMLs) owned through a trust. As all the risks and rewards related to ownership of the RMLs pass through to the insurer, this makes the most sense from a reporting perspective. Therefore, second lien loans should be allowed and RML participations of less than 100% should be allowed as well, consistent with SSAP No. 37. The Working Group agreed with this change and updated the draft revisions to allow that qualifying statutory trusts may hold any kind of RML which is already allowed under the scope of SSAP No. 37 as long as the residential mortgage loans are legally separate and divisible.

8. Interested parties requested at various points in the public comment process that the Working Group expand the scope of the proposed guidance to allow for both common law trusts and statutory trusts as both types can be used to hold RMLs on behalf of the insurer. The Working Group disagreed with this recommendation and did not incorporate this revision into the proposed guidance. The following was part of the Working Group discussion points regarding these comments:

Statutory trusts are created under and governed by specific state statutes, are recognized as separate entities, and typically require formal registration or filing with a state authority, such as the Secretary of State. These trusts operate within a clearly defined legal framework that establishes governance, liability protections, and oversight requirements. This statutory structure provides greater legal certainty, consistency across jurisdictions, and more reliable protections for both the trust and its beneficiaries or investors.

In contrast, common law trusts are established under general legal principles derived from case law and judicial precedent. Formation does not require registrations with state agencies and can be formed simply through a trust agreement or declaration. Common law trusts are also often not treated as separate entities, but rather as a fiduciary relationship depending on the jurisdiction. Common law trusts offer broader structural flexibility, but this comes at the cost of legal certainty, consistency, and enforceability. Liability protections are less robust, and courts in other jurisdictions may not recognize the trust as a distinct entity or uphold provisions such as limited liability for investors.

The primary concern with allowing common law trusts is the potential for regulatory uncertainty and increased risk. Their flexible nature and lack of standardized governance could result in inconsistent treatment, complicate oversight, and increase the risk profile of the assets held in trust. There is also a material risk that certain jurisdictions may refuse to recognize the trust structure entirely or may not enforce key provisions, undermining regulatory safeguards and investor protections.

9. During discussions it was noted that there was no specific guidance for RMLs held in trusts that do not meet the qualifying statutory trust criteria or any indication of which SSAP the insurer should reference. The draft revisions were updated to clarify that non-qualifying statutory trusts must comply with the applicable SSAP; however, no single SSAP was referenced as trust structures and their uses vary widely. As a result, referencing only one SSAP would be inappropriate, and it would be impractical to address every possible trust type with a specific SSAP reference.

10. The revisions adopted to SSAP No. 37 require reporting entities to apply the guidance to all qualifying statutory trusts. In other words, application of the adopted guidance is not optional for statutory trusts which meet the qualifying criteria. This is consistent with the approach used for real estate held in LLCs in scope of SSAP No. 40. In addition, the adopted revisions also effectively remove qualifying statutory trusts from the subsidiary audit requirement that exists for SSAP No. 48 investments; however, the investments and related activity are required to be reported as if directly held by the reporting entity and would be subject to audit testing procedures as part of the reporting entity's audit.

Allowable Assets

11. During discussions, industry provided both formal and informal comments on which assets should be permitted in a qualifying statutory trust and on the appropriate reporting for real estate foreclosed upon by the statutory trust. Industry's position was that any real estate, cash and cash equivalents, or other assets related to investing in the RMLs, such as receivables and associated liabilities, should be reported as if held directly by the reporting entity since the investor bears all risks and rewards of ownership. The Working Group agreed that the assets allowed within a qualifying statutory trust should be expanded beyond those proposed in the initial draft, but emphasized that the guidance should reflect that qualifying statutory trusts are not to be used for purposes beyond holding and servicing RMLs and related activities. Accordingly, the Working Group made revisions to the proposed guidance to permit qualifying statutory trusts to hold cash equivalents (expanded from cash only) and to allow real estate to be held but only if it was acquired via foreclosure from a mortgage loan held by the trust (expanded from fully disallowed).

12. Additionally, the Working Group did not incorporate revisions proposed by industry to allow other assets to be received as income from RMLs held by the qualifying statutory trusts. The concern was that such language could effectively permit almost any type of asset to be held and reported within a qualifying statutory trust, so long as it is originated from RML proceeds.

13. The criterion described in SSAP No. 37, paragraph 2.b.v. prohibits a qualifying statutory trust from engaging in activities unrelated to the ownership and management of the residential mortgages. While foreclosed real estate may be held within qualifying statutory trusts, the trust's direct ownership of real estate is intended to be a temporary arrangement lasting only as long as is necessary to dispose of the property. Holding and operating a real estate property within the trust for an extended period of time would almost certainly generate operational and financial activity that would cause the statutory trust to lose its qualifying status.

14. One topic discussed at length by industry and the Working Group was whether qualifying statutory trusts should be allowed to hold foreclosed real estate within wholly owned LLCs. Interested parties noted that it is common practice for statutory trusts to set up an LLC to own foreclosed real estate. Since SSAP No. 40 permits single, wholly-owned real estate held in an LLC to be directly reported on Schedule A – Real Estate, the argument was made that a similar look-through provision should apply here, with the insurer reporting the real estate as directly owned. While bank trustees are generally comfortable holding legal title to mortgage loans and serving as lender of record, some are reluctant to hold title to foreclosed real estate due to potential property-related liabilities. As a result, trustees commonly transfer title of such assets to a single-member LLC 100% owned by the trust prior to foreclosure. Initially, regulators rejected this proposal due to the concerns that allowing LLCs within a qualifying statutory trust would increase complexity and reduce transparency. There were also concerns that companies could nest LLCs within a qualifying statutory trust, making it difficult to determine the actual assets held.

15. Following further discussions with regulators and industry after the 2025 Summer National Meeting, it was determined that restricting qualifying statutory trusts to only direct ownership of foreclosed real estate would lead to several legal and operational challenges, including lack of liability protection, trustee restrictions on holding real estate directly, and potential state transfer taxes and fees. While the Working Group recognized that allowing wholly-owned LLCs within qualifying statutory trusts adds complexity, it concluded that using wholly-owned LLCs to hold foreclosed real estate was the most practical approach to mitigate these risks and avoid costs that could otherwise undermine the statutory trust structure's purpose. The adopted revisions allow qualifying statutory trusts to utilize wholly owned LLCs solely to hold foreclosed real estate and expressly prohibit nested LLCs by requiring that LLCs be owned directly by the statutory trust.

Reporting and Disclosures

16. During the initial drafting process, consideration was given to whether residential loans held in qualifying statutory trusts should be reported separately or on an aggregate basis on Schedule B. Aggregate reporting (i.e., by trust) was initially considered due to the high volume of residential mortgage loans and the relatively low individual loan balances compared to the mortgage loans typically purchased by reporting entities. However, it was ultimately determined that aggregate reporting would require significant structural changes to Schedule B. Even if the substantial reporting changes identified were implemented, the discussion identified unresolved questions which remained regarding whether individual mortgage additions and subtractions within a trust would still need to be reported separately. Regulators also expressed concerns that, while more streamlined, aggregate reporting would provide limited actionable information, potentially requiring routine requests for detailed mortgage activity listings to adequately evaluate activity within the trust. Based on this analysis, the initial draft required separate reporting of mortgage loans held within qualifying statutory trusts on Schedule B. This approach offers two major benefits in that regulators will have ready access to detailed mortgage loan information, and separate reporting does not require major structural changes to Schedule B.

17. The initial draft exposure included a disclosure of the fees paid to the servicer, which was intended to allow regulators to easily identify excessive fees. Interested parties noted that this information is confidential and could impact competitive market practices among servicers and that such a disclosure was not required for RMLs/CMLs directly owned and managed by a third-party servicer. The Working Group agreed that the disclosure was not necessary and removed it from the proposed revisions. The Working Group also noted that the potential for excessive fees would be most likely in situations where the servicer was an affiliate or related party, in which case the expenses would already be subject to the related party and affiliate disclosure required by SSAP No. 25. To clarify this point, the following paragraph was added to the draft revisions:

“Revenue and expenses shall be accounted for as if they were directly incurred by the insurer and, accordingly, are subject to the same reporting and disclosure requirements that would normally apply. This includes, but is not limited to, the related party and affiliate disclosures required under SSAP No. 25, Affiliates and Other Related Parties.”

Admittance and Pledging

18. Under the adopted guidance, assets held within a qualifying statutory trust would generally be reported as admitted. However, if the statutory trust itself pledges or otherwise encumbers trust assets to a third party, not on behalf of the insurer, the insurer’s investment in those assets is nonadmitted. This guidance is intended to prevent situations in which a third party could obtain a claim on trust assets. Accordingly, reporting entities should carefully consider the qualifying statutory trust admittance guidance when choosing between a leveraged statutory trust structure and an all-cash statutory trust structure. In practice:

- a. If the qualifying statutory trust pledges its assets as collateral to obtain financing for the trust, the insurer’s interest in the trust’s assets would be nonadmitted.
- b. If the insurer reporting entity pledges its beneficial interest in the qualifying statutory trust’s assets as collateral for its own borrowings (for example, pledging residential mortgage loans pledged as collateral for Federal Home Loan Bank borrowings), the trust assets remain admitted but are required to be reported as restricted assets.

Effective Date of Adopted Guidance

19. Interested parties recommended that the adopted guidance have an effective date of January 1, 2027, but also requested that early adoption be permitted. They noted that statutory trusts holding residential mortgage loans are already held by some reporting entities, and for reporting entities entering into these investments, early adoption would allow reporting on Schedule B, thereby avoiding future transfers between schedules to comply with statutory reporting requirements. This recommendation was discussed by the Working Group, and ultimately regulators agreed that since these investments are already being inconsistently reported by insurers, allowing early adoption is appropriate. This would enable balances to be reported and accounted for consistently among early adopters.

While the adopted revision includes changes to the Blanks to improve reporting of mortgage loans and foreclosed real estate held within qualifying statutory trust, no new reporting lines or columns were added. The proposed Schedule B reporting codes could not be added to the Blanks until the 2026 year-end reporting period; however, the Working Group does not anticipate any structural issues for companies electing early adoption in 2025 or throughout 2026. Once a reporting entity adopts the guidance, the qualifying statutory trust investments must be moved from their prior reporting location, such as Schedule BA for trusts structured as SSAP No. 48 entities or from Schedule D-2-2 for those structured as SCAs. The adopted revisions include transition guidance specifying movement at book adjusted carrying value (BACV) to avoid a gain or loss when transferring the investments.

ACTIONS OF THE STATUTORY ACCOUNTING PRINCIPLES (E) WORKING GROUP

20. On May 22, 2025, the Statutory Accounting Principles (E) Working Group exposed revisions *SSAP No. 37—Mortgage Loans* to expand the scope to include qualifying investment trusts holding residential mortgage loans for reporting on Schedule B – Mortgage Loans.

21. On July 8, 2025, the Statutory Accounting Principles (E) Working Group received formal comments from interested parties on the draft exposed on May 22. These comments were in addition to informal interim discussions on the draft prior to the comment letter. A summary of those comments and responses from NAIC staff are detailed within the agenda item.

22. On August 11, 2025, the Statutory Accounting Principles (E) Working Group exposed an updated draft of revisions to expand the scope of SSAP No. 37 to include qualifying investment trusts holding residential mortgage loans to be reported Schedule B – Mortgage Loans. Key revisions include:

- a. Proposed updates to permit qualifying statutory trusts to hold cash and cash equivalents, and real estate obtained through foreclosure, along with clarification on the applicability of SSAP No. 2 and SSAP No. 40.
- b. Replacement of the restriction to first-lien mortgages with broader language permitting any single residential mortgage loan eligible under SSAP No. 37 to be held in a qualifying statutory trust, and removal of the requirement for statutory trust series to hold the entire tranche of each residential loan.
- c. Additional criteria for a qualifying statutory trust series which requires the qualifying trust to maintain separate and distinct records from the overall statutory trust and other series.
- d. Clarification that an insurer may pledge qualifying statutory trust assets as collateral; however, assets encumbered or pledged to a third party by action of the statutory trust itself are nonadmitted.
- e. Eliminated the management fee disclosure as this information was determined to not be of significant importance to regulators.
- f. New requirement to disclose a summary of assets and liabilities held within qualifying statutory trusts. Since such balances are to be reported as if directly held by the insurer, this disclosure is intended to provide regulators with a high-level overview of the balances held within the trust(s).

23. On October 22, 2025, the Statutory Accounting Principles (E) Working Group received formal comments from interested parties on the draft exposed on Aug. 10. All of the revisions recommended by interested parties in these comments were incorporated into the proposed revisions.

24. On December 9, 2025, the Statutory Accounting Principles (E) Working Group adopted revisions to broaden the scope of SSAP No. 37 to include qualifying investment trusts that hold RMLs and require reporting of RMLs held in qualifying statutory trusts on Schedule B – Mortgage Loans. Additional revisions to SSAP No. 2 and SSAP No. 40 establish guidance for the reporting of cash and cash equivalents and foreclosed real estate held within a qualifying statutory trust. The adopted guidance included the following key revisions:

- a. Added guidance to SSAP No. 37 and SSAP No. 40 permitting real estate acquired through foreclosure to be held within an LLC that is wholly and directly owned by a qualifying statutory trust. The proposed revisions to SSAP No. 40 further clarify that real estate must be owned by an LLC directly and wholly owned by either the reporting entity or a qualifying statutory trust. This means LLCs must be held directly by the qualifying statutory trust and cannot be layered (for example, an LLC wholly-owned by an LLC wholly-owned by the qualifying statutory trust).

- b. Added an additional reporting code to Schedule A to indicate whether a real estate investment is directly held by a qualifying statutory trust or an LLC directly held by a qualifying statutory trust.
- c. The proposed Schedule B reporting column for “State of Domicile” was deleted. Upon further review, NAIC concluded that this detail is more appropriately included as a note in the financial statements, rather than being required for each residential mortgage loan on Schedule B.
- d. Transition guidance was added for statutory trusts held prior to the effective date and considered qualifying by the guidance proposed by this agenda item. The transition guidance requires that reporting entities with qualifying statutory trusts transfer all trust activities, assets, and liabilities at book value and ensure each is properly reported in accordance with SSAP No. 37.

25. On **March 23, 2026**, the Statutory Accounting Principles (E) Working Group exposed a draft of the Statutory Trusts Issue Paper.

26. On March 5, 2026, the Blanks (E) Working Group adopted 2025-28BWG Modified which contained recommendations for the annual statement instructions for Schedule A and Schedule B.

26-27. On May 18, 2026, the Statutory Accounting Principles (E) Working Group adopted Issue Paper No. 172 Qualifying Statutory Trusts.

RELEVANT STATUTORY ACCOUNTING AND U.S. GAAP GUIDANCE

Statutory Accounting

- *SSAP No. 2—Cash, Cash Equivalents, Drafts, and Short-Term Investments*
- *SSAP No. 37—Mortgage Loans,*
- *SSAP No. 40—Real Estate Investments*

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/05-18-2026/02 - 25-13a - Statutory Trusts Issue Paper #172.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2026/05-18-2026/02%20-%2025-13a%20-%20Statutory%20Trusts%20Issue%20Paper%20#172.docx)

EXHIBIT A - ADOPTED REVISIONS TO STATEMENTS OF STATUTORY ACCOUNTING PRINCIPLES:

SSAP No. 2—Cash, Cash Equivalents, Drafts, and Short-Term Investments

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles and related reporting for cash, cash equivalents, drafts and short-term investments. Cash and cash equivalents, which are beneficially owned by the insurer through an investment in a qualifying statutory trust, as defined under SSAP No. 37—Mortgage Loans, fall within the scope of this statement and shall be reported as if directly held by the reporting entity. If the qualifying statutory trust is part of a trust series where cash is held in a joint account and each series holds a beneficial interest, only the portion beneficially owned by the insurer through the qualifying statutory trust shall be reported.

SSAP No. 40—Real Estate Investments

SUMMARY CONCLUSION

3. Real estate investments also include:

a. ~~€~~Certain acquisition, development and construction arrangements (ADC) as defined in SSAP No. 38—Acquisition, Development and Construction Arrangements;

~~a-b.~~ Real estate held within a qualifying statutory trust(s), as defined in SSAP No. 37—Mortgage Loans, that was acquired through an in-substance repossession or foreclosure in accordance with SSAP No. 37, paragraph 18.

4. A single real estate property investment that is wholly owned by an LLC that is directly and wholly owned either by the reporting entity or a qualifying statutory trust shall be captured within this statement and reported on Schedule A, Real Estate, if all of the following criteria are met. Real estate owned through an LLC that meets the stated criteria shall follow all statutory requirements within this statement. Real estate owned through an LLC that does not meet the criteria shall be reported on Schedule BA, Other Long-Term Invested Assets. Regardless of whether reported on Schedule A or Schedule BA, all LLC's owned by the reporting entity shall be detailed in Schedule Y.

DISCLOSURES

27. An entity that holds real estate investments through an LLC, which qualifies for inclusion in this statement because all the criteria in paragraph 4 are met, shall separately report each investment on Schedule A, and code the real estate as wholly-owned through an LLC. A reporting entity that holds real estate investments through a qualifying statutory trust in accordance with SSAP No. 37 shall separately report each investment on Schedule A.

38. The guidance on residential mortgage loans within qualifying statutory trusts adopted in SSAP No. 37—Mortgage Loans also addresses certain types of foreclosed real estate within such trusts that are held, either directly or through an LLC that is directly and wholly owned by a qualifying statutory trust. The effective date and transition guidance for impacted real estate within these structures shall follow the guidance detailed in SSAP No. 37.

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 participation¹, or mortgage loans acquired through an investment in a qualifying statutory trust as defined in paragraph 2.b. Investments that reflect “participating mortgages,” “mortgage loan fund,” “bundled mortgage loans²” or the “securitization of assets” are not considered mortgage loans within scope of this SSAP. Nonqualifying statutory trusts shall be accounted for and reported in accordance with the applicable statement of statutory accounting principle. Regardless of whether reported on Schedule B or another schedule, all statutory trusts beneficially or directly owned by the reporting entity shall be detailed in Schedule Y. The accounting, reporting, and admittance guidance reflected for qualifying statutory trusts should not be inferred to apply to nonqualifying statutory trusts or any other type of trust.

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.)

- 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 an unincorporated association created as a trust under state statute, a common example of which would be Delaware statutory trusts. To be considered a qualifying statutory trust and reported as a mortgage loan within scope of this statement, the statutory trust being invested in must have and maintain all of the following characteristics:
- i. The statutory trust must be domiciled in a U.S. state.
 - ii. The reporting entity must hold a 100% undivided beneficial ownership interest in all assets of the statutory trust, or in all assets of a specific series of a statutory trust that has separate series³. Such beneficial ownership interest must be evidenced by a certificate or registered as an uncertificated interest within the statutory trust register.
 - iii. Assets of the statutory trust may only consist of single residential mortgage loan agreements (meaning each to be legally separate and divisible) of a type that could otherwise be directly held by the reporting entity under SSAP No. 37; residential real estate of which the statutory trust has acquired in accordance with paragraph 18 through an in substance repossession or foreclosure; or cash and cash equivalents that constitute proceeds of such mortgage loans or are required for the acquisition, ownership, and management of such mortgage loans. The insurer shall also report and account for assets and liabilities of the statutory trust as if they were directly held by the insurer:
 - (a) Mortgage loans held by the qualifying statutory trust shall be reported on Schedule B in accordance with this statement.

³ 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 of a statutory trust to meet the criterion described in paragraph 2.b.ii., the trust agreement must explicitly provide that the liabilities of each series are enforceable only against the assets of that series, the reporting entity must hold 100% undivided beneficial ownership interest in all assets of that series, the reporting entity’s ownership and ability to divest its interest in the series must not be contingent upon its ownership interest in any other series of the statutory trust, and the series trust must maintain distinct and separate records from those of the overall trust and other series.

For example, if a statutory trust has Series A through C and the reporting entity has a 100% beneficial ownership interest in Series A but only a 50% ownership interest in Series B, only the investment in Series A would meet this criterion.

- (b) Cash and cash equivalents held by the qualifying statutory trust shall be reported in accordance with SSAP No. 2—Cash, Cash Equivalents, Drafts and Short-Term Investments.
- (c) Real estate held by the qualifying statutory trust shall be reported on Schedule A and classified as “Held for Sale” in accordance with SSAP No. 40—Real Estate Investments. Such properties must either be directly owned by the qualifying statutory trust or held by the qualifying statutory trust as single residential real estate investments that are directly and wholly owned through a limited liability company (LLC), provided they meet all requirements outlined in SSAP No. 40, paragraph 4.
- (d) Liabilities of the qualifying statutory trust shall be reported in accordance with the applicable statement of statutory accounting principles.
- (e) Revenue and expenses of the qualifying statutory trust shall be accounted for as if they were directly incurred by the insurer and, accordingly, are subject to the same reporting and disclosure requirements that would normally apply. This includes, but is not limited to, the related party and affiliate disclosures required under SSAP No. 25—Affiliates and Other Related Parties.

iv. The statutory trust must maintain all requisite documents and records in accordance with the applicable state statutes.

v. 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, facilitating financing arrangements, etc.). Transactions of the qualifying statutory trust shall be reported as transactions of the reporting entity pursuant to the guidance in this statement.

~~vi.~~ All cash flows from the single residential mortgage loan agreements must flow through the statutory trust directly to the reporting entity, with the exception of customary and reasonable fees to the statutory trust manager/servicer, trustee, custodian or similar third-party service providers, or to make payment on any financing secured by the residential mortgages.

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.

- a. Assets of a qualifying statutory trust that are pledged as collateral or otherwise encumbered through action of the insurer, or by the trustee acting on the insurer’s behalf, shall be reported as restricted assets and are permitted for admittance subject to the provisions of INT 01-31: Assets Pledged as Collateral. Statutory trust assets that are pledged or otherwise encumbered to a third party due to actions taken by the qualifying statutory trust (including pledges of trust assets not on behalf of the insurer) shall be nonadmitted in accordance with SSAP No. 4, footnote 2.

Disclosures

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

- a. A description of the qualifying statutory trust(s). Mortgage loans held in qualifying statutory trusts must be separately reported on Schedule B in accordance with the annual statement instructions.
 - i. If the qualifying statutory trust(s) holds any amount of subprime mortgages, the reporting entity must disclose this fact in the description of the qualifying statutory trust(s) and complete the subprime mortgage disclosures as detailed in SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures. Transactions of the qualifying statutory trusts within the scope of SSAP No. 25 shall also be disclosed.
 - ii. The description of each qualifying statutory trust must specify its state of domicile as well as each U.S. state(s) and/or foreign country, if applicable, in which the qualifying statutory trust holds residential mortgage loans .
 - iii. Summary of assets and liabilities held within qualifying statutory trusts; aggregated by total residential mortgage loans, real estate acquired through foreclosure, cash and cash equivalents, and liabilities (if any) to be shown by reporting line.
- b. Disclosure of material litigation and any kind of material state or federal regulatory review and/or action concerning the qualifying statutory trust(s).
- c. Disclosure of financing transactions of any sort which are secured, directly or indirectly, by statutory trust assets.
- 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.

Effective Date and Transition

32. This statement is effective for years beginning January 1, 2001. Initial recognition of the impairment losses resulting from the application of this statement shall apply to mortgage loans held at January 1, 2001, and be based on management's best estimates as of that date. Insurers shall release all unamortized amounts included in IMR related to prepayment penalties upon adoption of Codification and recognize such change in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors. 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. The guidance in this paragraph related to unamortized amounts included in IMR was originally contained within INT 99-04: Recognition of Prepayment Penalties Upon Adoption of Codification and was effective March 8, 1999.

33. The adoption of ASU 2014-14 and the adoption with modification of ASU 2014-04 (detailed in paragraphs 18-22 and 26.e.) shall be applied prospectively from the date of adoption (March 28, 2015). With this prospective application, guidance adopted from ASU 2014-14 applies to all foreclosures that occur after the date of adoption, and guidance from ASU 2014-04 applies to all instances of the reporting entity receiving physical possession of real estate property collateralized by mortgage loans that occur after the date of adoption.

34. The guidance for qualifying statutory trusts adopted on December 9, 2025, shall be applied prospectively as of January 1, 2027, with early adoption permitted. For statutory trusts held prior to the effective date and considered qualifying per this statement, the insurer shall transfer all trust activities, assets, and liabilities at book/adjusted carrying value and ensure each is reported in accordance with this statement. A change resulting from the adoption of this guidance shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors. Subsequent measurement of transferred assets and liabilities are subject to the applicable SSAPs as described in paragraphs 5.b.iii.(a)-(d).

**NAIC Accounting Practices and Procedures Manual
Editorial and Maintenance Update
2026 Spring National Meeting**

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

SSAP/Appendix	Description/Revision
<p align="center">SSAP No. 15 SSAP No. 52</p>	<p><i>SSAP No. 15—Debt and Holding Company Obligations</i> <i>SSAP No. 52—Deposit-Type Contracts</i></p> <p>Delete the word “Funding” at the beginning of the paragraph that describes FHLB agreements. Only FHLB agreements that are deposit-type contracts shall be captured as “funding agreements.” This has caused confusion with reporting. As noted in both paragraphs, agreements in debt form are captured in SSAP No. 15.</p>
<p align="center">Various</p>	<p><i>Revise “CUSIP” to “Security Identifier”</i></p> <p>As investments are reported using other indicators besides a CUSIP (e.g., CINS, PPN, ISIN, etc.), an initiative is to replace terminology to reflect “Security Identifier” to reflect all possible sources.</p>
<p align="center">Various</p>	<p>Revisions to add “U.S.” before generally accepted accounting principles or GAAP as appropriate.</p>

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. 15—Debt and Holding Company Obligations and SSAP No. 52—Deposit-Type Contracts:

Delete the word “funding” at the beginning of the paragraph. Only FHLB agreements that are deposit-type contracts shall be captured as “funding agreements.”

SSAP No. 15—Debt and Holding Company Obligations:

19. ~~Funding~~ Agreements issued to a federal home loan bank (FHLB) shall be evaluated on an individual basis, and shall be accounted for according to the substance of the individual arrangement and entity licensing. If the arrangement is in substance a funding agreement, including that the funds are used in an investment spread capacity, it shall be accounted for consistent with other funding agreements in accordance with *SSAP No. 52—Deposit-Type Contracts*. If the arrangement is in substance a borrowing agreement, it shall be accounted for in accordance with this statement, consistent with other borrowed money.

SSAP No. 52—Deposit-Type Contracts:

17. ~~Funding a~~Agreements issued to a Federal Home Loan Bank (FHLB) shall be evaluated on an individual basis and shall be accounted for according to the substance of the individual arrangement and entity licensing. If the arrangement is in substance a funding agreement, including that the funds are used in an investment spread capacity, it shall be accounted for consistent with other funding agreements in accordance with this statement. If the arrangement is in substance a borrowing agreement, it shall be accounted for in accordance with *SSAP No. 15—Debt and Holding Company Obligations*, consistent with other borrowed money.

2. **Various SSAP Reference to Replace CUSIP with Security Identifier:**

SSAP No. 21—Other Admitted Assets: Paragraph 27.n.

27.n. For securities sold, redeemed, or otherwise disposed as a result of a callable feature (including make whole call provisions), disclose the number of ~~investmentsCUSIPs~~ sold (by Security Identifier), disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee.

SSAP No. 26—Bonds: Paragraphs 35.b. & 35.c., 40.I., footnote 23, and Exhibit B Table Header:

35.b. Designated use of a systematic value is an irrevocable election per qualifying investment (by ~~Security IdentifierCUSIP~~) at the time investment is originally acquired¹⁹. Investments owned prior to being identified by the SVO as a qualifying SSAP No. 26 investment are permitted to be subsequently designated to the systematic value measurement method. This designation shall be applied as a change in accounting principle pursuant to SSAP No. 3—Accounting Changes and Corrections of Errors, which requires the reporting entity to recognize a cumulative effect to adjust capital and surplus as if the systematic value measurement method had been applied retroactively for all prior periods in which the investment was held. The election to use systematic value for investments shall be made before the yearend reporting of the investment in the year in which the SVO first identifies the investment as a qualifying SSAP No. 26 investment.

35.c. Once designated for a particular investment, the systematic value measurement method must be retained as long as the qualifying investment is held by the reporting entity and the investment remains within the scope of this statement with an allowable NAIC designation per paragraph 35.a. Upon a full sale/disposal of an SVO-identified investment (elimination of the entire ~~CUSIP Security Identifier~~ investment), after 90 days the reporting entity can reacquire the SVO-identified investment and designate a different measurement method. If the reporting entity was to reacquire the same investment within 90 days after it was sold/disposed, the reporting entity must utilize the measurement method previously designated for the investment. Subsequent/additional purchases of the same SVO-identified investment (same ~~CUSIP Security Identifier~~) already held by a reporting entity must follow the election previously made by the reporting entity. If an investment no longer qualifies for a systematic value measurement because the NAIC designation has declined, then the security must be subsequently reported at the lower of “systematic value” or fair value. If the security has been removed from the SVO-identified listings, and is no longer in scope of this statement, then the security shall be measured and reported in accordance with the applicable SSAP.

40.I. For securities sold, redeemed or otherwise disposed as a result of a call or tender offer feature (including make-whole call provisions), disclose the number of ~~investmentsCUSIPs~~ sold (by Security Identifier), disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee;

Footnote 23: The guidance in this statement allows different measurement methods by qualifying investment (by ~~CUSIP~~ Security Identifier), but it is anticipated that companies will generally utilize a consistent approach for all qualifying investments.

Exhibit B Table Header:

CUSIP <u>Security Identifier</u>	ASOF_DATE	CALL_TYPE	CASHFLOW_DATE	INTEREST	PRINCIPAL	CASHFLOW
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SSAP No. 34—Investment Income Due and Accrued: Footnote 1

Footnote 1: In disclosing the cumulative amount of PIK interest, identify the specific amounts of PIK interest by lot and aggregate the amounts by ~~CUSIP/PPN~~ Security Identifier that have a net increase to the original par value. The net increase includes PIK interest added to the par value less disposals (i.e., repayments; sales) that are first applied to any PIK interest outstanding. As a practical expedient, an insurer may calculate the cumulative amount of PIK interest on a bond by subtracting the original principal/par value from the current principal/par value, but not less than \$0.

SSAP No. 43—Asset-Backed Securities: Paragraphs 39.a., 40.b., 40.c., 44.o., QA Question 8

39.a. Financial Modeling: Pursuant to the P&P Manual, the NAIC identifies select securities where financial modeling must be used to determine the NAIC designation. For a modeled RMBS/CMBS legacy security, meaning one which closed prior to January 1, 2013, the NAIC designation is based on financial modeling incorporating the insurers' carrying value. For a modeled RMBS/CMBS non-legacy security, meaning one which closed after December 31, 2012, or modeled CLO, the NAIC designation and NAIC designation category assigned by the NAIC Securities Valuation Office must be used. For those RMBS/CMBS legacy securities that are financially modeled, the insurer must use NAIC ~~CUSIP~~ Security Identifier specific modeled breakpoints provided by the modelers in determining initial and final designation for these identified securities. As specified in the P&P Manual, a modeled legacy security RMBS or CMBS tranche that has no expected loss, as compiled and published by the NAIC Securities Valuation Office, under any of the selected modeling scenarios would be assigned an NAIC 1 designation and NAIC 1.A designation category regardless of the insurer's book/adjusted carrying value. The three-step process for modeled RMBS/CMBS legacy securities is as follows:

- i. Step 1: Determine Initial Designation – The current amortized cost (divided by remaining par amount) of an asset-backed security is compared to the modeled breakpoint values assigned to each NAIC designation and NAIC designation category for each ~~CUSIP~~ Security Identifier to establish the initial NAIC designation.
- ii. Step 2: Determine Carrying Value Method – The carrying value method, either the amortized cost method or the lower of amortized cost or fair value method, is then determined as described in paragraph 11 based upon the initial NAIC designation from Step 1.

- iii. Step 3: Determine Final Designation – The final NAIC designation is determined by comparing the carrying value (divided by remaining par amount) of a security (based on paragraph 39.a.ii.) to the NAIC CUSIP–Security Identifier specific modeled breakpoint values assigned to the NAIC designation and NAIC designation category for each CUSIP–Security Identifier or is mapped to an NAIC designation category, according to the instructions in the P&P Manual. This final NAIC designation shall be applicable for statutory accounting and reporting purposes and the NAIC designation category will be used for investment schedule reporting and establishing RBC and AVR charges. The final NAIC designation is not used for establishing the appropriate carrying value method in Step 2 (paragraph 39.a.ii.).
40. For securities that will be financially modeled under paragraph 39, the guidance in this paragraph shall be applied in determining the reporting method for such securities acquired in the current year for quarterly financial statements. Securities reported as of the prior-year end shall continue to be reported under the prior year end methodology for the current year quarterly financial statements. For year-end reporting, securities shall be reported in accordance with paragraph 39, regardless of the quarterly methodology used.
- a. Reporting entities that acquired the entire financial modeling database for the prior-year end are required to follow the financial modeling methodology (paragraph 39.a.) for all securities acquired in the subsequent year that were included in the financial modeling data acquired for the prior year-end.
 - b. Reporting entities that acquired identical securities (identical CUSIPSecurity Identifier) to those held and financially modeled for the prior year-end are required to follow the prior year-end financial modeling methodology (paragraph 39.a.) for these securities acquired subsequent to year-end.
 - c. Reporting entities that do not acquire the prior-year financial modeling information for current-year acquired individual CUSIPs investments (by Security Identifier), and are not captured within paragraphs 40.a. or 40.b., are required to follow the analytical procedures for non-financially modeled securities (paragraph 39.b. as appropriate) until the current year financial modeling information becomes available and then follow the procedures for financially modeled securities (paragraph 27, as appropriate). Reporting entities that do acquire the individual investment (by Security Identifier) CUSIP–information from the prior-year financial modeling database shall use that information for interim reporting.
 - d. Reporting entities that acquire securities not previously modeled at the prior year-end are required to follow the analytical procedures for non-financially modeled securities (paragraph 39.b. as appropriate) until the current year financial modeling information becomes available and then follow the procedures for financially modeled securities (paragraph 27, as appropriate).
- 44.o. For securities sold, redeemed or otherwise disposed as a result of a callable feature (including make whole call provisions), disclose the number of investmentsCUSIPs sold (by Security

Identifier), disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee;

QA - Question 8:

8. Question – Do ABS purchased in different lots result in a different NAIC designation for the same CUSIP Security Identifier? Can reporting entities use a weighted average method determined on a legal entity basis?

- 8.1 Under the financial modeling process (applicable to qualifying RMBS/CMBS reviewed by the NAIC Structured Securities Group), the amortized cost of the security impacts the “final” NAIC designation used for reporting and RBC purposes. As such, securities subject to the financial modeling process acquired in different lots can result in a different NAIC designation for the same CUSIP Security Identifier. In accordance with the current instructions for calculating AVR and IMR, reporting entities are required to keep track of the different lots separately, which means reporting the different designations. For reporting purposes, if a SSAP No. 43 security (by CUSIP Security Identifier) has different NAIC designations by lot, the reporting entity shall either 1) report the aggregate investment with the lowest applicable NAIC designation or 2) report the investment separately by purchase lot on the investment schedule. If reporting separately, the investment may be aggregated by NAIC designation. (For example, all acquisitions of the identical CUSIP investment (by Security Identifier) resulting with an NAIC 1 designation may be aggregated, and all acquisitions of the identical CUSIP investment (by Security Identifier) resulting with an NAIC 3 designation may be aggregated.)

INT 07-01: Application of the Scientific (Constant Yield) Method in Situations of Reverse Amortization: Paragraph 14 Example

14. Parity occurs because the accrual date, usually the last day of the month, is many days prior to the payment date, typically 15, or 25 days for a mortgage backed security, and up to 45, or 55 days (or longer) for a collateralized mortgage obligation. The following is a simplified example using a mortgage backed security. The assumption is that the security is purchased at a slight premium (price = 100.1000). Because of day delay, however, the parity price is not 100, but is approximately 99.90.

CUSIP Security Identifier: 123456-AB-1 (Made up)

Description: Sample Mortgage Backed Security

Final payment date: 01/15/2006

Int Rate: 5.50%

Day Delay: 44

CPR: 6%

Purchase Date: 2/15/2004

Purchase Price: 100.1000

Par Purchased: 1,000,000.00

Annual Yield (SIA) 5.16841%

Periodic (monthly) Yield 0.43070%

Interest Rate 5.500%

INT 19-02: Freddie Mac Single Security Initiative: Paragraph 2.b.

- 2.b. Most elements of the new 55-day security received upon exchange will exactly match those of the PC or Giant being exchanged – most fundamentally, the cash flows of the 55-day security will ultimately be backed by the same loans as the original PC or Giant. Each new 55-day security will mostly have the same characteristics as the corresponding PC such as unpaid principal balance, pool factor, and weighted average coupon. The 55-day security will have a new CUSIPSecurity Identifier, prefix, pool number, and issuance date.

INT 22-01: Freddie Mac When Issued K-Deal (WI Trust) Certificates: Paragraphs 3.f., 8, and 9

- 3.f. In the event that the investor elects to exchange the WI Trust certificates to the K-Deal SPCs, the investor receives an equivalent principal amount of the K-Deal SPCs of the same class. Although the investment will have a change in CUSIPSecurity Identifier, any such exchange is not deemed to be a taxable event as described in the respective Offering Circular Supplements for the WI Certificates. As such investors will not recognize a gain or loss on the exchange and investors will be treated as continuing to own the interests that were owned immediately prior to the exchange. Stated differently, any gains or losses on the exchanged WI-Certificates are “rolled into” the investors’ new K-Deal Certificate position.

8. If a reporting entity elects to convert WI Trust SPC securities into K-Deal SPC securities, the guidance in the Annual Statement Instructions, Schedule D, Part 3 and Part 4, shall be followed. Per that guidance, the transition from a WI Trust to a K-Deal shall not be reported as a disposal or acquisition. As the terms and cost basis of the SPC certificates would be identical, and the change would only reflect a CUSIP-numberSecurity Identifier change, a disposal and reacquisition shall not be recorded.

9. Excerpt from Annual Statement Instructions, Schedule D, Part 3 and 4:

This schedule should include a detailed listing of all securities that were purchased/acquired during the current reporting year that are still owned as of the end of the current reporting year (amounts purchased and sold during the current reporting year are reported in detail on Schedule D, Part 5, and only in subtotal in Schedule D, Part 3). This should include all transactions that adjust the cost basis of the securities. Thus, it should not be used for allocations of TBAs to specific pools subsequent to initial recording in Schedule D, Part 3, or other situations such as CUSIP-numberSecurity Identifier changes.

Status:

On March 23, 2026, the Statutory Accounting Principles (E) Working Group exposed editorial revisions as detailed in this agenda item.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2026/05-18-2026/03-26-03EPSpring2026.docx>

TO: Ben Slutsker, Chair, Capital Adequacy (E) Task Force
Kevin Clark, Chair, Statutory Accounting Principles (E) Working Group
Roy Eft, Chair, Blanks (E) Working Group

FROM: Charles A. Therriault, Director, NAIC Securities Valuation Office
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office

CC: Carrie Mears, Chair, Invested Assets (E) Task Force
Ken Contron, Chair, Investment Designation Analysis (E) Working Group
Julie Gann Director, NAIC Solvency Policy - Financial Regulatory Affairs
Jake Stultz, Manager II, NAIC Accounting Policy - Financial Regulatory Affairs
Maggie Chang, Manager III, NAIC RBC & Solvency Policy - Financial Regulatory Affairs
Eva Yeung, Sr. RBC Analyst/Technical & Team Lead, NAIC Financial Regulatory Affairs
Mary Caswell, Sr. Manager II, NAIC Financial Regulatory Affairs
Jill Youtsey, Manager I - FDR Data Quality, NAIC Financial Regulatory Affairs

RE: Referral: Combining Security Identifiers and Adding a Security Identifier Type Field to the Annual and Quarterly Financial Statements

DATE: March 27, 2026

Summary: At the NAIC's 2025 Fall National Meeting and 2026 Spring National Meeting the Securities Valuation Office (SVO) put forward a recommendation that the annual and quarterly financial statement investment schedules be updated to combine investment security identifiers such as the Committee on Uniform Securities Identification Procedures (CUSIP), CUSIP International Numbering System (CINS), Private Placement Number (PPN) and the International Securities Identification Number (ISIN) into a single reporting field called Security Identifier paired with a Security Identifier Type field. They further recommended adding one new identifier, S&P Global's LoanX ID (LXID) (formerly IHS Marketit LoanX ID), which are unique identifiers developed to track individual loans, borrowers, and lenders in the syndicated loan and private credit markets. The objective of combining these fields is to improve investment security identification and integration with other NAIC systems, data, and reporting. The SVO has been working with the Blanks (E) Working Group support staff, American Council of Life Insurers (ACLI), Private Placement Investors Association (PPIA) and North American Securities Valuation Association (NASVA) on this proposal.

The Investment Designation Analysis (E) Working Group and Invested Assets (E) Task Force approved this referral to Blanks (E) Working Group to effect these changes and informational referrals to the Capital Adequacy (E) Task Force and Statutory Accounting Principles (E) Working Group to notify them and solicit their feedback.

Recommendation: The SVO recommends combining the current CUSIP “like” fields (e.g. CUSIP, CINS, PPN) with the electronic only ISIN field and the new LXID into a single Security Identifier field (Security ID). This would be accompanied by a new field to identify the Security ID Type. All of these identifiers are included in S&P Global’s Global Instruments Cross Reference Service (GICRS) database of global security identifiers that cross-references approximately 92 million instruments. The NAIC is in the process of integrating the GICRS data into its systems.

The Security ID Type field would be an abbreviation to denote the type of security identifier being reported: C=CUSIP and CINS (including syndicated loans with an CUSIP), I=ISIN (including syndicated loans with an ISIN), P=PPN and L=LXID. This change would permit additional security identifiers to be added in the future, as needed. The table below would be an example of the new fields. The reporting instructions for the annual and quarterly statement instructions should include the following preferred order of prioritization or usage of these security identifiers: CUSIP, CINS, ISIN, PPN and LXID.

Two special situation Security IDs are requested to accommodate common reporting issues. The first would be for securities acquired within the initial reporting year end of the financial statement reporting date that have not yet been issued an NAIC recognized Security ID but where one was requested. A temporary Security ID of “000000000” would be used for that initial reporting year end until the Security IDs is assigned. The temporary Security ID of “000000000” could only be used one time, in the initial reporting year end, but would need to be changed to an identifier of “999999999” in any subsequent reporting year end. The second special situation Security ID would be for securities that the insurer does not expect to receive a Security ID and an identifier of “999999999” would be used to clearly identify these securities as not having an NAIC recognized Security ID. The Security ID of “000000000” and “999999999” would not have a Security ID Type. Securities with the Security IDs of “000000000” and “999999999” would still need to follow the P&P Manual guidance to determine the NAIC Designation Category and the appropriate use of the administrative symbols.

Security ID	Security ID Type
123456AB7	C
U12345ABX	C
US123456AB79	I
123456#B7	P
LX118650	L
000000000	
999999999	

Please reach out to Charles Therriault or Marc Perlman with any questions about this referral.

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

Issue: Disclosure of FABNs and Similar Structures

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: This agenda item has been prepared to consider a February 17, 2026, referral received from the Macroprudential (E) Working Group to incorporate proposed disclosures for funding agreement backed notes (FABNs) and other funding agreement backed structures.

FABNs are debt instruments issued by Special Purpose Vehicles (SPVs) generally formed by life insurance companies. A life insurance company issues a funding agreement to the SPV, which is accounted for in accordance with *SSAP No. 52—Deposit-Type Contracts*, and the SPV then issues debt instruments (FABNs) that are backed by the principal and interest of the issued funding agreement. Although all funding agreements issued by the insurer are required to be captured in current reserves and detailed in Exhibit 7 – Deposit-Type Contracts, there is no current reporting of whether the issued funding agreements back FABNs or other similar structures. The Macroprudential (E) Working Group requests disclosures of this activity to allow for monitoring under their financial stability monitoring objectives. The referral identifies that the proposed disclosure will provide the Financial Stability (E) Task Force with the ability to identify transmission channels of potential risk to and from the insurance industry and the interconnectedness to the capital markets.

In accordance with the Macroprudential (E) Working Group’s review, it was identified that different structures exist that are backed by funding agreements. Their proposed reporting captures the total of all funding agreements that back SPV issuances, with additional reporting that divides the amount based on the type of agreement:

- Funding Agreement Backed Notes
- Funding Agreement Backed Commercial Paper
- Funding Agreement Backed Repurchase Agreements
- Funding Agreement Backed Loans
- Funding Agreements Issued into Muni Prepay Structures
- Other Funding Agreements Backing SPV Issuances

These additional structures are detailed as follows:

- *Funding Agreement-Backed Commercial Paper:* Under funding agreement-backed commercial paper (FABCP) structures, the insurer issues a master funding agreement to an SPV. The assets backing the master funding agreement consist of commercial paper with maturities of 360 days or less that are purchased by the insurer with the FABCP investors’ cash proceeds. The principal and interest payments on FABCPs are generally structured to align with the dollar amount of commercial paper backing the transaction. However, the insurer may not always be able to fully invest the proceeds due to the short

maturities and frequent rollovers of commercial paper, which can create a duration mismatch. The short-term nature and high liquidity of the underlying commercial paper partially mitigate this ALM mismatch.

- *Funding Agreement-Backed Repurchase Agreements:* In a funding agreement-backed repurchase (FABR) agreement transaction, an SPV purchases a funding agreement issued by an insurer and then uses that funding agreement to enter into a repurchase agreement (repo) with a bank counterparty. In addition, the insurer pledges collateral into an account controlled by the SPV to support the repurchase transaction. The bank counterparty may rehypothecate, or repledge, all or a portion of the collateral pool. This FABN structure expands repurchase capacity and balance sheet flexibility for the insurer while reducing the bank counterparty's regulatory capital charge.
- *Funding Agreement-Backed Loans:* Funding agreement-backed loan (FABL) structures work similarly to FABNs, except the SPV is established by the bank counterparty, not the insurer. Another key difference from FABNs is that the FABL SPV enters into a loan directly with a bank instead of issuing notes. Effectively, though, the cash flows of the loan and notes operate similarly. Additionally, with FABLs, the insurer pledges securities to a collateral account, for which the bank counterparty has a security interest pursuant to an account control agreement.
- *Funding Agreement-Backed Municipal Pre-Pay/Energy Bonds:* Funding agreement-backed municipal gas and electric prepayment bonds (FABMBs) are a specialized segment of the municipal bond market that allows municipalities to secure a long-term, discounted supply of energy from a utility company. The municipality issues a tax-exempt bond to investors and uses the proceeds to prepay for typically 20 to 30 years of energy delivery. The SPV is a single-purpose entity whose sole purpose is to execute the prepayment with the commodity supplier, which is typically the commodity trading entity of an investment bank. The insurer's funding agreement provides interest payments on the bonds until such payments are recouped from consumers paying their utility bills.

The proposed disclosure also captures details on whether the SPV-issued debt instruments are puttable, and if the terms of the issued debt agreement differ from the backing funding agreement. The disclosure captures information on the maturity distribution of the funding agreements that back SPV issuances, including whether the funding agreement has a fixed or floating rate. Lastly, as the SPV could issue debt instruments backed by a non-US currency, the disclosure proposes to capture info on currency denominations and whether the foreign currency exposure is hedged.

Existing Authoritative Literature:

SSAP No. 52—Deposit-Type Contracts provides guidance for all contracts classified as deposit-type contracts as they do not subject the reporting entity to any risks arising from policyholder mortality or morbidity.

Although issued funding agreements are captured in scope of SSAP No. 52 for accounting and reporting, there are no disclosures on whether the issued funding agreements back debt issuances from SPVs.

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): This agenda item responds to a referral and proposed disclosures received from the Macprudential (E) Working Group on Feb. 17, 2026.

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 Macroprudential (E) Working Group referral, move this item to the active listing categorized as a SAP clarification and expose proposed revisions to *SSAP No. 52—Deposit Type Contracts* to incorporate the recommended disclosures pursuant to the Macroprudential (E) Working Group referral as well as to add details of the different structures into a glossary for *SSAP No. 52*. Further, due to the collateral pledged under FABR and FABL arrangements, the SAP staff has proposed an additional disclosure to capture the collateral pledged under the agreements. This revision is shown shaded to highlight the change from the referral. The Macroprudential (E) Working Group is also sponsoring a blanks proposal to incorporate the reporting revisions. The intent is for the disclosures to be effective for year-end 2026.

Proposed Revisions to *SSAP No. 52—Deposit-Type Contracts*:

Disclosures are captured in paragraphs 18-23. The new disclosures are proposed to be included after the FHLB agreement disclosure (after paragraph 21) and before the retained asset disclosure. The remaining *SSAP* paragraphs will be renumbered according.

22. For FHLB agreements accounted for under this statement, include information for the FHLB funding agreements with other reporting and disclosure requirements for deposit-type contracts under this statement and complete additional disclosure requirements in *SSAP No. 30—Unaffiliated Common Stock*, paragraph 20.
23. Each reporting entity shall disclose information on funding agreements issued by such reporting entity that support funding agreement backed SPV Issuances. (This disclosure is required for all known instances, even in situations in which the SPV was not sponsored or formed by the reporting entity and when the relevant SPV is bankruptcy remote from the reporting entity.) The balance of funding agreements supporting funding agreement backed SPV issuances shall be reported before reinsurance.
 - a. Balance of funding agreements per type of issuance, per type of issuance where the transaction contains a put feature or embedded option¹, and per type of issuance where the terms of the SPV Issuance differ from the terms of the corresponding funding agreement², and the BACV amount of collateral pledged by the reporting entity by type of transaction:
 - i. Funding Agreement Backed Notes (FABN)
 - ii. Funding Agreement Backed Commercial Paper (FABCP)
 - iii. Funding Agreement Backed Repurchase Agreements (FABR)

¹ As used herein, a funding agreement is “Puttable” or contains a “put feature or embedded option” if such funding agreement contains a provision that allows a contract holder to withdraw from their account value at [book value] at any time, without being tied to a specific triggering event; under such provision, the insurer has no contractual alternatives to paying out at [book value].

² Instances in which the terms of the funding agreement are designed to be different from the SPV issuances should be reported as an Amount with Different Terms (even in instances where the SPV is not sponsored or formed by the reporting entity such as funding agreements issued into muni prepay structures).

- iv. Funding Agreement Backed Loans (FABL)
 - v. Funding Agreements Issued into Muni Prepay Structures
 - vi. Other Funding Agreements Backing SPV Issuances (Other)
- b. For instances in which the SPV is sponsored or formed by the reporting entity and the terms (e.g., principal, interest rate, maturity, rating, or currency) of a funding agreement differ from the terms of the corresponding SPV Issuance, include a narrative description identifying the different terms. For example, if the funding agreement matures in 3 years, but the FABL matures in 3 months, instances of different interest rates, etc. For FABCP, reporting entities shall identify instances in which the terms of the SPV issuance do not match the terms of the deposit made under an FABCP master funding agreement. This disclosure is not required for funding agreements backed by muni prepay structures as the terms of the funding agreement are designed to be different from the SPV issuances.
- c. Disclose the maturity distribution of funding agreements backing SPV Issuances, separately identifying the funding agreements issues as fixed or floating interest rate prior to execution of any interest rate swaps.
- d. For SPV issuances backed by funding agreements issued in a non-US currency, disclose the currency denominations and whether all foreign currency exposure related to each currency denomination is hedged.

Proposed Glossary to SSAP No. 52:

- Funding Agreement Backed Note: Funding agreement backed notes (FABNs) are notes or bonds issued by bankruptcy-remote special-purpose vehicles (SPVs) that are secured by funding agreements (FAs) issued by the sponsoring insurance company to the SPV. The insurance company pays principal and interest under the terms of the FA to the SPV, which the SPV uses to pay principal and interest on the FABN.
- Funding Agreement-Backed Commercial Paper: Under funding agreement-backed commercial paper (FABCP) structures, the insurer issues a master funding agreement to an SPV. The assets backing the master funding agreement consist of commercial paper with maturities of 360 days or less that are purchased by the insurer with the FABCP investors' cash proceeds. The principal and interest payments on FABCPs are generally structured to align with the dollar amount of commercial paper backing the transaction. However, the insurer may not always be able to fully invest the proceeds due to the short maturities and frequent rollovers of commercial paper, which can create a duration mismatch. The short-term nature and high liquidity of the underlying commercial paper partially mitigate this ALM mismatch.
- Funding Agreement-Backed Repurchase Agreements: In a funding agreement-backed repurchase (FABR) agreement transaction, an SPV purchases a funding agreement issued by an insurer and then uses that funding agreement to enter into a repurchase agreement (repo) with a bank counterparty. In addition, the insurer pledges collateral into an account controlled by the SPV to support the repurchase transaction. The bank counterparty may rehypothecate, or repledge, all or a portion of the collateral pool. This FABN structure expands repurchase capacity and balance sheet flexibility for the insurer while reducing the bank counterparty's regulatory capital charge.
- Funding Agreement-Backed Loans: Funding agreement-backed loan (FABL) structures work similarly to FABNs, except the SPV is established by the bank counterparty, not the insurer. Another key difference from FABNs is that the FABL SPV enters into a loan directly with a bank instead of issuing notes. Effectively,

though, the cash flows of the loan and notes operate similarly. Additionally, with FABs, the insurer pledges securities to a collateral account, for which the bank counterparty has a security interest pursuant to an account control agreement.

- Funding Agreement-Backed Municipal Pre-Pay/Energy Bonds: Funding agreement-backed municipal gas and electric prepayment bonds (FABMBs) are a specialized segment of the municipal bond market that allows municipalities to secure a long-term, discounted supply of energy from a utility company. The municipality issues a tax-exempt bond to investors and uses the proceeds to prepay for typically 20 to 30 years of energy delivery. The SPV is a single-purpose entity whose sole purpose is to execute the prepayment with the commodity supplier, which is typically the commodity trading entity of an investment bank. The insurer's funding agreement provides interest payments on the bonds until such payments are recouped from consumers paying their utility bills.

The following illustrates the Macroprudential (E) Working Group's sponsored blanks proposal to capture the new disclosure information with the additional collateral pledged component. This is included for information purposes. Comments to the SAPWG should focus on the disclosure concepts. Comments on the format on the blanks proposal shall be directed to the Blanks (E) Working Group.

Note 11 - Debt

Note 11D – Instruction:

D. Disclose information on funding agreements issued by such reporting entity that support funding agreement backed special purpose vehicle (SPV) issuances. (This disclosure is required for all known instances, even in situations in which the SPV was not sponsored for formed by the reporting entity and when the relevant SPV is bankruptcy remote from the reporting entity.) The balance of funding agreements supporting funding agreement backed SPV issuances shall be reported before reinsurance.

(1) Balance of funding agreements (A) per type of issuance, (B) per type of issuance where the transaction contains a put feature or embedded option, and (C) per type of issuance where the terms of the SPV issuance differ from the terms of the corresponding funding agreement:

- Funding Agreement Backed Notes (FABN)
- Funding Agreement Backed Commercial Paper (FABCP)
- Funding Agreement Backed Repurchase Agreements (FABR)
- Funding Agreement Backed Loans (FABL)
- Funding Agreements Issued into Muni Prepay Structures
- Other Funding Agreements Backing SPV Issuances (Other)

- (2) Please provide a narrative description for instances in which the SPV is sponsored or formed by the reporting entity and the terms (e.g., principal, interest rate, maturity, rating, or currency) of a funding agreement differ from the terms of the corresponding SPV issuance, identifying the different terms. (For example, if the funding agreement matures in 3 years, but the FABL matures in 3 months, instances of different interest rates, etc.)
- With respect to FABCP, please respond to this question by identifying instances in which the terms of an SPV issuance do not match the terms of a deposit made under an FABCP master funding agreement.
 - With respect to funding agreements issued into muni prepay structures, no response is necessary given that the terms of the funding agreement are designed to be different from the SPV issuances.
- (3) Disclose the maturity distribution of funding agreements backing SPV issuances, separately identifying the funding agreements issues as fixed or floating interest rate prior to execution of any interest rate swaps. (The total reported should agree to the total reported for disclosure 11D(1).
- (4) Identify if the SPV issuances backed by funding agreements are issued in a non-U.S. currency. If so, disclose the currency denominations and whether all foreign currency exposure related to each currency denomination is hedged.
- (5) Is all foreign currency exposure related to funding agreements backing SPV issuances hedged via derivatives, asset matching, or otherwise mitigated? If not, please explain.

Note 11B – Illustration:

D. Funding agreements issued by such reporting entity that support funding agreement backed special purpose vehicle (SPV) issuances:

(1) Funding agreements Backing SPV Issuances

	<u>1</u> <u>Total</u> <u>Amount</u>	<u>2</u> <u>Amount</u> <u>Puttable*</u>	<u>3</u> <u>Amount with</u> <u>Different Terms**</u>	<u>4</u> <u>BACV of Collateral</u> <u>Pledged by</u> <u>Reporting Entity</u>
<u>a. Funding Agreement Backed Notes (FABN)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<u>b. Funding Agreement Backed Commercial Paper (FABCP)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<u>c. Funding Agreement Backed Repurchase Agreements (FABR)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<u>d. Funding Agreement Backed Loans (FABL)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<u>e. Funding Agreements Issued into Muni Prepay Structures</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<u>f. Other Funding Agreements Backing SPV Issuances (Other)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<u>g. Total (a+b+c+d+e+f)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

Life Filers - 11D(1)g Column 1 should equal Exhibit 7 Footnote (b) Line 1

* As used herein, a funding agreement is “Puttable” or contains a “put feature or embedded option” if such funding agreement contains a provision that allows a contract holder to withdraw from their account value at (book value) at any time, without being tied to a specific triggering event; under such provision, the insurer has no contractual alternatives to paying out at book value.

** Instances in which the terms of the funding agreement are designed to be different from the SPV issuances should be reported as an Amount with Different Terms (even in instances where the SPV is not sponsored or formed by the reporting entity such as funding agreements issued into muni prepay structures).

(3) Maturity Distribution of Funding Agreements Backing SPV Issuances

	1 Fixed Rate	2 Floating Rate	3 Total*
a. 1 year of Less	\$.....	\$.....	\$.....
b. After 1 year through 5 years	\$.....	\$.....	\$.....
c. After 5 years through 10 years	\$.....	\$.....	\$.....
d. After 10 years through 20 years	\$.....	\$.....	\$.....
e. Over 20 years	\$.....	\$.....	\$.....
f. Total (a+b+c+d+e)	\$.....	\$.....	\$.....

11D(3)f Column 3 should equal 11D(1)g Column 1

* Total should reflect the balance of all funding agreements backing SPV issuances reported as Deposit-Type Contracts. Include zero coupon funding agreements in the fixed rate column.

(4) Funding Agreements (FA) Backing SPV Issuances in currency denominations.

	Funding Agreements Backing SPV Issuances (in USD)
a. Year-End FA Balance (USD)	\$.....
b. Amount of FA Backing SPV Issuances in Foreign Currency:	
1. AUD	\$.....
2. CAD	\$.....
3. CHF	\$.....
4. EUR	\$.....
5. GBP	\$.....
6. Other	\$.....
7. Total Foreign Currency	
(1+2+3+4+5+6+7)	\$.....
c. Total FA Backing SPV Issuances (a+b7)	\$.....

11D(4)c should equal 11D(1)g Column 1

Exhibit 7 – Deposit Type Contracts

The following is also proposed to be captured as a new footnote on Exhibit 7:

(b) Funding agreements that back special purpose vehicle (SPV) issuances:

<u>1. Total across all categories</u>	<u>\$</u>
<u>2. Of the total, funding agreements that support funding agreement backed SPV issuances whereby the funding agreement contains a put feature or embedded option</u>	<u>\$</u>

Staff Review Completed by: Julie Gann, February 2026.

On March 23, 2026, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, classified as a SAP clarification, and exposed revisions to *SSAP No. 52—Deposit-Type Contracts*, as illustrated above, to incorporate disclosures and a glossary for funding agreement backed notes and other similar structures. The proposed disclosures predominantly reflect revisions recommended by the Macroprudential (E) Working Group. The Macroprudential (E) Working Group is also sponsoring a blanks proposal to incorporate the disclosure changes for year-end 2026.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2026/05-18-2026/05-26-01-FABNDisclosure.docx>

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

Issue: Valuation of Funds Withheld Liability

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue:

This agenda item is to address inconsistent guidance regarding the valuation of the liability for funds withheld in a life or health reinsurance agreement. Funds withheld assets are often held by the ceding entity as reinsurance collateral to mitigate credit exposure (with all types of reinsurers) and/or to secure credit for reinsurance on amounts ceded to unauthorized or certified reinsurers. Pursuant to the *Credit for Reinsurance Model Law (#785)* funds withheld can be used as acceptable collateral to secure reinsurance credit with a variety of reinsurance contract types.

In a funds withheld reinsurance contract, the ceding entity withholds assets for collateral that would otherwise be paid to the reinsurer, in addition, the reinsurer may also provide additional collateral if needed. If the reinsurer provides additional collateral it is typically referred to as funds deposited by the reinsurer. Because the funds withheld or deposited by the reinsurer are payable under the reinsurance contract to the assuming reinsurer, the ceding entity reports a liability for the funds withheld. The identified inconsistent guidance is related to the liability for the funds withheld reported by the ceding entity.

Reporting - Assets - The assets withheld from the reinsurer are reported in the investment schedules of the ceding entity at their statutory book adjusted carrying value in accordance with the applicable statements of statutory accounting principles (SSAPs).

Reporting - Liabilities - The ceding entity records a liability for funds withheld on different lines based on the reinsurer’s classification as authorized; or unauthorized /certified under the requirements of Model #785.

- Liability line **24.03 – Funds Held Under Reinsurance Treaties with Unauthorized and Certified Reinsurers**. The instructions for Line 24.03 reference specific columns of Schedule S Reinsurance - Part 4 reinsurance ceded to unauthorized companies - (Column 12 (Funds Withheld) and Column 13 (Other)) and Part 5 reinsurance ceded to certified reinsurers (Column 20 (Funds Withheld) and Column 21 (Other)) that should equal the amount in Line 24.03.
- If the reinsurer is **authorized** the ceding entity records a liability for funds withheld on the liabilities line **24.07 – Funds Held Under Coinsurance**. The instructions for this line indicate to “Report the amount of funds withheld from reinsurers under coinsurance treaties other than amounts reported on Line 24.03.” The instructions for Line 24.07 do not reference Schedule S, although Schedule S, Part 3 (reinsurance ceded) also includes Funds Withheld Under Coinsurance for all reinsurer types in column 15 (for Section 1), and column 14 (for Section 2).

The annual statement instructions do not reference an accounting basis for the funds withheld liability except for Schedule S – Part 4, column 12 and Part 5, column 20 which both have the same instructions indicating that securities held on deposit or held in a trust fund should be valued at fair market value:

Funds Deposited By and Withheld From Reinsurers (bolding and underline added for emphasis):

Where permissible to be taken as credit against the loss and reserve liabilities in Column 8, amounts deposited by the reinsurer with or for the reporting insurance company, letters of credit, and trust agreements. **Securities held on deposit or held in a trust fund should be valued at fair market value.**

NAIC-published market values must be used when available. Letters of credit and trust agreements are not to be included in assets or liabilities on Pages 2 or 3 or supporting pages and exhibits.

The Schedule S – Part 4, column 12 heading references funds deposited by and withheld from reinsurers. It is not clear whether this reference contemplates that funds deposited and funds withheld are two separate types of arrangements or one and the same. The instruction does not help provide clarity as it references “Securities held on deposit” but not funds withheld and further adds letters of credit and trust agreements despite there being separate columns for both in Columns 9 and 11 though there are no instructions for either column. The instruction is explicit that securities held on deposit or held in a trust fund are to be valued at fair value, but it is not clear whether funds withheld are intended to be included at fair value.

SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance and Model #785 both discuss funds withheld from reinsurers and funds deposited by reinsurers. Depending on certain factors in a reinsurance agreement, the funds withheld by the ceding entity are not always adequate to meet the collateral requirements and it is sometimes necessary for the reinsurer to provide extra funds to meet their contractual collateral requirements. Model #785 is not explicit on the valuation of funds withheld; however it is explicit that the adequacy of collateral held in trust are measured using the fair value of the assets in trust.

Presuming the intention is for funds withheld to be covered by “securities held on deposit,” then that would indicate that funds withheld for unauthorized and certified reinsurers should be valued at fair value, which would flow to Line 24.03 on the liabilities page. However, multiple parties have indicated that they believe the liability is calculated based on the asset book value, prompting this review.

The instructions for all other types of reinsures reported on Line 24.07 simply says to “Report the amount of funds withheld from reinsurers under coinsurance treaties other than amounts reported on Line 24.03.” It would be reasonable to presume that when determining the “amount” of funds withheld, that it would represent the amount of the funds as reported on the asset side of the balance sheet, which would be statutory book value. However, that could result in a different basis of accounting for funds withheld based on reinsurer type, depending on how one interprets the instruction for Schedule S – Part 4 and Part 5.

The Schedule S Parts 4 and 5 collateral columns for funds withheld, letters of credit and funds in trust play an important role in determining if total collateral for unauthorized and certified reinsurers is adequate under Model #785 to allow credit for reinsurance. If the collateral is insufficient, a liability is reported on line 24.02 – Reinsurance in Unauthorized and Certified Reinsurers. To the extent the annual statement instructions are clarified for the valuation of funds withheld it affects amounts used in the calculation of this liability.

Further support for the presumption that funds withheld is intended to be reported at the same basis as the asset side of the balance sheet (statutory book value), is the mismatched accounting that would occur otherwise. If the funds withheld liability were to be reported at fair value while the assets remain at book value, it would result in

the counterintuitive result that anytime the fair value of the collateral increases, increasing the liability but leaving the assets unchanged, the ceding company would take a hit to surplus, despite the value of their collateral having increased.

Existing Authoritative Literature:

Life, Accident & Health/Fraternal Annual Statement Instructions:

Liabilities

Line 24.02 – Reinsurance in Unauthorized and Certified Companies

Total net amount from Schedule S, Part 4 (Column 8 minus Column 15) plus Schedule S, Part 5 (Column 26 x 1000).

Line 24.03 – Funds Held Under Reinsurance Treaties with Unauthorized and Certified Reinsurers

Total amount from Schedule S, Part 4 (Columns 12 and 13) plus Schedule S, Part 5 [(Columns 20 and 21) x 1000], (other than amounts of credit or trust agreements included therein)] to the extent that such funds were included as a part of the total assets on Page 2 of the statement and were not offset by a directly related credit offset on Page 2.

Line 24.07 – Funds Held Under Coinsurance

Report the amount of funds withheld from reinsurers under coinsurance treaties other than amounts reported on Line 24.03.

Schedule S

Schedule S, Part 3 Section 1 - Column 15 – Funds Withheld Under Coinsurance

Report the amount of funds withheld on coinsurance contracts.

Schedule S, Part 3 Section 2 - Column 14 – Funds Withheld Under Coinsurance

Report the amount of funds withheld on coinsurance contracts.

Schedule S, Part 4 – Reinsurance Ceded to Unauthorized Companies

Column 12 – Funds Deposited By and Withheld From Reinsurers

Include: Where permissible to be taken as credit against the loss and reserve liabilities in Column 8, amounts deposited by the reinsurer with or for the reporting insurance company, letters of credit, and trust agreements. Securities held on deposit or held in a trust fund should be valued at fair market value.

NAIC-published market values must be used when available. Letters of credit and trust agreements are not to be included in assets or liabilities on Pages 2 or 3 or supporting pages and exhibits.

Column 13 – Other

(Drafting Note - no instructions are provided for this column)

Schedule S, Part 5 – Reinsurance Ceded to Certified Reinsurers

Column 20 – Funds Deposited by and Withheld from Reinsurers

Include: Where permissible to be taken as credit against the loss and reserve liabilities in Column 14, amounts deposited by the reinsurer with or for the reporting insurance company, letters of credit and trust agreements. Securities held on deposit or held in a trust fund should be valued at fair market value.

NAIC-published market values must be used when available. Letters of credit and trust agreements are not to be included in assets or liabilities on Pages 2 or 3 or supporting pages and exhibits.

Column 21 – Other

Report other acceptable security held by or on behalf of the reporting company.

**SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance
Accounting and Reporting of Reinsurance**

21. The obligation of reporting reinsurance in force and of determining unpaid premiums and incurred claims and other balances is generally on the ceding entity because it knows the current status of the policies it has written directly and reinsured. A lag will develop between the time of the entry of the underlying policy transaction on the books of the ceding entity and the transmittal of information and its entry on the books of the assuming entity. The assuming entity shall estimate any material unreported premiums and related costs.

22. The ceding entity must report these items in its balance sheet:

- a. Credits (deductions) to its policy and claim reserves and unpaid claims;
- b. Premiums or other amounts payable on reinsured risks;
- c. Amounts recoverable on claims, surrender values, dividends, experience rating refunds, taxes, commissions, and other expenses;
- d. Modified coinsurance reserves; and
- e. Amounts receivable or payable for funds withheld.

23. Similarly, in its balance sheet, the assuming entity must report:

- a. Reserves for reinsurance assumed reduced by any modified coinsurance reserves;

- b. Reinsurance premiums receivable or other amounts receivable;
- c. Amounts payable for claims, surrender values, dividends, experience rating refunds, taxes, commissions, and other expenses; and
- d. Amounts receivable or payable for funds withheld by the ceding entity.

24. While the premiums, commissions, expense allowances, reserves, claims, etc. will result in a net amount, the proper way to report them is in their separate classifications on the balance sheet. Each reinsurance agreement must be accounted for separately. Certain assets and liabilities are created by entities when they engage in reinsurance contracts. Reinsurance assets meet the definition of assets as defined by *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted to the extent they conform to the requirements of this statement.

Accounting for Coinsurance With Funds Withheld Arrangements

40. The following accounting applies to coinsurance arrangements with funds withheld:
- a. Ceding Entity—Premiums paid or payable to the reinsurer net of any experience refunds shall reduce premium income. Policy benefit payments paid by the reinsurer shall reduce the ceding entity's reported policy benefits. Expense allowances paid by the reinsurer shall be reported separately in the summary of operations as they are earned. A net reduction to policy reserves shall be taken for the portion of the obligation assumed by the reinsurer. Any amounts withheld by the ceding entity shall be recorded as a separate liability. Reporting entities filing the annual statement for life and accident and health insurers shall record any interest due or payable on the amounts withheld as a component of aggregate write-ins for miscellaneous deductions. Reporting entities filing the health annual statement shall record any interest due or payable on the amounts withheld as a component of aggregate write-ins for other income or expense.
 - b. Assuming Entity (Reinsurer)—Premiums received or receivable by the reinsurer net of any experience refunds shall increase premium income and policy benefit payments paid by the reinsurer shall increase the reported policy benefits. Expense allowances paid by the reinsurer shall be reported separately in the summary of operations when payable. The reinsurer shall record its share of the statutory policy reserves attributable to the business identified in the contract. Any funds withheld by the ceding entity shall be recorded as an accounts receivable. For reporting entities filing the annual statement for life and accident and health insurers shall record any interest earned or receivable on the funds withheld as a component of aggregate write-ins for miscellaneous income. Reporting entities filing the health annual statement shall record any interest earned or receivable on the funds withheld as a component of aggregate write-ins for other income or expense.
44. Credit for reinsurance ceded to a certified reinsurer is permitted if security is held by or on behalf of the ceding entity in accordance with the certified reinsurer's rating assigned by the domestic state of the ceding insurance entity, and in accordance with requirements of Appendix A-785 of this manual. **Such deposits are to be held under the control of the ceding entity. Additionally, any securities held under such an arrangement must be investments that the ceding entity is allowed to make under the provision of the investment sections of the insurance statutes of its domiciliary state. Other permissible arrangements include irrevocable trusts or "clean" letters of credit.**

50. If the reinsurer is not authorized, otherwise approved or certified to do business, the reinsurance is considered to be unauthorized. A liability is established to offset credit taken in various balance sheet accounts for reinsurance ceded to unauthorized reinsurers. **Credit for reinsurance with unauthorized companies shall be permitted if the ceding entity holds securities or cash of the assuming entity equal to the reserve credit taken. Such deposits are to be held under the control of the ceding entity. Additionally, any securities held under such an arrangement must be investments that the ceding entity is allowed to make under the provision of the investment sections of the insurance statutes. Other permissible arrangements include irrevocable trusts or “clean” letters of credit. If the assuming entity is not licensed or is not an authorized reinsurer in the domiciliary state of the ceding entity or if the reinsurance does not meet required standards, the ceding entity must set up a net liability equal to the following:**

- a. Reserve credits taken including any IMR liability adjustment; plus
- b. Claim liability credits taken on paid and unpaid (in course of settlement) claims recoverable; plus
- c. Other asset increases or liability reductions resulting from amounts recoverable from the assuming entity including commissions, expense allowances, modified coinsurance reserve adjustments, experience rating refunds, and estimated incurred but not reported claim liabilities; less
- d. Deposits by or funds withheld from the reinsurer, as provided for in the reinsurance treaty and in compliance with the security requirements of Appendix A-785, pledged as security for the payment of reinsurance obligations. Such deposits or funds are typically held by the ceding entity or are placed in a trust or custodial account. Amounts placed in trust or custodial accounts are held subject to withdrawal by, and under the control of, the ceding entity; less
- e. Amounts of reinsurance recoverables covered by a clean, irrevocable letter of credit issued by a qualified U.S. financial institution as defined in Appendix A-785; less
- f. Amounts contractually due the assuming entity.

The net liability defined in paragraph 50 shall never be less than zero for any particular reinsurer. The change in liability for unauthorized reinsurance is a direct charge or credit to surplus.

Funds Held Under Reinsurance Treaties with Unauthorized Reinsurers or Certified Reinsurers

53. This liability is established for funds deposited by or contractually withheld from unauthorized reinsurers or certified reinsurers.

68. For each reinsurance agreement with an affiliated captive reinsurer (same definition as paragraph 67), provide the following information in the annual financial statements:

- a. Reserve credit taken by the reporting entity for variable annuities;
- b. The total amount of collateral supporting any reserve credit taken, if applicable;
- c. A description of the nature of the collateral (funds withheld by the reporting entity, assets placed in trust for the benefit of the cedent, letters of credit (LOC), etc.), if applicable as

well as a tabular presentation¹ of the value² of all assets held by or on behalf of the captive reinsurer that back the variable annuities liabilities (including capital).

Appendix A-785: Credit for Reinsurance

19. An asset or a reduction from liability for the reinsurance ceded by a domestic insurer to an assuming insurer not meeting the requirements under “Credit Allowed a Domestic Ceding Insurer” (paragraphs 7-18) shall be allowed in an amount not exceeding the liabilities carried by the ceding insurer. The reduction shall be in the **amount of funds held by or on behalf of the ceding insurer, including funds held in trust for the ceding insurer, under a reinsurance contract with the assuming insurer as security for the payment of obligations thereunder, if the security is held in the United States subject to withdrawal solely by, and under the exclusive control of, the ceding insurer; or, in the case of a trust, held in a qualified U.S. financial institution**, as defined under “Qualified U.S. Financial Institutions” at paragraph 54. This security may be in the form of:

- a. Cash;
- b. Securities listed by the Securities Valuation Office of the National Association of Insurance Commissioners, including those deemed exempt from filing as defined by the *Purposes and Procedures Manual of the NAIC Securities Valuation Office*, and qualifying as admitted assets;

51. A ceding insurer may take credit for **unencumbered funds withheld by the ceding insurer in the United States subject to withdrawal solely by the ceding insurer and under its exclusive control.**

A-791 Life and Health Reinsurance Agreements (Q/ A under paragraph 2g)

Q – At the time assets are legally segregated under a coinsurance with funds withheld treaty, should they be valued at market value, statutory value, or some combination?

A – The assets should be valued at their statutory admitted value.

Q – When the assets are legally segregated, how are the funds withheld payables and receivables reported?

A – The payables and receivables are recorded in the same manner as in a funds withheld treaty where the assets are not legally segregated and will usually mirror the value of the funds withheld account. However, the funds withheld account, which reflects the statutory admitted value of the assets in the SAP, will fluctuate, and thus may differ from the reserves on the reinsured business.

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): This issue was previously identified, but was also noted in the IMR Ad Hoc group discussions.

¹ List the major asset classes, such as bonds, unconditional LOC’s, conditional LOC’s and LOC-like instruments, parental guarantees, etc. Note which assets would not normally meet the definition of an admitted asset under SSAP No. 4.

² Indicate the basis of the valuation of the assets (carrying value, fair value, statutory, etc.).

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

Convergence with International Financial Reporting Standards (IFRS): Not Applicable

Staff Review Completed by: Robin Marcotte – NAIC Staff

Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to the instructions for the Life and Health annual statement on schedule S, parts 3, 4 and 5, the liabilities page and SSAP No. 61 to clarify that funds withheld liabilities should be recorded equal to the book adjusted carrying value of the funds withheld assets. In addition, some legacy annual statement instructions for Schedule S parts 4 and 5 regarding the use of SVO fair values is proposed for deletion as a clean-up item. Staff recommends that the Reinsurance (E) Task Force be notified of the exposure, with NAIC staff directed to prepare a Blanks proposal for exposure to allow for year-end 2026 adoption consideration

1. SSAP No. 61

Accounting for Coinsurance With Funds Withheld Arrangements

40. The following accounting applies to coinsurance arrangements with funds withheld:

- a. Ceding Entity—Premiums paid or payable to the reinsurer net of any experience refunds shall reduce premium income. Policy benefit payments paid by the reinsurer shall reduce the ceding entity's reported policy benefits. Expense allowances paid by the reinsurer shall be reported separately in the summary of operations as they are earned. A net reduction to policy reserves shall be taken for the portion of the obligation assumed by the reinsurer. Any amounts withheld by the ceding entity shall be recorded as a separate liability. The liability is based on the book adjusted carrying value of the assets held by the ceding entity to the extent that such funds were included as a part of the total assets and were not offset by a directly related credit on the asset page. Reporting entities filing the annual statement for life and accident and health insurers shall record any interest due or payable on the amounts withheld as a component of aggregate write-ins for miscellaneous deductions. Reporting entities filing the health annual statement shall record any interest due or payable on the amounts withheld as a component of aggregate write-ins for other income or expense.
- b. Assuming Entity (Reinsurer)—Premiums received or receivable by the reinsurer net of any experience refunds shall increase premium income and policy benefit payments paid by the reinsurer shall increase the reported policy benefits. Expense allowances paid by the reinsurer shall be reported separately in the summary of operations when payable. The reinsurer shall record its share of the statutory policy reserves attributable to the business identified in the contract. Any funds withheld by the ceding entity shall be recorded as an accounts receivable. For reporting entities filing the annual statement for life and accident and health insurers shall record any interest earned or receivable on the funds withheld as a component of aggregate write-ins for miscellaneous income. Reporting entities filing the health annual statement shall record any interest earned or receivable on the funds withheld as a component of aggregate write-ins for other income or expense.

Funds Held Under Reinsurance Treaties with Unauthorized Reinsurers or Certified Reinsurers

53. This liability is established for funds deposited by or contractually withheld from unauthorized reinsurers or certified reinsurers. The liability is based on the book adjusted carrying value of the assets held by the ceding entity to the extent that such funds were included as a part of the total assets and were not offset by a directly related credit on the asset page.

2. Update the life, accident & health/fraternal annual statement instructions for the

- a. **Liability line 24.03 Funds Held Under Reinsurance Treaties with Unauthorized and Certified Reinsurers to add reference the use of BACV as follows:**

Total amount from Report the total book adjusted carrying value of the funds withheld assets for unauthorized and certified reinsurers. This should match Schedule S, Part 4 (Columns 12 and 13) plus Schedule S, Part 5 [(Columns 20 and 21) x 1000], (other than amounts of credit or trust agreements included therein)] to the extent that such funds were included as a part of the total assets on Page 2 of the statement and were not offset by a directly related credit offset on Page 2.

- b. **Liabilities line 24.07 – Funds Held Under Coinsurance to add reference the use of BACV as and add cross checks to the funds withheld columns in Schedule S Part 3 Section 1 and Section 2.**

Report the amount of funds withheld from reinsurers under coinsurance treaties other than amounts reported on Line 24.03. The total amount of the book adjusted carrying of the funds withheld assets (for amounts not related to unauthorized or certified reinsurers) should match Schedule S, Part 3, Section 1 (Column 15) plus Schedule S, Part 3, Section 2 (Column 14) x 1000 (other than amounts of credit or trust agreements included therein) to the extent that such funds were included as a part of the total assets on Page 2 of the statement and were not offset by a directly related credit on Page 2.

3. Schedule S, Part 3 Section 1 - Column 15 – Funds Withheld Under Coinsurance

Report the book adjusted carrying value of the amount of funds withheld on coinsurance contracts.

4. Schedule S, Part 3 Section 2 - Column 14 – Funds Withheld Under Coinsurance

Report the book adjusted carrying value of the amount of funds withheld on coinsurance contracts.

5. Schedule S, Part 4 – Reinsurance Ceded to Unauthorized Companies

Column 12 – Funds Deposited By and Withheld From Reinsurers

Include: Where permissible to be taken as credit against the loss and reserve liabilities in Column 8, amounts deposited by the reinsurer with or for the reporting insurance company, letters of credit, and trust agreements. Securities withheld from the

~~reinsurer or held on deposit should be valued at the book adjusted carrying value of the funds held by the ceding entity. Funds or held in a trust fund should be valued at fair market value.~~

~~NAIC published market values must be used when available.~~ Letters of credit and trust agreements are not to be included in assets or liabilities on Pages 2 or 3 or supporting pages and exhibits.

Schedule S, Part 5 – Reinsurance Ceded to Certified Reinsurers

Column 20 – Funds Deposited by and Withheld from Reinsurers

Include: Where permissible to be taken as credit against the loss and reserve liabilities in Column 14, amounts deposited by the reinsurer with or for the reporting insurance company, letters of credit, and trust agreements. Securities ~~withheld from the reinsurer or held on deposit should be valued at the book adjusted carrying value of the funds held by the ceding entity. Funds or~~ held in a trust fund should be valued at fair ~~market~~ value.

~~NAIC published market values must be used when available.~~ Letters of credit and trust agreements are not to be included in assets or liabilities on Pages 2 or 3 or supporting pages and exhibits.

Status:

On March 23, 2026, the Statutory Accounting Principles (E) Working Group moved this item to the active agenda, classified as a SAP clarification, and exposed revisions to *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* and the life annual statement instructions for various reporting schedules, as illustrated above, to clarify the reporting of funds withheld under reinsurance contracts. With exposure, the Working Group also sponsored a blanks proposal to incorporate the revisions to the annual statement instructions.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2026/05-18-2026/06-26-02-ValuationofFundsWithheld.docx>

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

Issue: SSAP No. 1 Modco/FWH Code

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: The Working Group has recently adopted several changes to reporting of funds withheld and modco arrangements. This agenda item intends to update the required disclosures in *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*, in the restricted assets disclosure, to separately show modco and funds withheld assets within the Note 5L disclosures and to add them as a reporting code category within the investment schedules within the annual statement blanks. During the most recent update to Note 5L for restricted assets, these categories had been added to the restricted asset note with the adoption of the Blanks (E) Working Group’s agenda item 2025-06BWG. There are two distinct actions with the agenda item. First, there are draft revisions to the restricted asset disclosure requirements in SSAP No. 1 to add categories for 1) modco assets, 2) funds withheld assets, and 3) collateral assets received and on the balance sheet, excluding collateral held under security lending and repurchase agreements reported on the balance sheet. These three categories had previously been added to the Note 5L disclosure, so this will just get SSAP No. 1 updated to match. Second, this agenda item includes a recommendation to the Blanks (E) Working Group to add these 3 categories into the restricted asset codes that are included in the investment reporting schedules.

Existing Authoritative Literature:

SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures (existing footnotes have been removed to save space.)

23. Reporting entities shall disclose(FN) the following information in the financial statements:
- a. Amounts not recorded in the financial statements that represent segregated funds held for others, the nature of the assets and the related fiduciary responsibilities associated with such assets. One example of such an item is escrow accounts held by title insurance companies; and
 - b. The total combined (admitted and nonadmitted) book adjusted carrying value (BACV) of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category, and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.)(FN) in the general and separate accounts(FN) by the reporting entity in comparison to total assets and total admitted assets. (Pursuant to SSAP No. 4, paragraph 6, all assets pledged as collateral or otherwise restricted shall be reported in this disclosure regardless if the asset is considered an admitted asset.) Reporting entities shall also disclose differences in the amounts reported in this note versus the amounts reported for the same categories in the general interrogatories. This disclosure shall include the following restricted asset categories:
 - i. Reported assets subject to contractual obligation for which liability is not shown;

- ii. Collateral held under security lending agreements;
- iii. Assets subject to repurchase agreements;
- iv. Assets subject to reverse repurchase agreements;
- v. Assets subject to dollar repurchase agreements;
- vi. Assets subject to dollar reverse repurchase agreements;
- vii. Assets placed under option contracts;
- viii. Letter stock or securities restricted as to sale(FN) – excluding FHLB stock;
- ix. FHLB capital stock;
- x. Assets on deposit with states;
- xi. Assets on deposit with other regulatory bodies;
- xii. Pledged as collateral to the FHLB (including assets backing funding agreements);
- xiii. Assets pledged as collateral not captured in other categories(FN); and
- xiv. Other restricted assets.

Note 5L(1) from the Life/Fraternal Annual Statement Blank, with adoptions from the Blanks (E) Working Group’s agenda item 2025-06BWG, adopted May 29, 2025.

L. Restricted Assets

(1) Restricted Assets (Including Pledged)

Disclose the total gross (admitted and nonadmitted) book/adjusted carrying value amount of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.) by the reporting entity. Provide the total gross amount of restricted assets (current year, prior year and the change between years), the total admitted of restricted assets and the percentage the restricted asset amount (gross and admitted) is of the reporting entity’s total assets amount reported on Line 28 of the asset page (gross and admitted respectively) by the following categories:

- a. Subject to contractual obligation for which liability is not shown
- b. Collateral held under security lending agreements
- c. Subject to repurchase agreements
- d. Subject to reverse repurchase agreements

- e. Subject to dollar repurchase agreements
 - f. Subject to dollar reverse repurchase agreements
 - g. Placed under option contracts
 - h. Letter stock or securities restricted as to sale – excluding FHLB capital stock
 - i. FHLB capital stock
 - j. On deposit with states
 - k. On deposit with other regulatory bodies
 - l. Pledged collateral to FHLB (including assets backing funding agreements)
 - m. Pledged as collateral not captured in other categories
 - n. Other restricted assets
 - o. Collateral Assets Received and on Balance Sheet
- Exclude: Collateral under security lending and repurchase agreements reported on balance sheet.
- p. Assets held under Modco Reinsurance Agreements
 - q. Assets held under Funds Withheld Reinsurance Agreements
 - r. Total restricted assets

Items captured “pledged as collateral not captured in other categories” shall include, but not be limited to, assets pledged under derivative arrangements.

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): There have been several recent updates involving the reporting and disclosure of assets subject to a modco or funds withheld arrangement, and this current agenda item intends to clarify the restricted asset disclosure regarding these assets.

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: Jake Stultz – 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. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures* to expand paragraph 23b to add reporting for assets held under a modco

and funds withheld arrangements, as illustrated below. These changes had been made previously when the Blanks (E) Working Group adopted blanks agenda item 2025-06BWG in Note 5L, so our recommendation is to add these categories to SSAP No. 1, to include disclosure of 1) modco assets, 2) funds withheld assets, and 3) collateral assets received and on the balance sheet, excluding collateral held under security lending and repurchase agreements reported on the balance sheet. Staff also recommend that these categories be added to the restricted asset disclosure in the investment schedules, as illustrated below.

23. Reporting entities shall disclose(FN) the following information in the financial statements:
- a. Amounts not recorded in the financial statements that represent segregated funds held for others, the nature of the assets and the related fiduciary responsibilities associated with such assets. One example of such an item is escrow accounts held by title insurance companies; and
 - b. The total combined (admitted and nonadmitted) book adjusted carrying value (BACV) of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category, and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.)(FN) in the general and separate accounts(FN) by the reporting entity in comparison to total assets and total admitted assets. (Pursuant to SSAP No. 4, paragraph 6, all assets pledged as collateral or otherwise restricted shall be reported in this disclosure regardless if the asset is considered an admitted asset.) Reporting entities shall also disclose differences in the amounts reported in this note versus the amounts reported for the same categories in the general interrogatories. This disclosure shall include the following restricted asset categories:
 - i. Reported assets subject to contractual obligation for which liability is not shown;
 - ii. Collateral held under security lending agreements;
 - iii. Assets subject to repurchase agreements;
 - iv. Assets subject to reverse repurchase agreements;
 - v. Assets subject to dollar repurchase agreements;
 - vi. Assets subject to dollar reverse repurchase agreements;
 - vii. Assets placed under option contracts;
 - viii. Letter stock or securities restricted as to sale(FN) – excluding FHLB stock;
 - ix. FHLB capital stock;
 - x. Assets on deposit with states;
 - xi. Assets on deposit with other regulatory bodies;
 - xii. Pledged as collateral to the FHLB (including assets backing funding agreements);
 - xiii. Collateral assets received and on the balance sheet, excluding collateral held under security lending and repurchase agreements reported on the balance sheet.
 - xiv. Assets held under modco reinsurance agreements.

~~xii~~.xv. Assets held under funds withheld reinsurance agreements.

~~xiii~~.xvi. Assets pledged as collateral not captured in other categories(FN); and

xvii. Other restricted assets.

New codes that will be added to the annual statement blanks and instructions, in the investment schedules:

- CX - Collateral assets received and on the balance sheet, excluding collateral held under security lending and repurchase agreements reported on the balance sheet.
- MR - Assets held under modco reinsurance agreements.
- FWR - Assets held under funds withheld reinsurance agreements.

Status:

On December 9, 2025, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 1— Accounting Policies, Risks & Uncertainties, and Other Disclosures* to expand paragraph 23.b to add a reporting code for assets held under a modco and funds withheld arrangements.

On March 23, 2026, the Statutory Accounting Principles (E) Working Group re-exposed this agenda item with a specific request for regulator comments on the use of the restricted asset code in the investment schedules. The discussion identified that the restricted asset code is attributed to the entire reported investment, whereas only a portion of the investment may be restricted, and with substitutability requirements, the asset noted as restricted in the year-end investment schedules may not be the asset restricted subsequently. With the financial statement note disclosures, that identifies the amount of restricted assets by broad category, consideration will occur to delete the restricted asset codes from the investment schedules. However, before proceeding with that potential deletion, confirmation is first requested on any regulatory use and benefits of the codes.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/05-18-2026/07 - 25-27 - SSAP 1 ModcoFWH.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2026/05-18-2026/07%20-%2025-27%20-%20SSAP%201%20ModcoFWH.docx)

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

Issue: Asset Liability Management Derivatives

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
New Issue or SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: This agenda item has been developed to consider new statutory accounting guidance that prescribes guidance for interest-rate hedging derivatives that do not qualify as effective hedges under *SSAP No. 86—Derivatives*, but that are used for asset-liability management (ALM). Specifically, industry has proposed two assessment metrics for macro-hedges, the “ALM Risk Reduction Approach,” which is a hedging approach to reduce mismatches between identified assets and liabilities and the “ALM Target Management Approach,” which is a hedging approach to keep an asset portfolio aligned with a liability target. These programs do not qualify for effective hedge treatment under *SSAP No. 86* (or any accounting regime) as they reflect macro-hedges.

This agenda item originated from discussions at the IMR Ad Hoc Group, noting that full Working Group discussion is needed on this topic. Industry has communicated that these hedging derivatives, although not accounting effective under *SSAP No. 86*, are economically effective (meaning effective in achieving the hedge intent). With this industry assessment, and their interpretation of the Annual Statement Instructions, the fair value fluctuations reported as unrealized gains and losses while the derivative is open have been allocated by some life entities to the interest maintenance reserve (IMR) upon derivative termination. This approach essentially reverses the surplus impact from the unrealized position and defers the realized impact from these derivative structures through the IMR formula with subsequent amortization into income over time.

INT 23-01: Net Negative (Disallowed) IMR, allows losses for interest-rate hedging derivatives that do not qualify for “hedge accounting” under *SSAP No. 86* to continue to be allocated to IMR (and admitted if IMR is net negative) if the company has historically followed the same process for interest-rate hedging derivatives that were terminated in a gain position. The guidance does not permit entities to allocate current derivative losses to IMR without evidence illustrating the historical treatment for gains. This INT was established to provide limited-time exception guidance while IMR is further discussed and is effective through Dec. 31, 2025, with automatic nullification on Jan. 1, 2026. The treatment of the gains and losses from these non-accounting effective hedges is a key element in the long-term guidance for clarifying IMR.

SSAP No. 86 provides guidance on designations that hedge a variety of exposures, with assessments of effectiveness adopted from U.S. GAAP. Derivatives that qualify as “highly effective hedges” are permitted “hedge accounting treatment,” which means that the measurement method of the derivative mirrors the measurement method of the hedged item. (This measurement method is different than US GAAP, which requires all derivatives to be at fair value. This different measurement method is necessary under SAP to prevent a measurement mismatch between the hedged item and derivative, which would result in surplus volatility for accounting effective hedges.) Derivatives that do not qualify as “highly effective hedges” under *SSAP No. 86* are reported at fair value, which does mirror the measurement method under U.S. GAAP. Pursuant to the IMR Ad Hoc Group discussion, this item is focused on hedges that address interest-rate risk exposure used in macro-hedges, that would not qualify under the effective hedge requirements under *SSAP No. 86*.

If the Working Group wants to pursue accounting guidance for macro-hedges focused on hedging interest-rate risk that results with different treatment than what is detailed in SSAP No. 86, the guidance is anticipated to detail:

- 1) The requirements for the interest-rate hedging derivatives, including effectiveness assessments.
- 2) The accounting for the derivatives and the resulting gains/losses (including amortization if those gains/losses are deferred from immediate recognition), and
- 3) Disclosure and reporting requirements for the derivatives.

If developing new guidance, it is anticipated that the concepts of *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees* will be followed to the extent possible, but there would need to be variations based on the specific intent and application of these derivatives. A key item to note is that SSAP No. 108 does not use IMR for the reporting of deferred derivative gains and losses and this approach will also be considered within the new guidance for consistency purposes.

Existing Authoritative Literature:

- **SSAP No. 86—Derivatives**

SSAP No. 86 provides the broad statutory accounting principles for derivative instruments. The guidance is used to determine whether a derivative qualifies as “effective” and therefore permitted to be accounted for under the “hedge accounting” provisions. (Derivatives that qualify for hedge accounting are reported at the measurement method that mirrors the hedged item. For example, a derivative that qualifies for hedge accounting that is hedging a bond would be reported at amortized cost, to mirror the amortized cost measurement of the bond.) Derivatives that do not qualify for “hedge accounting” are required to be reported at fair value.

The guidance in SSAP No. 86 is explicit that derivative gains or losses from derivatives that qualify for hedge accounting shall be recognized in a manner consistent with the hedged item. Hence, if the gain/loss on a hedged item was to go to IMR, then the gain/loss on the effective, hedging derivative should also go to IMR. This guidance makes sense, as the derivative gain/loss should predominantly offset the hedged item gain/loss, resulting in a zero (or negligible) impact to IMR.

SSAP No. 86 requires derivatives which do not qualify as effective to be carried at fair value and changes in fair value are reported in unrealized gains and losses until termination.

- **SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees**

SSAP No. 108 provides special accounting treatment for limited derivatives hedging variable annuity guarantee benefits subject to fluctuations as a result of interest rate sensitivity. The items in scope of SSAP No. 108 would not qualify for hedge effectiveness under SSAP No. 86. The guidance is specific in that the provisions are only permitted if all of the components of the statement are met and that the guidance shall not be inferred as an acceptable statutory accounting approach for derivative transactions that do not meet the state qualifications or that are not specifically addressed within the guidance.

The guidance in SSAP No. 108 addresses derivative transactions that reflect a macro-hedge (portfolio of variable annuity contracts) as well as a dynamic hedging approach (rebalancing of derivative instruments). Due to the heightened risk of misrepresentation of successful risk management, specific provisions are detailed to ensure governance of the program as well as to provide sufficient tools for regulators to review.

Under SSAP No. 108, all derivatives are reported at fair value, and all fair value fluctuations attributed to the hedged risk (unrealized) are compared to the changes in the VM-21 reserve liability. The fair value fluctuations are then 1) recognized to realized gain/loss to offset a current period liability change, 2) recognized as deferred if attributed to the hedged risk but not offsetting a current period liability change or 3) recognized as unrealized if not attributed to the hedged risk. The changes recognized as deferred are amortized over a straight-line method into realized gains/losses via a timeframe that matches the Macaulay duration of the guarantee benefit cash flow, not to exceed 10 years. SSAP No. 108, although specific to interest rate risks, does not take derivative gains or losses to IMR.

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):

In 2023, the Working Group adopted *INT 23-01: Net Negative (Disallowed) IMR* as short-term guidance and directed efforts towards a long-term resolution of IMR. The IMR Ad Hoc Group, comprised of accountants and actuaries representing regulators and industry, has met to discuss IMR, including the gains/losses from “economic effective” (ALM) derivatives that some reporting entities have been taking to IMR. With those discussions, and an ACLI presentation on ALM derivatives, regulators from the Ad Hoc Group supported moving discussion of potential statutory accounting guidance to the Working Group.

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 recommends that the Working Group move this item to the active listing, classified as a new statutory accounting concept, with exposure of this agenda item to obtain comments from Working Group members, as well as interested regulators and interested parties on the potential to develop statutory guidance for macro-derivative programs that hedge interest rate risk for asset-liability matching purposes. Initially, NAIC staff is requesting feedback on the following key concepts:

- 1) Do Working Group members support the development of statutory accounting guidance that would defer derivative gains/losses for structures that hedge interest rate risk with amortization over time into income? (These derivative programs would not qualify as accounting effective under SSAP No. 86 and are not captured within the specific variable annuity guarantee guidance in SSAP No. 108.)
- 2) If further development / consideration of guidance is supported, the following items are noted for discussion:
 - a. Determination of effectiveness that permits the derivative program to qualify for the special accounting treatment.
 - b. Discussion of whether net deferred losses (reported as assets) would be admissible, and if so, any admittance limitations.
 - c. Macro-limits on admissible net deferred losses (reported as assets) and other “soft” assets. (For example, capturing IMR and derivative deferred net losses, and then perhaps considering other soft assets, such as DTAs, EDP equipment and software, goodwill, etc.)
 - d. Timeframes over which deferred items are amortized into income.

- e. **Extent of application across the industry. (NAIC staff notes that SSAP No. 108 is only applied by 9 entities, and from a review of the derivative disclosures for INT 23-01, only 14 entities captured derivative gains/losses in the IMR balance.)**

NAIC staff requests direction to work with regulators and industry during the interim to continue discussions and in the consideration of guidance.

Staff Review Completed by: Julie Gann, NAIC Staff—May 2024

Status:

On August 13, 2024, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, classified as a new SAP concept, and exposed this agenda item with a request for feedback on the items noted within the above staff recommendation. This item was exposed with a longer comment period ending November 8, 2024. This item is not planned for detailed discussion at the 2024 Fall National Meeting but is planned for discussion in the interim after that meeting, or at the 2025 Spring National Meeting.

On December 17, 2024, the Statutory Accounting Principles (E) Working Group received comments from the prior exposure. Due to the extent of comments, and the complexity of the topic, the Working Group deferred directing staff from moving forward. This item is anticipated to be a focus of discussion at the Spring National Meeting, along with a review of the data reported for IMR derivatives as that information will be data-captured for the year-end 2024 financial statements. This item was not formally re-exposed.

On March 24, 2025, the Statutory Accounting Principles (E) Working Group directed NAIC staff to research and develop possible guidance for certain non-accounting effective derivatives to defer realized gains and losses.

On September 10, 2025, the Statutory Accounting Principles (E) Working Group received a presentation on proposed ALM derivative guidance from the ACLI, along with two drafts of potential statutory accounting guidance. These drafts illustrate possible ALM derivative guidance using 1) an amortized cost method and 2) fair value and spread method. The Working Group exposed the entire package (presentation and both potential options for SAP guidance) with a comment period ending October 31, 2025. Comments are specifically requested on whether guidance for ALM derivatives should be further pursued, and if so, whether the amortized cost or fair value method is preferred.

On December 9, 2025, the Statutory Accounting Principles (E) Working Group directed NAIC staff to move forward in preparing an issue paper and draft SSAP for asset-liability matching derivatives following the amortized cost approach. The group also supported retaining the asymmetrical derivative exclusion at this time. Further, NAIC staff were directed to work with industry and regulators in the interim to determine potential reporting options for derivatives captured within the new guidance.

On March 23, 2026, the Statutory Accounting Principles (E) Working Group exposed a draft SSAP and issue paper to establish statutory accounting guidance for interest-rate hedging derivatives used for asset liability management as directed from the 2025 Fall National Meeting. In addition to the proposed clean version of the SSAP guidance, a version of the document showing tracked changes from the ACLI's September 10, 2025, proposed guidance was included to clearly illustrate changes. With the exposure and request for comments, the components addressing transition, reporting and admitted asset classification were specifically highlighted.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2026/05-18-2026/08-24-15-ALMDerivatives.docx>

Statutory Issue Paper No. 1XX

Asset Liability Management (ALM) Derivatives

STATUS

Exposure Draft – March 23, 2026

New SSAP

Current Authoritative Guidance: None

**Type of Issue:
Common Area**

SUMMARY OF ISSUE

1. The guidance within this issue paper details new statutory accounting concept revisions to incorporate special accounting treatment for limited derivatives hedging asset/liability duration differences subject to fluctuations as a result of interest rate sensitivity. These derivative structures are referred to as asset liability management (ALM) derivatives.
2. The provisions within this issue paper are proposed to be separate and distinct from the guidance in *SSAP No. 86—Derivatives* and *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees*. The derivatives subject to the scope of this guidance, and the provisions within, would not qualify for hedge effectiveness under the existing standards. The provisions within this issue paper are only permitted if all the components of the issue paper are met and shall not be inferred as an acceptable statutory accounting approach for derivative transactions that do not meet the stated qualifications or that are not specifically addressed within this guidance.
3. The guidance within this issue paper is anticipated to be included as a new SSAP applicable to the limited derivative hedging transactions addressed within.

DISCUSSION

4. The discussion of ALM derivatives originally began in 2023 in accordance with the development of *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve*. That interpretation provided limited-time exception guidance to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* and the annual statement instructions that required nonadmittance of net negative (disallowed) interest maintenance reserve (IMR) as a short-term solution. With the development of the interpretation, it was identified that some reporting entities had been allocating gains and losses from non-accounting-effective derivative transactions to IMR. For these companies, the derivative had been reported at fair value when open, with unrealized gains and losses from fair value fluctuations reflected through surplus, but at termination, the reporting entity reversed the unrealized gain or loss and recognized the realized impact through IMR. Although this guidance was not in accordance with *SSAP No. 86*, these reporting entities referred to a “hedging” reference in the annual statement IMR instructions and had taken a position that the derivative was “economically effective” as a hedge even if it did not qualify as an accounting-effective hedge.
5. With the August 2023 issuance of *INT 23-01*, provisions were included to allow reporting entities that had a historical, documented practice of deferring both derivative gains and losses from these “economically effective” hedging derivatives to continue the practice over the short-term duration of the interpretation and include the derivative losses as part of the admitted net negative (disallowed) IMR.

Reporting entities that did not have a historical, documented practice, would not be permitted to begin allocating realized gains or losses from these derivative transactions to the IMR or include these derivative losses as part of an admitted net negative (disallowed) IMR. For reporting entities eligible to continue the historical practice, the interpretation required reporting entities to include a roll-forward disclosure for the unamortized IMR balances related to these derivatives separately for derivative gains and losses.

6. Pursuant to subsequent discussions, the Statutory Accounting Principles (E) Working Group noted that the gains and losses from non-accounting-effective hedging derivatives in scope of SSAP No. 86 shall not be allocated to the IMR. The revisions to SSAP No. 7 from the long-term IMR project clarify that only specifically noted derivatives are permitted to be included in IMR:

- a. Highly-effective hedging derivatives qualifying for “hedge accounting treatment” under *SSAP No. 86—Derivatives* when the realized derivative gain or loss offsets the realized gain or loss from a hedged item that was recognized in IMR.
- b. Terminated income generating derivatives in scope of SSAP No. 86 (written derivatives) resulting in a realized gain or loss when the covering asset is accounted for at amortized cost. (Per SSAP No. 86, for options that are exercised, the remaining premium adjusts the cost, resulting in no gain or loss for the derivative.)
- c. Replication (synthetic asset) (RSAT) transactions in scope of SSAP No. 86 when the derivative is valued at amortized cost.

7. With these discussions, industry representatives proposed new statutory accounting guidance to address asset-liability management derivatives, which hedge duration differences subject to fluctuations as a result of interest sensitivity. The industry representatives identified that these hedges, which often reflect macro-hedges, will not qualify as accounting-effective hedges under SSAP No. 86, but are key insurance company activities as they protect surplus by shielding insurance companies from negative impacts of interest rate changes.

8. On September 10, 2025, representatives from the ACLI presented an ALM derivative proposal to the Statutory Accounting Principles (E) Working Group. The ACLI highlighted their view that the proposed guidance would significantly enhance the alignment of each company’s reported surplus with its actual solvency and liquidation value, as well as avoid situations where financials contain inappropriate portrayals of surplus and illusionary financial strength. The ACLI presented two versions of potential statutory guidance, one representing an amortized cost method and the other representing a mark and spread method (fair value). Although key concepts are similar between the two proposals, under the amortized cost method, the hedging derivatives would be reported at amortized cost (zero for a no-cost derivative), and when terminated (or removed from an effective hedge program), the derivative fair value would be deferred and amortized into income overtime. Under the mark and spread method, the hedging derivatives would be reported at fair value, resulting in the changes in fair value (unrealized gains and losses) being taken to deferred accounts with amortization throughout the life of the derivative. Both versions also proposed to exclude asymmetrical derivatives. At the conclusion of the call, both versions of the proposed guidance and the ACLI presentation were exposed for comment.

9. On December 9, 2025, as part of the 2025 Fall National Meeting, the Working Group considered comments on the exposed proposals, noting the ACLI strongly supported the development of guidance for ALM derivatives, as well as support for the amortized cost approach. In considering the comments, the Working Group directed NAIC staff to move forward with an issue paper and concurrent SSAP to reflect statutory accounting guidance for interest-rate hedging derivatives used for ALM under the

Asset Liability Management Derivatives

amortized cost approach and continuing the exclusion of asymmetrical derivatives. (Discussion of asymmetrical derivatives is captured in paragraphs 15-16.)

JMG to expand with subsequent discussion dates.

Discussion of ALM Hedging Concepts & Differences from SSAP No. 86 and SSAP No. 108:

10. The development of new statutory accounting guidance to address ALM derivatives, which hedge duration differences subject to fluctuations as a result of interest sensitivity, utilized existing concepts in SSAP No. 86 and SSAP No. 108 to the extent possible to allow for consistent concepts and ease of application. New derivative guidance was deemed appropriate as the proposed macro-hedging derivative structures would not qualify as highly effective hedges under SSAP No. 86 and the guidance in SSAP No. 108 is specific to hedges for variable annuity guarantees. Consideration was given to expanding SSAP No. 86, but as that standard utilizes U.S. GAAP guidance for effective-hedge determination, separating guidance for ALM derivative programs into a new statement was considered most appropriate.

11. Consistent with SSAP No. 108, the provisions of the new ALM derivative guidance permit the recognition and admittance of deferred assets and deferred liabilities, with amortization of the deferred amounts into net realized capital gains and losses over a period not to exceed 10 years. Although SSAP No. 86 does not use the concept of deferred assets and deferred liabilities, deferral of gains and losses from accounting-effective hedges is also a consistent concept, it is just completed through an adjustment to the basis of the hedged item or allocation to IMR. The existing statutory accounting guidance to recognize fair value gains and losses as deferred liabilities and assets, as well as use of an amortized cost approach in SSAP No. 86 for accounting-effective hedges, is inconsistent with U.S. GAAP. Under U.S. GAAP, and under *SSAP No. 4—Assets and Nonadmitted Assets*, realized losses do not represent assets as they do not reflect a present right to an economic benefit. Also, under U.S. GAAP and *SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets*, realized gains do not represent liabilities as they do not reflect a present obligation to transfer or provide an economic benefit to others. Reporting realized gains and losses as deferred liabilities and assets for certain derivative structures and for qualifying fixed-income investment sales is a statutory concept that reflects an exception to the asset and liability definitions under SSAP Nos. 4 and 5. These provisions result from the different accounting measurement concepts between statutory accounting and U.S. GAAP.

12. Under SSAP No. 108, recognized deferred assets are permitted to be admitted without limitation. Although net negative IMR currently has a 10% admittance limit, with the offsetting of gains and losses that occur between a SSAP No. 86 hedged item and hedging derivative, there is limited net amount recognized in the IMR for accounting-effective hedges. The provisions within this new statement propose full admittance of deferred assets in order to not disincentivize prudent hedging activities. Items are only permitted to be recognized as deferred assets or deferred liabilities if they qualify under the effective hedge provisions of the new statement. The guidance requires an amount equal to the net deferred asset and deferred liability to be allocated from unassigned funds to special surplus. (Note: SAPWG discussion is expected to confirm this proposed admitted asset treatment.)

Terms and Concepts:

13. The terms and concepts for the new ALM statement are consistent with SSAP No. 108. These items permit macro-hedges in a dynamic hedging strategy. This means that the derivative instruments and hedged items can reflect a flexible portfolio, rebalanced as needed to permit an ongoing effective hedging strategy. Macro-hedges and dynamic hedging strategies are not permitted under SSAP No. 86.

These characteristics are key reasons why these hedging programs do not qualify as accounting-effective hedge programs under SSAP No. 86 or under U.S. GAAP.

14. A specific restriction incorporated into the ALM derivative standard prevents use of derivatives with asymmetrical payoff profiles and/or derivative premiums at inception (e.g., options). Programs with these derivatives are not eligible to apply the special accounting provision within the standard and are required to follow the guidance in SSAP No. 86, with fair value measurement. Swaps, forwards and futures are expected to typically be eligible for the provisions within the ALM standard as long as they do not have asymmetrical payoff profiles or derivative premiums at inception.

15. Asymmetrical derivatives refer to the payment profile of the derivative. A typical swap (symmetrical) has no upfront payment or receipt, and at inception has an equal chance of resulting with a gain or loss. Conversely, an option has an asymmetrical payoff profile. If a reporting entity buys an option, the purchase price paid is the maximum loss amount, while resulting gains can be much more than the maximum loss. Other asymmetrical derivatives include swaps with ceilings/floors and other non-standard derivatives. Asymmetrical derivatives are excluded as permissible derivatives within the standard to avoid the possibility that companies that buy options that mature out of the money would defer the "loss" although it was the upfront purchase price. The exclusion also limits the ALM derivative concept to standard derivatives for ease of application and review.

16. The requirements a reporting entity shall follow in order to utilize the special accounting provisions in the new ALM statement, including explicit approval by the domiciliary state, certification by a financial officer, as well as the requirements for a clearly defined hedging strategy are all consistent with SSAP No. 108.

Assessing Hedge Effectiveness

17. The ALM derivative standard was developed for highly effective hedges that reduce duration differences between designated asset and liability portfolios during the period when the hedge is designated. With this specific focus, which is different from both SSAP No. 86 and SSAP No. 108, specific methods have been developed to determine whether the hedging program is highly effective. One of the three noted methods detailed below is required to be designated by the reporting entity for each hedging program and used as the constant measurement of effectiveness. Each method requires use of the standard 80-125% derivative threshold (used in SSAP No. 86 and U.S. GAAP) in determining hedge effectiveness.

- a. "Modified Duration" is the effect that a 100-basis-point (1%) change in interest rates will have on the price of an instrument. (For example, if an instrument has a modified duration of 5, a 1% change in interest rates would be expected to cause a 5% change in the instrument's price in the opposite direction). As such, if an asset portfolio has a modified duration of 9 and a liability portfolio has a modified duration of 10, a highly effective derivative portfolio hedging this difference would place the modified duration of the assets with derivatives at between 9.8 and 10.25 (80%-125% of the modified duration difference). Alternatively, if asset portfolio duration is 9 and a liability duration is 11, an entity can elect to hedge only half the difference (between 9 and 11, i.e., 10). In that case, a duration of the assets with derivatives between 9.8 and 10.25 would be highly effective.
- b. "Macaulay Duration" is the weighted average time until cash flows are received and is measured in years. As such, if an asset portfolio has a Macaulay duration of 9 years and a liability portfolio has a Macaulay duration of 10 years, a highly effective

Asset Liability Management Derivatives

derivative portfolio hedging this difference would place the Macauley duration of the assets with derivatives at between 9.8 years and 10.25 years (80%-125% of the Macauley Duration difference).

- c. “Dollar Value One (DV01)” measures the dollar change in an instrument's price for a one basis point (0.01%) change in rates. As such, if an asset portfolio has a DV01 of \$9M and a liability portfolio has a DV01 of \$10M, a highly effective derivative portfolio hedging this difference would place the DV01 of the assets with derivatives at between \$9.8M and \$10.25M (80%-125% of the DV01 difference).

Measurement / Recognition of Gains and Losses of Derivative Instruments

18. Consistent with SSAP No. 86, but different from SSAP No. 108, the provisions of the ALM standard requires use of an amortized cost measurement method for highly effective hedging instruments, with excluded components measured and reported at fair value. (Under SSAP No. 108, the derivatives follow a fair value measurement, which is in line with the assessment of effectiveness under that standard. Under SSAP No. 108 effectiveness is determined based on fair value comparisons to the hedged item.)

19. The amortized cost approach was supported for ALM derivatives as that approach would mirror SSAP No. 86 for highly effective hedges, where derivatives would be reported at cost (zero, if there is no upfront cost), without the reporting of surplus valuation changes from fair value fluctuations throughout the life of the derivative. With the amortized cost approach, if the derivative continues to be highly effective, there would be no unrealized gains or losses recognized until termination (or removal from the program), meaning that there would be no need to track or recognize deferred assets or losses while the derivative is part of an effective program. At termination (or removal from a highly effective program), the resulting gain or loss would be recognized with a deferred gain or loss as permitted under the guidance. If a fair value approach had been supported, fair value fluctuations would be recognized as unrealized gains and losses, resulting in the need to recognize and adjust deferred assets and liabilities throughout the derivative duration and not just at termination (removal). As the deferred balance would be captured in cash flow testing (CFT) and principle-based reserving (PBR), including these unrealized fair value changes in the deferred balance would create an inconsistency in the amount used as an adjustment for CFT and PBR. Use of the amortized cost approach would result with only realized gains and losses being captured in these assessments. In addition to mirroring the SSAP No. 86 approach for highly effective hedges, the amortized cost method is perceived to be the simpler approach for both application and regulator review.

20. The ALM derivative standard provides guidance for discontinuation of the amortized cost approach based on whether the derivative terminates/matures, is de-designated (removed) from a qualifying highly effective program and when de-designated or captured within a program that no longer qualifies as highly effective. For derivatives that terminate or are removed from a highly effective program, the fair value at the time of termination/de-designation shall be recognized as a deferred asset (loss) or as a deferred liability (gain), which would be surplus neutral to the amount received/paid or as an offset to the current fair value recognition of the derivative. Open derivatives removed from a qualifying program are permitted to be immediately allocated to another highly effective derivative program. If this occurs, the fair value at the time of removal shall be recognized as a deferred asset/liability and shall reflect the amortized cost basis for the subsequent program. Allocation to another program is required within the quarter to be considered an immediate allocation. The reason for this time restriction is that once a derivative is removed from a qualifying program, it is required to be reported at fair value with fluctuations in fair value recognized as unrealized gains and losses. By requiring an immediate

reallocation, a reporting entity would not have a period of time in which the derivative is reported at fair value with unrealized gains and losses recognized. Such re-allocations are not expected to be common and would be expected only in situations in which derivative programs are being combined, which can be achieved with an immediate reallocation of the derivative.

21. For derivatives that are de-designated from, or captured within, a program that no longer qualifies as highly effective, the derivative no longer qualifies for the ALM derivative standard. The derivative shall be captured in scope of SSAP No. 86, which would require a fair value measurement method with fair value fluctuations reflected as unrealized gains and losses.

Amortization of Deferred Assets and Liabilities

22. The provisions of the ALM standard require amortization of deferred assets and liabilities over a timeframe that equals the weighted average life of the hedged liability portfolio, not to exceed 10 years. This 10-year amortization limit is consistent with SSAP No. 108. Provisions for a reporting entity to accelerate amortization, ensuring consistency in any accelerations to both deferred assets and liabilities, is also consistent with SSAP No. 108.

23. Although SSAP No. 108 has provisions that require a shortened 5-year amortization period for deferred assets and liabilities when programs no longer qualify, the ALM standard does not require a similar shortened 5-year amortization timeframe. SSAP No. 108 requires a shortened timeframe as it uses a fair value approach, and deferred assets and liabilities are recognized as derivative fair value fluctuations occur. Meaning, a deferred asset could be recognized for an open derivative, and while the derivative is still open, the program could be identified as no longer a qualifying program. Under the ALM standard, and the amortized cost approach, deferred assets and liabilities are only recognized when terminated/de-designated from a highly effective program. As such, there is no risk that a deferred asset or liability would be recognized prior to confirming that the program is highly effective. As the hedging benefit would have been achieved prior to the recognition of the deferred asset or liability, allowing amortization over the stated timeframe, not to exceed 10-years, is permitted even if a program is subsequently identified as no longer highly effective. Open derivatives in a program that no longer qualifies as highly effective are not permitted to be recognized as deferred assets or liabilities and are required to follow SSAP No. 86 with a fair value measurement method.

ALM Derivative Reporting

24. The ALM derivative reporting in the statutory financial statements is largely consistent with the provisions of SSAP No. 108, with discussion of the hedging program, including the hedging instruments and strategy, the assessment of hedging effectiveness, compliance with the clearly defined hedging strategy, and if there are excluded components. The disclosures also include information on cost, fair value, and a roll-forward of the deferred assets and liabilities, with a percentage comparison to total capital and surplus, as well as the expected amortization over the next 10 years.

25. The disclosures capture information on programs that no longer qualify as highly effective, or that a reporting entity elects to discontinue the ALM guidance, along with information on the outstanding hedging instruments that will be reclassified to a fair value measurement method.

26. For reporting, it is proposed that new subtotals be added to Schedule DB to segregate the derivatives under the ALM derivative standard.

Transition and Effective Date

Asset Liability Management Derivatives

27. The transition guidance proposes an effective date of January 1, 2027 to be applied on a prospective basis for approved, qualifying hedge programs in place on or after the effective date. The guidance includes a one-time transition provision for approved qualifying programs that have existing open derivatives with recognized unrealized gains and losses. After initial transition, reporting entities are not permitted to retroactively allocate unrealized gains or losses to deferred assets or liabilities. The transition provisions do not permit reporting entities to reverse previously recognized realized gains and losses for recognition as deferred assets or deferred liabilities regardless of if the program would have qualified in scope of the statement.

28. A one-time transition provision has been included for approved, open qualifying programs to reclassify recognized unrealized gains and losses from derivative fair value changes to deferred assets and deferred liabilities. This is proposed to prevent situations in which reporting entities terminate and re-establish derivative programs as of the effective date. If the provision was not incorporated, then reporting entities that have previously established programs to allocate realized gains and losses from such hedging derivatives to IMR would be permitted to allocate the realized impacts from termination to IMR for future amortization. Reporting entities that had followed guidance in line with SSAP No. 86 and have not historically reclassified realized impacts from non-accounting effective hedging derivatives to the IMR would be at a disadvantage.

29. With the transition provision, unrealized gains and losses recognized for approved, qualifying programs would be reclassified as deferred assets and liabilities, with amortization beginning, and the current fair value of the derivative would be established as the amortized cost basis. With this approach, future fair value fluctuations will not be recognized until derivative termination or removal from a highly effective program. At that time, assuming the program still qualified as an effective hedge, the derivative fair value would be recognized as a deferred asset and liability and follow the amortization provisions in the statement.

30. The transition guidance is explicit that if there are open programs that will not qualify as an effective hedge under the statement, or for which the company will not elect to apply, then the open derivatives shall continue to be in scope of SSAP No. 86, reported at fair value, with fair value fluctuations reported as unrealized gains or losses.

31. The transition guidance also reiterates provisions expected in SSAP No. 7, where if a reporting entity had realized gains and losses from derivatives previously allocated to the IMR, those balances shall be amortized over a period not to exceed 10 years. Upon the effective date of SSAP No. 7, realized gains and losses attributed to derivatives that do not qualify as effective hedges under SSAP No. 86 are not permitted to be taken to the IMR.

Exhibit A – Example

Under the accounting provisions within this issue paper, all designated highly effective hedging instruments shall initially be reported in the financial statements at amortized cost. Amortized cost treatment will discontinue upon derivative maturity/termination or with de-designation (rebalancing) from a current highly effective program; at which time, the derivative fair value will be recognized as an asset or liability offset by a deferred asset (admitted) or deferred liability (i.e., fair value recognition is initially surplus neutral).

Under this statement, the ability to recognize a derivative at amortized cost, with recognition of the resulting fair value as a deferred asset or liability is limited to only the portion of the fair value fluctuation in the hedging instruments that is attributed to the hedged risk and meets the highly effective criteria. As detailed in this standard, the hedged risk may be designated as a specific component of the hedged item. For example, an entity may designate the duration difference between a portfolio of fixed income investments and a group of future annuity payments in a pension risk transfer (PRT) and/or structured settlements block of liabilities.

Reporting entities shall designate and utilize one of the permitted tests for determining whether the program is highly effective detailed in paragraph 11. For example:

- Clearly Defined Hedging Strategy (CDHS) characteristics:
 - Hedged item – Structured settlement liability net cash flows
 - Hedged risk – Duration difference between hedged item and designated fixed income asset portfolio supporting the hedged item
- On July 1, 202x, the company’s documented defined hedged liability item had a modified duration of 10 (i.e., a 1% change in interest rates will cause a 10% change in fair value in the opposite direction), while the documented defined supporting asset portfolio had a modified duration of 9.
 - The company designates a portfolio of derivatives to eliminate 100% of this duration difference (i.e., a highly effective derivative portfolio hedging this difference would place the modified duration of the fixed income assets with derivatives at between 9.8 and 10.25, which is 80%-125% of the modified duration difference). The company measures the effectiveness on July 1, 202x, and determines the hedge is highly effective (modified duration of supporting fixed income asset portfolio with derivatives = 10; modified duration of hedged liability = 10).
- On September 30, 202x, the company measures the effectiveness of the hedge program. Note: throughout the 3-month period, the company may have added various supporting fixed income assets, derivatives, and liability cash flows to this hedging relationship (all of which were clearly identified and classified as part of this linked portfolio at each inception). The hedge effectiveness is determined to be highly effective (e.g., modified duration of supporting fixed income asset portfolio with derivatives = 10; modified duration of hedged liability = 10).
- Example journal entries related to the above are as follows:

Asset Liability Management Derivatives

SSAP109 Example		
<i>Amortized Cost Method</i>		
July 1, 202x:	Fixed Income Assets = \$100 (Modified Duration = 9) Hedged Liabilities = \$100 (Modified Duration = 10) Fixed Income Assets Modified Duration With Derivatives = 10 Fixed Income Assets & Liabilities' Amortized Cost = Fair Value Derivatives Amortized Cost & Fair Value = 0	
Sept. 30, 202x:		
<u>Example Entries</u>		
Change in Value	N/A	
Derivative Maturity/Termination <i>(if applicable)</i>		
DR-CR: Cash	}	<i>surplus neutral</i>
DR-CR: Deferred Asset/Liability		
Amortization <i>(subsequent quarters for maturities/terminations, as applicable)</i>		
DR-CR: Deferred Asset/Liability	}	<i>surplus impact over amort period</i>
DR-CR: Net Investment Income		
<u>Liquidation Value <i>(amounts rounded for simplicity)</i></u>		
Liquidation Value <i>(fair value realization via asset sales, derivative settlement, reinsurance):</i>		
	<u>Assets</u>	<u>Liabilities</u>
BOP Fair Value (Liquidation Value)	100	100
Value Change <i>(ex-derivatives)</i>	9	10
EOP Fair Value (Liquidation Value) <i>(ex-derivatives)</i>	109	110
ALM Derivatives	1	
EOP Liquidation Value <i>(w/derivatives)</i>	110	110
Balance Sheet Value		
BOP	100	100

EOP (<i>amort cost-ex derivatives</i>)	100	100	<i>per above journal entry (DR-CR: Cash; DR-CR: Deferred)</i>
EOP (<i>derivative maturities</i>)	1	1	
EOP Balance Sheet Total	101	101	<i>Net flat (reflects highly effective hedge); deferral of asset/ liability brings balance sheet surplus equal to liquidation value</i>

De-Designation Example Entries, if applicable (using SSAP No. 86 as a guide):

De-designation

DR-CR: Derivative Asset/Liability } *current value*
 DR-CR: Deferred Asset/Liability } *(surplus neutral)*
Start amortizing

Subsequent Accounting (MTM)

DR-CR: Derivative Asset/Liability } *(prospective MTM in URGL)*
 DR-CR: URGL (Surplus)

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A. National Meeting Materials/2026/05-18-2026/09 - 24-15 - ALM Issue Paper - Spring NM.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2026/05-18-2026/09-24-15-ALMIssuePaper-SpringNM.docx)

Asset Liability Management (ALM) Derivatives

Statement of Statutory Accounting Principles No. 109

Asset Liability Management (ALM) Derivatives

STATUS

Type of Issue.....	Common Area
Issued	Exposure Draft – March 23, 2026
Effective Date.....	January 1, 2027
Affects.....	No other pronouncements
Affected by.....	No other pronouncements
Interpreted by.....	No other pronouncements
Relevant Appendix A Guidance.....	None

STATUS.....	1
SCOPE OF STATEMENT.....	1
SUMMARY CONCLUSION.....	1
Terms/Concepts (for purposes of this statement)	2
Special Accounting Provision	3
Assessing Hedge Effectiveness	5
Measurement/Recognition of Gains and Losses of Derivative Instruments.....	6
Derivative Income.....	8
Disclosures.....	8
Effective Date and Transition.....	9
REFERENCES.....	10
Relevant Issue Papers.....	10

SCOPE OF STATEMENT

1. This statement allows special accounting treatment for limited derivatives hedging asset/liability duration differences subject to fluctuations as a result of interest rate sensitivity (referred to as asset liability management (ALM) derivatives). The provisions within this statement are separate and distinct from the guidance in *SSAP No. 86—Derivatives* and *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees*, as the items subject to the scope of this guidance, and the provisions within, would not qualify for hedge effectiveness under *SSAP No. 86* or *SSAP No. 108*. The provisions provided within this statement are only permitted if all components of the statement are met and shall not be inferred as an acceptable statutory accounting approach for derivative transactions that do not meet the stated qualifications or that are not specifically addressed within this guidance.

SUMMARY CONCLUSION

2. This statement establishes statutory accounting principles to address derivative transactions hedging asset/liability duration differences subject to fluctuations as a result of interest rate sensitivity.

3. The statutory accounting guidance within this statement is considered a special accounting provision, which permits a highly effective derivative distinction different from U.S. GAAP, and allows realized fair value gains and losses from these highly effective hedging transactions to be reported as deferred liabilities and assets and amortized into net realized gains or losses over time. Consistent with U.S. GAAP, realized losses do not represent assets under *SSAP No. 4—Assets and Nonadmitted Assets*, as they do not reflect a present right to an economic benefit. Also consistent with U.S. GAAP, realized gains do not represent liabilities under *SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets*, as they do not reflect a present obligation to transfer or provide an economic benefit to others. Reporting realized gains as deferred liabilities and realized losses as deferred assets is a statutory concept that reflects an exception to the asset and liability definitions under SSAP Nos. 4 and 5. This treatment is consistent with SSAP No. 86, which allows a basis adjustment to the hedged item when effectiveness criteria is met in order to reflect the impact of the hedge. The treatment is surplus neutral when initially recorded, followed by amortization coinciding with the hedged item.

4. Reporting entities that meet the requirements of this statement are permitted to report the recognized net deferred assets, representing realized fair value losses, as admitted assets. The net deferred liabilities, representing realized fair value gains, shall be recognized as liabilities.

Note: Confirm admitted asset treatment with SAPWG. May discuss individual or aggregate limits.

Terms/Concepts (for purposes of this statement)

5. The following terms reflect concepts specific to this statement. This listing only details the key concepts. Specific guidelines are reflected throughout the guidance.

- a. **Derivative Instrument:** An agreement, instrument or series or combination thereof: (1) To make or take delivery of, or assume or relinquish, a specified amount of one or more underlying interests, or to make a cash settlement in lieu thereof; or (2) That has a price, performance, value, or cash flow based primarily upon the actual or expected price, level, performance, value, or cash flow of one or more underlying interests. Derivatives with asymmetrical payoff profiles and/or derivative premiums at inception (e.g., options) are not eligible for the accounting provisions in this standard (i.e., swaps, forwards, and futures are typically eligible for the accounting treatment in this standard if they do not contain these features).
- b. **Dynamic Hedging Approach:** A dynamic hedging strategy allows for the portfolio of derivatives comprising the hedging instrument to be rebalanced in accordance with changes to the hedged item to adhere to the specified, documented hedging strategy.
- c. **Hedged Item:** The hedged item is the duration difference between the designated asset portfolio and designated product liability portfolio that are both exposed to interest rate risk (with the ultimate hedged item being the interest rate sensitivity of the liability portfolio that the assets support). The hedged item may relate to the duration of an open or flexible portfolio (e.g., group of contracts with different characteristics and liability durations) that allows for addition of newly issued contracts, subtraction of surrenders and fluctuations in balances. The portfolio of product liabilities may consist of an entire book of business or declared components thereof¹.

¹ Product liability contracts (e.g., PRT's) that have been signed/executed are eligible as the hedged item if highly probable of closing in the near term, include disincentives for non-performance and have historically closed at a near 100% success rate. For example, on

Asset Liability Management (ALM) Derivatives

- d. Hedging Instrument: The hedging instrument shall reflect a specified derivative, or a portfolio of specified derivatives, that hedges the duration difference of the designated asset and liability portfolios. The hedging instrument may reflect a dynamic hedging strategy in which a portfolio of derivatives comprising the hedging instrument is rebalanced in accordance with changes to the hedged item.

Special Accounting Provision

6. The special accounting provision within this statement permits reporting entities to utilize a form of “macro-hedging” in which a portfolio of derivatives hedges the duration difference between an asset portfolio and a portfolio of product liabilities (i.e., an ALM Hedge²), which could include the entire book of business or subsections thereof, pursuant to a Clearly Defined Hedging Strategy (throughout this issue paper also referred to as “CDHS” or “hedging strategy”). This is considered a macro-hedge, as the designated hedged item is attached to a portfolio of product liability contracts with different characteristics and liability durations. Under this special accounting provision, the portfolio of contracts giving rise to the hedged item is not required to be static but can be revised to remove assets/derivatives/policies and/or include new assets/derivatives/policies to allow for continuous risk management (hedging) of the product liabilities in accordance with the specific risks being hedged and the hedge objectives of the specified, documented hedging strategy. In designating the hedged item, reporting entities are permitted to exclude specific components of the asset, derivative, and/or liability portfolios, but such exclusions must be documented at hedge inception.

7. This special accounting provision permits reporting entities to utilize a specified derivative, or a portfolio of specified derivatives, as the hedging instrument within an ALM Hedge to hedge the interest rate sensitivity, or a specific percentage³ of the interest rate sensitivity, of the designated hedged item. Hedged items include various interest rate sensitive products where duration can be reliably measured using one of the metrics in paragraph 11. The hedging instrument may reflect a dynamic hedging strategy in which a portfolio of derivatives comprising the hedging instrument is rebalanced in accordance with changes to the hedged item to adhere to the specified, documented hedging strategy.

8. With the provisions in this standard to allow for flexibility in the hedged item coupled with a dynamic hedging approach (rebalancing of derivative hedging instruments), there is a greater risk of misrepresentation of successful risk management and achievement of a highly effective hedging relationship. Although this risk cannot be eliminated, the following provisions intend to ensure governance of the program and provide sufficient tools to allow for regulator review:

- a. Prior to implementing a hedging program for application within scope of this standard, the reporting entity must obtain explicit approval from the domiciliary state

January 1, the company signs a PRT contract that it will assume a client’s portfolio assets and pension liabilities on March 31. The agreed upon portfolio assets have a different duration than the liabilities, so the company proceeds with hedging the difference on January 1. If the transaction meets the aforementioned probable criteria, the hedge can qualify for the treatment in this statement if it meets the other criteria in this statement, although the portfolio will not be assumed until March 31.

² As detailed in paragraph 10, these hedges are required to be highly effective in achieving the elimination of the duration mismatch between the designated asset and liability portfolios during documented hedge period.

³ In identifying the hedged risk, reporting entities must identify whether they are hedging the full, or a portion of (e.g., 40%), the interest rate sensitivity.

commissioner allowing use of this special accounting provision. The domiciliary state commissioner may subsequently disallow use of this special accounting provision at their discretion. Although this guidance does not restrict the state domiciliary commissioner on when to prohibit future use, disallowance should be considered upon finding that the reporting entity's documentation, controls, measurement, prior execution of strategy or historical results are not adequate to support future use.

- b. Certification by a financial officer of the company (CFO, treasurer, CIO, or designated person with authority over the actual trading of assets and derivatives) that the hedging strategy meets the definition of a Clearly Defined Hedging Strategy and that the Clearly Defined Hedging Strategy is the hedging strategy being used by the company in its actual day-to-day risk mitigation efforts. This provision does not require reporting entities to use the special accounting provision within this standard.

9. Eligibility for the special accounting provision within this standard is strictly limited to highly effective ALM derivatives that follow a Clearly Defined Hedging Strategy, meeting all the required provisions of this statement allowing the reporting entity to reduce the duration differences between the designated asset and liability portfolios. In order to qualify as a Clearly Defined Hedging Strategy (which may be dynamic, static, or a combination thereof), the strategy shall at a minimum, identify:

- a. The specific risks being hedged (including a measure of hedge coverage, e.g., percentage of interest rate sensitivity being hedged),
- b. The hedging objectives,
- c. The material risks that are not hedged,
- d. The financial instruments used to hedge the risks,
- e. The hedging strategy's trading rules, including permitted tolerances from hedging objectives,
- f. The metrics, criteria, and frequency for measuring effectiveness,
- g. The conditions under which hedging will not take place, and for how long the lack of hedging can persist,
- h. The group or area, including whether internal or external, responsible for implementing the hedging strategy,
- i. Areas where basis, gap, or assumption risk related to the hedging strategy have been identified, and
- j. The circumstances under which hedging strategy will not be effective in hedging the risks.

10. While an initially documented hedging strategy may subsequently change, any change in hedging strategy, which includes changes in the hedged item pursuant to paragraph 5c, shall be documented, with notification to the domiciliary state commissioner and include an effective date of the change in strategy. Reporting entities that elect to change a documented hedging strategy prior to the end of the three-month minimum timeframe shall identify the hedging strategy, and all hedging

Asset Liability Management (ALM) Derivatives

instruments executed under the strategy, as ineffective. The three-month timeframe begins with the stated effective date of the hedging strategy. Changes in a documented hedging strategy that occur after a three-month timeframe do not necessitate an ineffective determination as long as hedged items and hedging instruments under the revised/new strategy continue to meet the requirements of a highly effective ALM hedge. Reporting entities are permitted to have more than one hedging strategy implemented, but all implemented strategies must qualify as a component of a Clearly Defined Hedging Strategy pursuant to paragraph 7.

Assessing Hedge Effectiveness

11. The provisions within this standard require the entity to use a specific method, as detailed in paragraph 10, to assess hedge effectiveness at least quarterly (e.g., at the beginning and end of each quarter) with ongoing assessment consistent with the originally documented risk management strategy.

12. Both at inception, and on an ongoing basis, the hedging relationship must be highly effective in reducing duration differences between designated asset and liability portfolios during the period that the hedge is designated. Reporting entities electing to use this special accounting provision must calculate the duration of the hedged item (liability portfolio) and compare it to the duration of the designated supporting asset portfolio with and without the designated hedging derivatives at inception and on an ongoing basis (i.e., at the beginning and end of each quarter, since asset/derivative/liability amounts may change during the normal course of business with the dynamic hedge strategy needing to remain highly effective). Only if the designated hedging derivatives are highly effective at reducing the duration difference between the asset and liability portfolios at the beginning and end of each quarter, can this special accounting provision be utilized. This comparison is specific to the designated hedged risks and exposures; therefore, if only a portion of the duration/interest rate risk is hedged or if the designated hedge only includes specific components of the hedged liabilities, for determining hedge effectiveness, the effectiveness comparisons are limited to those designated items. If an entity's defined risk management strategy for a particular hedging relationship excludes specific components of the hedging derivative from the assessment of hedge effectiveness, the excluded open components shall be reported at fair value with gains or losses recognized as unrealized gains or losses.

13. The term "highly effective" describes a reduction of the duration difference between the asset and liability portfolios that is accomplished by the hedging derivatives with between an 80%-125% effective rate. One of the following methods shall be designated as the approach for each hedging program to determine whether the program is highly effective:

- a. "Modified Duration" is the effect that a 100-basis-point (1%) change in interest rates will have on the price of an instrument (e.g., if an instrument has a modified duration of 5, a 1% change in interest rates would be expected to cause a 5% change in the instrument's price in the opposite direction); so if an asset portfolio has a modified duration of 9 and a liability portfolio has a modified duration of 10, a highly effective derivative portfolio hedging this difference would place the modified duration of the assets with derivatives at between 9.8 and 10.25 (80%-125% of the modified duration difference). Alternatively, if asset portfolio duration is 9 and a liability duration is 11, an entity can elect to hedge only half the difference (between 9 and 11, i.e., 10). In which case, a duration of the assets with derivatives of between 9.8 and 10.25 would be highly effective.
- b. "Macaulay Duration" is the weighted average time until cash flows are received and is

measured in years; so if an asset portfolio has a Macaulay duration of 9 years and a liability portfolio has a Macauley Duration of 10 years, a highly effective derivative portfolio hedging this difference would place the Macauley Duration of the assets with derivatives at between 9.8 years and 10.25 years (80%-125% of the Macauley duration difference).

- c. "Dollar Value One (DV01)" measures the dollar change in an instrument's price for a one basis point (0.01%) change in rates; so if an asset portfolio has a DV01 of \$9M and a liability portfolio has a DV01 of \$10M, a highly effective derivative portfolio hedging this difference would place the DV01 of the assets with derivatives at between \$9.8M and \$10.25M (80%-125% of the DV01 difference).

Measurement/Recognition of Gains and Losses of Derivative Instruments

14. All designated highly effective hedging instruments shall be reported in the financial statements at amortized cost. This includes the derivatives, including those reflected in portfolios, deemed to be highly effective in accordance with paragraph 11. If the reporting entity has excluded specific derivative components from the assessment of hedge effectiveness pursuant to paragraph 4, the excluded derivative components shall be measured and reported at fair value, with changes in fair value recognized as unrealized gains or losses.

15. Amortized cost treatment shall discontinue in the following scenarios with recognition as follows:

- a. Maturities/Terminations: Derivatives that mature or are terminated while part of a highly effective program with a fair value other than zero shall be recognized as a deferred asset (loss) or a deferred liability (gain). The derivative maturity/termination fair value will initially be surplus neutral with the deferred asset/liability offset by cash received/paid at maturity/termination.
- b. De-Designation - Rebalancing: For derivatives de-designated from a current highly effective hedging relationship, the derivative fair value at the time of removal shall be recognized as an asset or liability offset by a deferred asset or deferred liability, resulting with a surplus neutral impact. All subsequent (post de-designation) derivative fair value changes shall be recognized as unrealized gains/losses without deferral unless the derivative is immediately allocated (re-designated) to another highly effective derivative program in scope of this standard. Derivatives that are not immediately allocated are precluded from being subsequently used as a highly effective hedging instrument and shall follow a fair value accounting measurement method until the derivative matures or is terminated⁴.
- c. De-Designation - Ineffectiveness: For derivatives de-designated from, or captured within, a program that no longer qualifies as highly effective, the derivative shall discontinue the amortized cost treatment and be recognized at fair value, with the change in fair value recognized as an unrealized gain or loss. The derivative shall be captured in scope of SSAP No. 86, with all subsequent derivative fair value changes recognized as unrealized

⁴ For purposes of applying this provision, derivatives reallocated (re-designated) to a highly effective qualifying derivative program in the quarter following de-designation are permitted as immediate allocations. Due to operational complexities with applying different measurement methods to open derivatives (as fair value is required upon de-designation), once a derivative has been removed from a highly effective derivative program beyond this quarter timeframe, the derivative cannot be reallocated to a highly effective derivative program utilizing an amortized cost measurement method.

Asset Liability Management (ALM) Derivatives

gains and losses. For these derivatives, no deferral of assets or liabilities is permitted.

16. The ability to recognize a deferred asset or liability under paragraph 13 is limited to only the portion of the hedging instruments attributed to the hedged risk. An amount equal to the net deferred asset and deferred liability recognized pursuant to paragraph 13 (net amount from all hedging strategies/programs captured within this guidance) shall be allocated from unassigned funds to special surplus.

17. The derivatives captured within this guidance essentially reflect quarterly hedges inside a clearly pre-defined program (with effectiveness tests at the beginning and end of each quarter). Programs that fail effectiveness at any time are not permitted to apply the provisions of this statement. If the program is revised to enable effectiveness, the revised program shall be considered a new program and shall be separately documented. The new program is required to be separate and distinct from the prior ALM derivative program and is only permitted if the required approvals are obtained. Application of this statement, with deferral of qualifying derivative gains and losses, is only permitted from the effective date of the revised program.

18. Deferred assets and deferred liabilities recognized under paragraph 13 shall be amortized using a straight-line method into net realized capital gains and losses over a finite amortization period. The amortization timeframe shall equal the weighted average life of the hedged liability portfolio but shall not exceed a period of 10 years. Amortization shall begin in the following quarter after initial recognition of a deferred asset or deferred liability under the qualifying program.

- a. Reporting entities are required to separately track, with a schedule to show the initial deferred amount and amortization schedule, of the deferred assets and deferred liabilities recognized and outstanding at each reporting date.
- b. The amount reported on the financial statement at each reporting date shall reflect the net amount (net as either a deferred asset or deferred liability) for each hedging strategy captured within scope of this guidance. Reporting entities that have more than one hedging strategy could have both deferred assets and deferred liabilities in the financial statements based on the net position of the separate hedging strategies.
- c. Reporting entities are permitted to amortize a greater portion of the deferred assets and/or deferred liabilities into net realized capital gains and losses at any time in advance of the scheduled amortization period.
 - i. If electing to accelerate amortization, reporting entities are required to accelerate amortization equally between deferred assets and deferred liabilities within a single hedging strategy. For example, a reporting entity is not permitted to accelerate amortization of the deferred liabilities (recognizing the gains from fair value changes) and not accelerate amortization of the deferred assets (continuing to defer losses from fair value changes). If a reporting entity only has a single hedging strategy which only reflects deferred assets or deferred liabilities, the reporting entity is permitted to accelerate amortization without restrictions.
 - ii. If a reporting entity has more than one hedging strategy, and the strategies have offsetting net positions (both deferred assets and deferred liabilities are recognized in the financial statements), a reporting entity's election to accelerate

amortization must be applied equally to programs with offsetting net positions. (For example, a decision to accelerate amortization of a program with a net deferred liability must be applied equally to a program with a deferred asset that best corresponds to the deferred liability⁵.) In these situations, the guidance in paragraph 14.c.i. is also applicable, whereas the accelerated amortization must also apply equally to the deferred assets and deferred liabilities within each individual hedging program. If a reporting entity with more than one hedging strategy only has net deferred assets or net deferred liabilities recognized, the reporting entity is permitted to accelerate amortization to a single program in a manner consistent with the guidelines in paragraphs 14.c.i.

19. For outstanding (non-expired) derivative instruments that were removed from a highly effective hedging strategy (de-designated - rebalancing), subsequent gains and losses from fair value fluctuations shall not impact previously recognized deferred assets or deferred liabilities. The deferred assets and deferred liabilities shall be “locked” and amortized under the remaining schedule unless the reporting entity elects to terminate or accelerate amortization. Subsequent to the removal from a highly effective strategy, fair value fluctuations from the outstanding derivative instruments are subject to the guidance in SSAP No. 86 and shall be recognized as unrealized gains or unrealized losses. Only if the derivative is immediately re-designated as part of a highly effective hedging strategy qualifying under this standard pursuant to paragraph 13.b, can the derivative retain an amortized cost measurement method, with the resulting fair value change at de-designation or termination/maturity reported as a deferred asset or deferred liability under this statement.

Derivative Income

20. Derivative income from hedging instruments in scope of this statement shall follow the recognition provision of SSAP No. 86.

21. Pursuant to the documented hedging strategy as an ALM Hedge, derivative income shall be considered as part of the overall hedging strategy and included in the assessments on whether the strategy is highly effective.

Disclosures

22. A reporting entity that has derivatives accounted for under this special accounting provision, or that has unamortized deferred assets or deferred liabilities pursuant to this guidance shall disclose the following within the financial statements:

- a. For each hedge program under this statement, discussion of the hedged item, including information on the liabilities’ duration sensitivity to interest rate risk, along with similar information on the assets supporting these liabilities and the designated hedging instruments being used to hedge the duration risk. Discussion of the hedging instruments shall identify whether a hedging instrument is a single instrument or portfolio, as well as information on the hedging strategy including whether there have been changes in strategy from the prior reporting period, along with detailed information on the changes), and assessment of hedging effectiveness (e.g., beginning

⁵ The intent of this guidance is to ensure that the ability to accelerate amortization does not result with elections that simply result in favorable financial statement presentation.

Asset Liability Management (ALM) Derivatives

and end of quarter asset duration without derivatives, asset duration with derivatives, liability duration, percentage of difference hedged, etc.) and compliance with the “Clearly Defined Hedging Strategy”. Identification shall occur on whether the hedged item is intended to be fully hedged under the hedging strategy, or if the strategy is only focused on a portion of the asset/liability duration difference. Hedging strategies shall be identified as highly effective or not highly effective. If the strategy for a particular hedging relationship excludes a specific component of the gain or loss, or related cash flows, from the assessment of hedge effectiveness, details on the excluded components shall be disclosed.

- b. Aggregate disclosure of the original cost and fair value of hedging instruments (including all instruments within a portfolio), including fair value changes during the reporting period.
- c. Disclosure that details a roll-forward of deferred assets and deferred liabilities, showing the beginning balance, additions, current period amortization, and ending balance, with a percentage comparison to total capital and surplus. This disclosure shall also identify the expected amortization for the next 10 years, including any accelerated amortization elected by the reporting entity. This disclosure shall identify the fair value of the excluded components of the hedging instruments, and the fair value change for those components reflected in unrealized gain and unrealized loss.
- d. For hedging strategies no longer identified as highly effective previously captured within scope of this standard, information on the determination of ineffectiveness, including variations from prior assessments resulting in the change from classification as a highly effective hedge. This disclosure shall also identify outstanding hedging instruments previously captured within scope of this standard and subsequently identified as no longer part of a highly effective hedging strategy. (Open derivative transactions no longer captured within the special accounting provision would be subject to the accounting and reporting guidance within SSAP No. 86.) This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy had been identified by the reporting entity as no longer highly effective.
- e. For situations in which the reporting entity has elected to terminate the hedging strategy and/or discontinue the special accounting provisions permitted within this SSAP, the reporting entity shall disclose the key elements in the reporting’s entity’ decision to terminate, identifying changes in the reporting entity’s objectives or perspectives from initial application. This disclosure shall also identify outstanding hedging instruments previously captured within scope of this standard and the accounting impact as a result of the termination/discontinuation. (Open derivative transactions no longer captured within the special accounting provision would be subject to the accounting and reporting guidance within SSAP No. 86.) This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy or the election to use the special accounting provision in this SSAP had been terminated

Effective Date and Transition

- 23. This statement is effective January 1, 2027. The guidance in this statement is permitted to be

applied on a prospective basis for approved qualifying hedge programs in place on or after the effective date. The guidance in paragraph 25 permits a one-time transition provision for approved qualifying programs that have existing open derivatives with recognized unrealized gains and losses. After initial transition, reporting entities are not permitted to retroactively allocate recognized unrealized gains or losses to deferred assets or liabilities. The transition provisions do not permit reporting entities to reverse previously recognized realized gains and losses for recognition as deferred assets or deferred liabilities regardless of if the hedging program would have qualified in scope of the statement.

24. On the effective date, reporting entities with open derivatives in an existing approved program that qualifies as a highly effective hedge in scope of this statement are permitted to make a one-time adjustment to reclassify recognized unrealized gains and losses from derivative fair value changes to deferred assets and deferred liabilities and begin amortization over a 10-year period. This is permitted even though the derivative is still open. With the reclassification, the derivative's then current fair value shall represent the initial amortized cost basis and follow the provisions of this statement for future measurement. As such, future fair value fluctuations in the derivative shall not be recognized as unrealized gains or losses unless the derivative no longer qualifies in scope of this statement. At derivative maturity or qualifying de-designation (rebalancing), the change in fair value from initial application and the maturity/de-designation date shall be recognized as a deferred asset or liability pursuant to paragraphs 15.a and 15.b.

25. On the effective date, reporting entities with existing programs that do not qualify, or for which the reporting entity elects not to apply this guidance, shall continue to report the open derivatives in scope of SSAP No. 86, with recognition of derivative fair value changes as unrealized gains or losses. Reporting entities that make a subsequent decision to apply the concepts of this statement to the derivative program are not permitted to reclassify previously recognized unrealized gains and losses to deferred assets and liabilities. Those unrealized gains and losses shall be retained with recognition as realized gains or losses upon termination of the derivative. For these situations, reporting entities shall freeze future recognition of unrealized gains or losses from fair value fluctuations, with the then current fair value of the derivative designated as the amortized cost for subsequent treatment under this statement.

26. Realized derivative gains and losses previously allocated to the interest maintenance reserve (IMR) for programs that would qualify as effective hedges under this statement shall be retained in IMR and amortized over a remaining period not to exceed 10 years. Upon the effective date of the revised *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*, gains and losses for derivative strategies within this statement are not permitted to be allocated to the IMR.

REFERENCES

RELEVANT ISSUE PAPERS

- *Issue Paper No. XX—Special Accounting Treatment for Limited Derivatives*

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2026/05-18-2026/10-24-15-SSAP109\(Clean\).docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2026/05-18-2026/10-24-15-SSAP109(Clean).docx)

Asset Liability Management (ALM) Derivatives

Statement of Statutory Accounting Principles No. 109

Asset Liability Management (ALM) Derivatives

The tracking shown in this document illustrates differences from the previously exposed ACLI proposed draft. In addition to some broad references within, the related issue paper also discusses the changes.

STATUS

Type of Issue Common Area
 Issued Exposure Draft – March 23, 2026
 Effective Date..... January 1, 2027
 Affects..... No other pronouncements
 Affected by..... No other pronouncements
 Interpreted by..... No other pronouncements
 Relevant Appendix A Guidance None

STATUS 1

SCOPE OF STATEMENT..... 1

SUMMARY CONCLUSION..... 2

Terms/Concepts (for purposes of this statement) 2

Special Accounting Provision 3

Assessing Hedge Effectiveness 5

Measurement/Recognition of Gains and Losses of Derivative Instruments 6

Measurement/Recognition of Realized Gains or Losses of Expired Derivatives 9

Derivative Income..... 10

Disclosures..... 10

Effective Date and Transition..... 12

REFERENCES..... 13

Relevant Issue Papers..... 13

SCOPE OF STATEMENT

1. ~~Current statutory accounting guidance for derivatives qualifying for hedging effectiveness is in SSAP No. 86—Derivatives and SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees.~~ This statement allows special accounting treatment for limited derivatives hedging asset/liability duration differences subject to fluctuations as a result of interest rate sensitivity ~~fa.k.a~~(referred to as asset liability management (ALM) derivatives~~)).~~ The provisions within this statement are separate and distinct from the guidance in ~~SSAP No. 86—Derivatives~~ ~~SSAP No. 86~~ and ~~SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees~~ ~~SSAP No. 108~~, as the items subject to the scope of this guidance, and the provisions within, would not qualify for hedge effectiveness under SSAP No. 86 or SSAP No. 108. The provisions provided within this statement are only permitted if all ~~of the~~ components of the statement are met and shall not be inferred as an acceptable statutory accounting approach for derivative transactions that do not meet the stated qualifications or that are not specifically addressed within this guidance.

SUMMARY CONCLUSION

2. This statement establishes statutory accounting principles to address derivative transactions hedging asset/liability duration differences subject to fluctuations as a result of interest rate sensitivity.

3. The statutory accounting guidance within this statement is considered a special accounting provision, which permits a highly effective derivative distinction different from U.S. GAAP, and allows realized fair value gains and losses from these highly effective hedging transactions to be reported as deferred liabilities and assets and amortized into net realized gains or losses over time. Consistent with U.S. GAAP, realized losses do not represent assets under SSAP No. 4—Assets and Nonadmitted Assets, as they do not reflect a present right to an economic benefit. Also consistent with U.S. GAAP, realized gains do not represent liabilities under SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets, as they do not reflect a present obligation to transfer or provide an economic benefit to others. Reporting realized gains as deferred liabilities and realized losses as deferred assets is a statutory concept that reflects an exception to the asset and liability definitions under SSAP Nos. 4 and 5. This treatment is consistent with SSAP No. 86, which allows a basis adjustment to the hedged item when effectiveness criteria is met in order to reflect the impact of the hedge. The treatment is surplus neutral when initially recorded, followed by amortization coinciding with the hedged item.

4. Reporting entities that meet the requirements of this statement are permitted to report the recognized net deferred assets, representing realized fair value losses, as admitted assets. The net deferred liabilities, representing realized fair value gains, shall be recognized as liabilities.

Note: Confirm admitted asset treatment with SAPWG. May discuss individual or aggregate limits.

~~The statutory accounting guidance within this statement is considered a special accounting provision, only permitted if all the components in the standard are met and shall not be inferred as an acceptable statutory accounting approach for situations that do not meet the stated qualifications or that are not specifically addressed within this guidance.~~

Terms/Concepts (for purposes of this statement)

~~3.5.~~ The following terms reflect concepts specific to this statement. This listing only details the key concepts. Specific guidelines are reflected throughout the guidance.

a. Derivative Instrument: An agreement, instrument or series or combination thereof: (1) To make or take delivery of, or assume or relinquish, a specified amount of one or more underlying interests, or to make a cash settlement in lieu thereof; or (2) That has a price, performance, value, or cash flow based primarily upon the actual or expected price, level, performance, value, or cash flow of one or more underlying interests. ~~Note: d~~ Derivatives with asymmetrical payoff profiles and/or derivative premiums at inception (e.g., options) are not eligible for the accounting provisions in this standard (i.e., swaps, forwards, and futures are typically eligible for the accounting treatment in this standard if they ~~don't do not~~ contain ~~the aforementioned these~~ features).

b. Dynamic Hedging Approach: A dynamic hedging strategy allows for the portfolio of derivatives comprising the hedging instrument to be rebalanced in accordance with changes to the hedged item ~~in order to to~~ adhere to the specified, documented hedging strategy.

Asset Liability Management (ALM) Derivatives

a-c. Hedged Item: The hedged item is the duration difference between the designated asset portfolio and designated product liability portfolio that are both exposed to interest rate risk (with the ultimate hedged item being the interest rate sensitivity of the liability portfolio that the assets support). The hedged item may relate to the duration of an open or flexible portfolio (e.g., group of contracts with different characteristics and liability durations) that allows for addition of newly issued contracts, subtraction of surrenders and fluctuations in balances. The portfolio of product liabilities may consist of an entire book of business or declared components thereof¹.

b-d. Hedging Instrument: The hedging instrument shall reflect a specified derivative, or a portfolio of specified derivatives, that hedges the duration difference of the designated asset and liability portfolios. The hedging instrument may reflect a dynamic hedging strategy in which a portfolio of derivatives comprising the hedging instrument is rebalanced in accordance with changes to the hedged item.

Special Accounting Provision

4-6. The special accounting provision within this statement permits reporting entities to utilize a form of “macro-hedging” in which a portfolio of derivatives hedges the duration difference between an asset portfolio and a portfolio of product liabilities (i.e., an ALM Hedge²), which could include the entire book of business or subsections thereof, pursuant to a Clearly Defined Hedging Strategy (throughout this issue paper also referred to as “CDHS” or “hedging strategy”). This is considered a macro-hedge, as the designated hedged item is attached to a portfolio of product liability contracts with different characteristics and liability durations. Under this special accounting provision, the portfolio of contracts giving rise to the hedged item is not required to be static but can be revised to remove assets/derivatives/policies and/or include new assets/derivatives/policies to allow for continuous risk management (hedging) of the product liabilities in accordance with the specific risks being hedged and the hedge objectives of the specified, documented hedging strategy. In designating the hedged item, reporting entities are permitted to exclude specific components of the asset, derivative, and/or liability portfolios, but such exclusions must be documented at the hedge inception.

5-7. This special accounting provision permits reporting entities to utilize a specified derivative, or a portfolio of specified derivatives, as the hedging instrument within an ALM Hedge to hedge the interest rate sensitivity, or a specific percentage³ of the interest rate sensitivity, of the designated hedged item. Hedged items include various interest rate sensitive products where duration can be reliably measured using one of the metrics in paragraph 11. The hedging instrument may reflect a dynamic hedging

¹ Product liability contracts (e.g., PRT’s) that have been signed/executed are eligible as the hedged item if highly probable of closing in the near term, include disincentives for non-performance and have historically closed at a near 100% success rate. For example, on January 1, the company signs a PRT contract that it will assume a client’s portfolio assets and pension liabilities on March 31. The agreed upon portfolio assets have a different duration than the liabilities, so the company proceeds with hedging the difference on January 1. If the transaction meets the aforementioned probable criteria, the hedge can qualify for the treatment in this statement if it meets the other criteria in this statement, although the portfolio will not be assumed until March 31.

² As detailed in paragraph 10, these hedges are required to be highly effective in achieving the elimination of the duration mismatch between the designated asset and liability portfolios during documented hedge period.

³ In identifying the hedged risk, reporting entities must identify whether they are hedging the full, or a portion of (e.g., 40%), the interest rate sensitivity.

strategy in which a portfolio of derivatives comprising the hedging instrument is rebalanced in accordance with changes to the hedged item ~~in order to~~ adhere to the specified, documented hedging strategy. ~~Fair value fluctuations not attributed to the hedged risk, including fair value changes from excluded open components, shall be recognized as unrealized gains or losses. (Moved to paragraph 12.)~~

~~6.8.~~ With the provisions in this standard to allow for flexibility in the hedged item coupled with a dynamic hedging approach (rebalancing of derivative hedging instruments), there is a greater risk of misrepresentation of successful risk management and achievement of a highly effective hedging relationship. Although this risk cannot be eliminated, the following provisions intend to ensure governance of the program and provide sufficient tools to allow for regulator review:

- a. Prior to implementing a hedging program for application within scope of this standard, the reporting entity must obtain explicit approval from the domiciliary state commissioner allowing use of this special accounting provision. The domiciliary state commissioner may subsequently disallow use of this special accounting provision at their discretion. Although this guidance does not restrict the state domiciliary commissioner on when to prohibit future use, disallowance should be considered upon finding that the reporting entity's documentation, controls, measurement, prior execution of strategy or historical results are not adequate to support future use.
- b. Certification by a financial officer of the company (CFO, treasurer, CIO, or designated person with authority over the actual trading of assets and derivatives) that the hedging strategy meets the definition of a Clearly Defined Hedging Strategy and that the Clearly Defined Hedging Strategy is the hedging strategy being used by the company in its actual day-to-day risk mitigation efforts. This provision does not require reporting entities to use the special accounting provision within this standard.

~~7.9.~~ Eligibility for the special accounting provision within this standard is strictly limited to highly effective ALM derivatives that follow a Clearly Defined Hedging Strategy, meeting all the required provisions of this ~~statement~~SSAP allowing the reporting entity to reduce the duration differences between the designated asset and liability portfolios. In order to qualify as a Clearly Defined Hedging Strategy (which may be dynamic, static, or a combination thereof), the strategy shall at a minimum, identify:

- a. The specific risks being hedged (including a measure of hedge coverage, e.g., percentage of interest rate sensitivity being hedged),
- b. The hedging objectives,
- c. The material risks that are not hedged,
- d. The financial instruments used to hedge the risks,
- e. The hedging strategy's trading rules, including permitted tolerances from hedging objectives,
- f. The metrics, criteria, and frequency for measuring effectiveness,

Asset Liability Management (ALM) Derivatives

- g. The conditions under which hedging will not take place, and for how long the lack of hedging can persist,
- h. The group or area, including whether internal or external, responsible for implementing the hedging strategy,
- i. Areas where basis, gap, or assumption risk related to the hedging strategy have been identified, and
- j. The circumstances under which hedging strategy will not be effective in hedging the risks.

8.10. While an initially documented hedging strategy may subsequently change, any change in hedging strategy, which includes changes in the hedged item pursuant to paragraph 5ca-change in hedge target, shall be documented, with notification to the domiciliary state commissioner and include an effective date of the change in strategy. Reporting entities that elect to change a documented hedging strategy prior to the end of the three-month minimum timeframe shall identify the hedging strategy, and all hedging instruments executed under the strategy, as ineffective. The three-month timeframe begins with the stated effective date of the hedging strategy. Changes in a documented hedging strategy that occur after a three-month timeframe do not necessitate an ineffective determination as long as hedged items and hedging instruments under the revised/new strategy continue to meet the requirements of a highly effective ALM hedge. Reporting entities are permitted to have more than one hedging strategy implemented, but all implemented strategies must qualify as a component of a Clearly Defined Hedging Strategy pursuant to paragraph 7.

Assessing Hedge Effectiveness

9.11. The provisions within this standard require the entity to use a specific method, as detailed in paragraph 10, to assess hedge effectiveness at least quarterly (e.g., at the beginning and end of each quarter) with on-going assessment consistent with the originally documented risk management strategy.

10.12. Both at inception, and on an ongoing basis, the hedging relationship must be highly effective in reducing duration differences between designated asset and liability portfolios during the period that the hedge is designated. Reporting entities electing to use this special accounting provision must calculate the duration of the hedged item (liability portfolio) and compare it to the duration of the designated supporting asset portfolio with and without the designated hedging derivatives at inception and on an ongoing basis (i.e., at the beginning and end of each quarter, since asset/derivative/liability amounts may change during the normal course of business with the dynamic hedge strategy needing to remain highly effective). Only if the designated hedging derivatives are highly effective at reducing the duration difference between the asset and liability portfolios at the beginning and end of each quarter, then can this special accounting provision ~~can~~ be utilized. This comparison is specific to the designated hedged risks and exposures; therefore, if only a portion of the duration/interest rate risk is hedged or if the designated hedge only includes specific components of the hedged liabilities, for determining hedge effectiveness, the effectiveness comparisons are limited to those designated items. If an entity's defined risk management strategy for a particular hedging relationship excludes specific components of the hedging derivative from the assessment of hedge effectiveness, the excluded open components shall be reported at fair value with gains or losses recognized as unrealized gains or losses.

11.13. The term "highly effective" describes a reduction of the duration difference between the asset and liability portfolios that is accomplished by the hedging derivatives with between an 80%-125% effective rate. For example: One of the following methods shall be designated as the approach for each

hedging program to determine whether the program is highly effective:

- a. “Modified Duration” is the effect that a 100-basis-point (1%) change in interest rates will have on the price of an instrument (e.g., if an instrument has a modified duration of 5, a 1% change in interest rates would be expected to cause a 5% change in the instrument's price in the opposite direction); so if an asset portfolio has a modified duration of 9 and a liability portfolio has a modified duration of 10, a highly effective derivative portfolio hedging this difference would place the modified duration of the assets with derivatives at between 9.8 and 10.25 (80%-125% of the modified duration difference). Alternatively, if asset portfolio duration is 9 and a liability duration is 11, an entity can elect to hedge only half the difference (between 9 and 11, i.e., 10). ~~(in which case, a duration of the assets with derivatives of between 9.8 and 10.25 would be highly effective).~~
- b. “Macaulay Duration” is the weighted average time until cash flows are received and is measured in years; so if an asset portfolio has a Macaulay duration of 9 years and a liability portfolio has a Macaulay Duration of 10 years, a highly effective derivative portfolio hedging this difference would place the Macaulay Duration of the assets with derivatives at between 9.8 years and 10.25 years (80%-125% of the Macaulay duration difference).
- c. “Dollar Value One (DV01)” measures the dollar change in an instrument's price for a one basis point (0.01%) change in rates; so if an asset portfolio has a DV01 of \$9M and a liability portfolio has a DV01 of \$10M, a highly effective derivative portfolio hedging this difference would place the DV01 of the assets with derivatives at between \$9.8M and \$10.25M (80%-125% of the DV01 difference).

Measurement/Recognition of Gains and Losses of Derivative Instruments

~~12.14.~~ All designated highly effective hedging instruments ~~(all derivatives, including those reflected in portfolios)~~ shall be reported in the financial statements at amortized cost. This includes the derivatives, including those reflected in portfolios, deemed to be highly effective in accordance with paragraph 11. If the reporting entity has excluded specific derivative components from the assessment of hedge effectiveness pursuant to paragraph 4, the excluded derivative components shall be measured and reported at fair value, with changes in fair value recognized as unrealized gains or losses.

~~13.15.~~ Amortized cost treatment ~~will~~shall discontinue in the following scenarios with recognition as follows:

- a. Maturities/Terminations:— Derivatives that mature or are terminated while part of a highly effective program with a fair value other than zero ~~will~~shall be recognized as a deferred asset ~~(loss)s (admitted) and~~ or a deferred liability ~~(gain).ies~~ The (i.e., derivative maturity/termination fair value ~~would~~will initially be surplus neutral with the deferred asset/liability offset by cash received/paid at maturity/termination).
- b. De-Designation - Rebalancing:— For derivatives de-designated from a ~~previous-current~~ highly effective hedging relationship ~~due to ineffectiveness or by election~~, the derivative fair value at the time of removal ~~will~~shall be recognized as an asset or liability offset by a deferred asset ~~(admitted) and~~ or deferred liability, resulting with a surplus neutral impact. ~~(i.e., fair value recognition is initially surplus neutral).~~ ~~All prospective~~

Asset Liability Management (ALM) Derivatives

~~subsequent~~ (post de-designation) derivative fair value changes ~~shall be~~ ~~are~~ recognized as unrealized gains/losses without deferral unless the derivative is immediately allocated (re-designated) to another highly effective derivative program in scope of this standard. Derivatives that are not immediately allocated are precluded from being subsequently used as a highly effective hedging instrument and shall follow a fair value accounting measurement method until the derivative matures or is terminated⁴. ~~included as part of a subsequent highly effective hedge (see 13.c below). Note — a deferred asset/liability can only be recognized for the fair value change up to the last measurement date indicating high effectiveness as defined by this SSAP.~~

- c. ~~De-Designation - Ineffectiveness: For derivatives de-designated from, or captured within, a program that no longer qualifies as highly effective, the derivative shall discontinue the amortized cost treatment and be recognized at fair value, with the change in fair value recognized as an unrealized gain or loss. The derivative shall be captured in scope of SSAP No. 86, with all subsequent derivative fair value changes recognized as unrealized gains and losses. For these derivatives, no deferral of assets or liabilities is permitted.~~

~~16. Note—An amount equal to the net deferred asset and deferred liability (net amount from all hedging strategies/programs captured within this guidance) shall be allocated from unassigned funds to special surplus. Also, as detailed previously, portions of hedging instruments that are not attributable to the hedged risk, shall be recognized as unrealized gains or unrealized losses. The ability to recognize a deferred asset/ or liability under paragraph 13 is limited to only the portion of the hedging instruments that are attributed to the hedged risk. An amount equal to the net deferred asset and deferred liability recognized pursuant to paragraph 13 (net amount from all hedging strategies/programs captured within this guidance) shall be allocated from unassigned funds to special surplus.~~

~~14.17. Lastly, as these are~~ The derivatives captured within this guidance essentially reflect quarterly hedges inside a clearly pre-defined program (with effectiveness tests at the beginning and end of each quarter). ~~Programs that fail effectiveness at any time are not permitted to apply the provisions of this statement. If the program is revised to enable effectiveness, the revised program shall be considered a new program and shall be separately documented. The new program is required to be separate and distinct from the prior ALM derivative program and is only permitted if the required approvals are obtained. Application of this statement, with deferral of qualifying derivative gains and losses, is only permitted from the effective date of the revised program.~~ could only apply the provisions of this SSAP within the subsequent quarters that effectiveness is achieved (if program parameters did not change materially). If program parameters change materially, then this represents a new program requiring new documentation, approvals, etc.

~~15.18. Deferred assets and deferred liabilities recognized under paragraph 13 shall be amortized using a straight-line method into net realized capital gains and losses~~ NGO over a finite amortization period. The amortization timeframe shall equal the weighted average life of the hedged liability portfolio but shall not exceed a period of 10 years. Amortization ~~for a quarter's derivative fair value recognition will~~ shall begin in the following quarter after initial recognition of a deferred asset or deferred liability under the qualifying program. ~~regardless if the derivative fair value recognition is realized or unrealized.~~

⁴ ~~For purposes of applying this provision, derivatives reallocated (re-designated) to a highly effective qualifying derivative program in the quarter following de-designation are permitted as immediate allocations. Due to operational complexities with applying different measurement methods to open derivatives (as fair value is required upon de-designation), once a derivative has been removed from a highly effective derivative program beyond this quarter timeframe, the derivative cannot be reallocated to a highly effective derivative program utilizing an amortized cost measurement method.~~

- a. Reporting entities are required to separately track, with a schedule to show the initial deferred amount and amortization schedule, of the deferred assets and deferred liabilities recognized and outstanding at each reporting date.
- b. The amount reported on the financial statement at each reporting date shall reflect the net amount (net as either a deferred asset or deferred liability) for each hedging strategy captured within scope of this guidance. ~~{Reporting entities that have more than one hedging strategy could have both deferred assets and deferred liabilities in the financial statements based on the net position of the separate hedging strategies.}~~
- c. Reporting entities are permitted to amortize a greater portion of the deferred assets and/or deferred liabilities into net realized capital gains and losses~~NGO~~ at any time in advance of the scheduled amortization period.
 - i. If electing to accelerate amortization, reporting entities are required to accelerate amortization equally between deferred assets and deferred liabilities within a single hedging strategy. For example, a reporting entity is not permitted to accelerate amortization of the deferred liabilities (recognizing the gains from fair value changes) and not accelerate amortization of the deferred assets (continuing to defer losses from fair value changes). If a reporting entity only has a single hedging strategy which only reflects deferred assets or deferred liabilities, the reporting entity is permitted to accelerate amortization without restrictions.
 - ii. If a reporting entity has more than one hedging strategy, and the strategies have offsetting net positions (both deferred assets and deferred liabilities are recognized in the financial statements), a reporting entity's election to accelerate amortization must be applied equally to programs with offsetting net positions. (For example, a decision to accelerate amortization of a program with a net deferred liability must be applied equally to a program with a deferred asset that best corresponds to the deferred liability⁵.) In these situations, the guidance in paragraph 14.c.i. is also applicable, whereas the accelerated amortization must also apply equally to the deferred assets and deferred liabilities within each individual hedging program. If a reporting entity with more than one hedging strategy only has net deferred assets or net deferred liabilities recognized, the reporting entity is permitted to accelerate amortization to a single program in a manner consistent with the guidelines in paragraphs 14.c.i.

16-19. For outstanding (non-expired) derivative instruments that were removed from a highly effective hedging strategy (~~de-designated -~~ rebalanced), subsequent gains and losses from fair value fluctuations shall not impact previously recognized deferred assets or deferred liabilities. The deferred assets and deferred liabilities shall be "locked" and amortized under the remaining schedule unless the reporting entity elects to terminate or accelerate amortization. Subsequent to the removal from a highly effective strategy, ~~all~~ fair value fluctuations from the outstanding derivative instruments ~~would bear~~ subject to the guidance in SSAP No. 86 and shall be recognized as unrealized gains ~~and/or~~ unrealized

⁵ The intent of this guidance is to ensure that the ability to accelerate amortization does not result with elections that simply result in favorable financial statement presentation.

Asset Liability Management (ALM) Derivatives

losses. ~~Only if the derivative is immediately re-designated as part of a highly effective hedging strategy qualifying under this standard pursuant to paragraph 13.b, can the derivative retain an amortized cost measurement method, with the resulting fair value change at de-designation or termination/maturity subsequent fair value fluctuations (after the re-designation) may be accounted for under the special accounting provision detailed in this statement reported as a deferred asset or deferred liability under this statement.~~

~~17. — For a hedging strategy that no longer qualifies within scope of this standard or is no longer a highly effective hedge, any non-amortized deferred assets or deferred liabilities shall be amortized to NGO over the remaining amortization timeframe, not to exceed five years. Reallocating assets/derivatives/liabilities in ALM hedging relationships does not indicate no longer qualifying within scope or no longer highly effective (as long as a significant amount of the assets/derivatives/liabilities are included in the hedging relationships before and after reallocation; and the relationship is highly effective before and after reallocation). If the deferred assets/deferred liabilities have a remaining amortization period that is less than the shortened timeframe, amortization shall continue over the remaining period. If the remaining amortization period is greater than 5 years at the time of the program no longer qualifies, or is no longer highly effective, the amortization schedule shall be revised to require full amortization within the shortened 5-year timeframe. If elected by the reporting entity, deferred assets and deferred liabilities may be immediately recognized in NGO or have accelerated amortization (less than 5 years). (An election to immediately eliminate or accelerate amortization must follow the provisions in paragraph 14.c.) All future fair value fluctuations for these derivative instruments would be subject to the guidance in SSAP No. 86 and shall be recognized as unrealized gains or unrealized losses unless the instrument is subsequently designated as part of a highly effective hedging strategy within scope of this statement. If the derivative is re-designated as part of a highly effective hedging strategy qualifying under this standard, subsequent fair value fluctuations (after the re-designation) may be accounted for under the special accounting provision detailed in this statement.~~

Note: The above paragraph for accelerated amortization once a program has been discontinued or no longer effective has been removed. Derivatives recognized when the program was effective shall not be impacted if the program is subsequently discontinued to deemed ineffective. The benefit for the derivatives that were effective continues even if there is subsequent discontinuation/ineffectiveness of the hedging program.

~~18. — Reporting entities may elect to terminate use of this special accounting provision at any time. In those instances, all deferred assets and deferred liabilities shall be amortized to NGO over the remaining amortization timeframe, not to exceed five years. If the deferred assets/deferred liabilities have an amortization period that is less than the shortened 5-year timeframe, amortization shall continue over the established period. If the remaining amortization period is greater than 5 years at the time of termination, the amortization schedule shall be revised to require full amortization within the shortened 5-year timeframe. If elected by the reporting entity, deferred assets and deferred liabilities may be immediately eliminated or have accelerated amortization (less than 5 years) with recognition in NGO. (An election to immediately eliminate or accelerate amortization must follow the provisions in paragraph 14.c.) Once the special accounting provision is terminated, unless re-designated by the reporting entity, subsequent accounting of the derivatives in a hedging strategy that would be captured within this statement shall follow the fair value accounting approach in SSAP No. 86⁵.~~

~~⁵ Macro hedges and the ability to rebalance hedging instruments are not provisions permitted within “effective” hedges in scope of SSAP No. 86. As such, hedging strategies with these components accounted for under SSAP No. 86 shall follow the fair value accounting approach detailed in that~~

~~standard.~~

~~Measurement/Recognition of Realized Gains or Losses of Expired Derivatives~~

~~19. This guidance allows for individual derivative instruments to expire and/or be removed from the portfolio of the hedging instrument (as effectiveness is tested each quarter and hedges and hedged items changing each quarter as part of dynamic hedging strategies).~~

~~20. Pursuant to the provisions in paragraph 14.c., reporting entities are permitted to amortize a greater portion of the deferred assets and/or deferred liabilities from expired derivatives into NGO in advance of the scheduled amortization period.~~

~~21. Consistent with the guidance in paragraph 17, reporting entities may elect to terminate use of this special accounting provision at any time. In those instances, all deferred assets and deferred liabilities shall be amortized to NGO over the remaining amortization timeframe, not to exceed 5 years. If the deferred assets/deferred liabilities had an amortization period that was less than the shortened timeframe, amortization shall continue over the established period. If the amortization period was greater than 5 years at the time of termination, the amortization schedule would be revised to require full amortization within the shortened timeframe. If elected by the reporting entity, the deferred assets and deferred liabilities may be immediately eliminated, or have accelerated amortization, with recognition in NGO. An election to immediately eliminate or accelerate amortization (less than 5 years) must follow the provisions in paragraph 14.c.)~~

Note: Deleted as duplicative.

Derivative Income

~~21.20. Derivative income under this accounting provision is included in NGO pursuant to SSAP86 from hedging instruments in scope of this statement shall follow the recognition provision of SSAP No. 86.~~

~~22.21. Pursuant to the documented hedging strategy as an ALM Hedge, derivative income shall be considered as part of the overall hedging strategy and included in the assessments on whether the strategy is highly effective.~~

Disclosures

~~23.22. A reporting entity that has any derivatives accounted for under this special accounting provision, or that has unamortized deferred assets and/or deferred liabilities (representing previously unrecognized qualifying fair value fluctuations) under the special accounting provision pursuant to this guidance shall disclose the following within the financial statements:~~

- a. For each hedge program under this ~~SSAP statement~~, discussion of ~~the~~ hedged item, including information on the liabilities' duration sensitivity to interest rate risk, along with similar information on the assets supporting these liabilities and the designated hedging instruments being used to hedge the duration risk. Discussion of the hedging instruments shall identify whether a hedging instrument is a single instrument or portfolio, as well as information on the hedging strategy including whether there have been changes in strategy from the prior reporting period, along with detailed information on the changes), and assessment of hedging effectiveness (e.g., beginning

Asset Liability Management (ALM) Derivatives

and end of quarter asset duration without derivatives, asset duration with derivatives, liability duration, percentage of difference hedged, etc.) and compliance with the “Clearly Defined Hedging Strategy”. Identification shall occur on whether the hedged item is intended to be fully hedged under the hedging strategy, or if the strategy is only focused on a portion of the asset/liability duration difference. Hedging strategies shall be identified as highly effective or not highly effective. If the strategy for a particular hedging relationship excludes a specific component of the gain or loss, or related cash flows, from the assessment of hedge effectiveness, details on the excluded components shall be disclosed.

- b. Aggregate disclosure of the original cost and fair value of hedging instruments (including all instruments within a portfolio), including fair value changes during the reporting period. ~~Additionally, disclose the fair value of the hedged item, the change in fair value from the prior reporting period, and the portion of the fair value change attributed to the hedged risk.~~
- c. ~~Schedule showing the aggregate fair value change from the prior reporting period for the designated components for all hedging instruments, with identification of the fair value change reflected in deferred assets, and deferred liabilities. This schedule shall also show the current period amortization, including any accelerated amortization elected by the reporting entity, and the future scheduled amortization of the deferred assets and deferred liabilities. Disclosure that details a roll-forward of deferred assets and deferred liabilities, showing the beginning balance, additions, current period amortization, and ending balance, with a percentage comparison to total capital and surplus. This disclosure shall also identify the expected amortization for the next 10 years, including any accelerated amortization elected by the reporting entity. This schedule disclosure shall identify the fair value of the excluded components of the hedging instruments, and the fair value change for those components reflected in unrealized gain and unrealized loss.~~
- d. For hedging strategies no longer identified as highly effective previously captured within scope of this standard, information on the determination of ineffectiveness, including variations from prior assessments resulting in the change from classification as a highly effective hedge. This disclosure shall also identify outstanding hedging instruments previously captured within scope of this standard and subsequently identified as no longer part of a highly effective hedging strategy. (Open derivative transactions no longer captured within the special accounting provision would be subject to the accounting and reporting guidance within SSAP No. 86.) This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy had been identified by the reporting entity as no longer highly effective. include:
 - i. ~~Identification of outstanding hedging instruments previously captured within scope of this standard and subsequently identified as no longer part of a highly effective hedging strategy. This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy had been identified by the reporting entity as no longer highly effective.~~
 - ii. ~~Deferred assets and deferred liabilities previously recognized when the program was highly effective, with a schedule that shows the amortization that would~~

- ~~have occurred if the program had remained highly effective, the amount of original amortization as well as a schedule that details the amortization that will occur as the program is no longer highly effective (maximum five-year timeframe).~~
- ~~iii. Disclosure on whether the reporting entity is electing to accelerate amortization (in advance of the remaining scheduled amortization or the maximum five-year timeframe), along with amounts immediately recognized to unrealized gains/losses, and how the election impacts the scheduled amortization.~~
- e. For situations in which the reporting entity has elected to terminate the hedging strategy and/or discontinue the special accounting provisions permitted within this SSAP, the reporting entity shall disclose the key elements in the reporting's entity' decision to terminate, identifying changes in the reporting entity's objectives or perspectives from initial application. This disclosure shall also identify outstanding hedging instruments previously captured within scope of this standard and the accounting impact as a result of the termination/discontinuation. (Open derivative transactions no longer captured within the special accounting provision would be subject to the accounting and reporting guidance within SSAP No. 86.) This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy or the election to use the special accounting provision in this SSAP had been terminatedinclude:
- ~~i. Identification of outstanding hedging instruments previously captured within scope of this standard and the accounting impact as a result of the termination/discontinuation. (Open derivative transactions no longer captured within the special accounting provision would be subject to the accounting and reporting guidance within SSAP No. 86.) This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy or the election to use the special accounting provision in this SSAP had been terminated.~~
- ~~ii. Deferred assets and deferred liabilities previously recognized under the hedging strategy and/or program, with a schedule that shows the amortization that would have occurred if the strategy and/or program had remained highly effective, as well as a schedule that details the amortization that will occur with the termination of the strategy and/or program (maximum five-year timeframe).~~
- ~~iii. Disclosure on whether the reporting entity is electing to accelerate amortization (in advance of the remaining scheduled amortization or the maximum five-year timeframe), along with amounts immediately recognized to unrealized gains/losses, and the resulting impact to the scheduled amortization.~~

Effective Date and Transition

24.23. This statement is effective January 1, ~~2026~~2027. The guidance in this SSAP statement is required permitted to be applied on a prospective basis for approved qualifying hedge programs in place on or after the effective date. The guidance in paragraph 25 permits a one-time transition provision for approved qualifying programs that have existing open derivatives with recognized unrealized gains and

Asset Liability Management (ALM) Derivatives

~~losses. After initial transition, reporting entities are not permitted to retroactively allocate recognized unrealized gains or losses to deferred assets or liabilities. The transition provisions do not permit reporting entities to reverse previously recognized realized gains and losses for recognition as deferred assets or deferred liabilities regardless of if the hedging program would have qualified in scope of the statement. This prospective application prohibits deferred asset and deferred liability recognition from fair value fluctuations previously recognized as unrealized gains or losses that occurred prior to the effective date of the guidance.~~

~~24. On the effective date, reporting entities with open derivatives in an existing approved program that qualifies as a highly effective hedge in scope of this statement are permitted to make a one-time adjustment to reclassify recognized unrealized gains and losses from derivative fair value changes to deferred assets and deferred liabilities and begin amortization over a 10-year period. This is permitted even though the derivative is still open. With the reclassification, the derivative's then current fair value shall represent the initial amortized cost basis and follow the provisions of this statement for future measurement. As such, future fair value fluctuations in the derivative shall not be recognized as unrealized gains or losses unless the derivative no longer qualifies in scope of this statement. At derivative maturity or qualifying de-designation (rebalancing), the change in fair value from initial application and the maturity/de-designation date shall be recognized as a deferred asset or liability pursuant to paragraphs 15.a and 15.b.~~

~~25. On the effective date, reporting entities with existing programs that do not qualify, or for which the reporting entity elects not to apply this guidance, shall continue to report the open derivatives in scope of SSAP No. 86, with recognition of derivative fair value changes as unrealized gains or losses. Reporting entities that make a subsequent decision to apply the concepts of this statement to the derivative program are not permitted to reclassify previously recognized unrealized gains and losses to deferred assets and liabilities. Those unrealized gains and losses shall be retained with recognition as realized gains or losses upon termination of the derivative. For these situations, reporting entities shall freeze future recognition of unrealized gains or losses from fair value fluctuations, with the then current fair value of the derivative designated as the amortized cost for subsequent treatment under this statement.~~

~~25-26. Realized ~~derivative gains/~~ and losses previously allocated to the interest maintenance reserve (IMR) ~~deferred in IMR~~ for programs that would qualify as effective hedges under this statement shall be retained in IMR and amortized over a remaining period not to exceed 10 years. Upon the effective date of the revised SSAP No. 7—*Asset Valuation Reserve and Interest Maintenance Reserve*, gains and losses for derivative strategies within this statement are not permitted to be allocated to the IMR.~~

~~1. — prior to the effective date of this guidance shall continue to be amortized over the remaining amortization period from their original amortization schedule. Unrealized gains/losses recognized prior to the effective date of this SSAP from derivatives that utilize/qualify for the SSAP's accounting treatment on the above effective date shall remain in unrealized gains/losses and amortize into NGO (i.e., surplus neutral) over the weighted average life of the liabilities they support (subject to the limits noted in previously in this SSAP). Reporting entities that have previously received permitted or prescribed practices for qualifying hedge programs, resulting with the recognition of deferred assets/deferred liabilities from unrecognized fair value fluctuations, shall work with their domiciliary state regulator to determine the appropriate method in transitioning from previously approved permitted practices. The reporting entity shall include disclosure of the transition approach approved by the domiciliary state in their financial statements in the first year of application. The approved transition approach is not considered a permitted practice as long as the reporting entity is fully compliant with the provisions of~~

~~this statement after implementation. After the effective date of this statement, domiciliary state provisions that differ from this statement must be disclosed as a permitted or prescribed practice pursuant to SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures.~~

REFERENCES

RELEVANT ISSUE PAPERS

- Issue Paper No. ~~159XX~~—Special Accounting Treatment for Limited Derivatives

Note: An example is captured in the Issue Paper for application guidance.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2026/05-18-2026/11-24-15-SSAP109\(Tracked\).docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2026/05-18-2026/11-24-15-SSAP109(Tracked).docx)

**Statutory Accounting Principles (E) Working Group
Interim Meeting on May 18, 2026
Comment Letters Received**

TABLE OF CONTENTS

COMMENTER / DOCUMENT	PAGE REFERENCE
Comment Letters Received for Items Planned for Discussion on May 18	
Interested Parties – May 1, 2026 <ul style="list-style-type: none"> ○ Ref #2024-15: Asset Liability Management Derivatives ○ Ref #2025-13: Residential Mortgage Loans Held in Statutory Trusts ○ Ref #2025-27: SSAP No. 1 Modco/FWH Code ○ Ref #2026-01: Disclosure of FABNs and Similar Structures ○ Ref #2026-02: Valuation of Funds Withheld ○ Ref #2026-03EP: Various Editorial Revisions 	1-7
ACLI – May 1, 2026 <ul style="list-style-type: none"> ○ Ref #2026-02: Valuation of Funds Withheld 	8-10
ACLI – May 1, 2026 <ul style="list-style-type: none"> ○ Ref #2024-15: SSAP No. 109 – ALM Derivatives 	11-12
Maryland Insurance Administration – May 1, 2026 <ul style="list-style-type: none"> ○ Ref #2025-27: SSAP No. 1 Modco/FWH Code 	13

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May 1, 2026

Mr. Kevin Clark, 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 Items Exposed for Comment by the Statutory Accounting Principles Working Group (SAPWG) with Comments due May 1

Dear Mr. Clark:

Thank you and the NAIC Statutory Accounting Principles Working Group (the Working Group) for the opportunity to comment on the above-referenced items, which were exposed for comment by the Working Group during the NAIC 2026 Spring National Meeting.

Ref #2024-15: Asset Liability Management Derivatives

The Working Group exposed a draft SSAP and issue paper to establish statutory accounting guidance for interest-rate hedging derivatives used for asset liability management as directed from the 2025 Fall National Meeting. In addition to the proposed clean version of the SSAP guidance, a version of the document showing tracked changes from the ACLI's September 10, 2025, proposed guidance was included to clearly illustrate changes. With the exposure and request for comments, the components addressing transition, reporting and admitted asset classification were specifically highlighted.

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the SAPWG exposure draft Ref #2024-15 Asset Liability Management (ALM) Derivatives. We strongly support this exposure draft of statutory accounting guidance for interest-rate hedging derivatives used for ALM, also referred to as "ALM Derivatives".

ACLI is very appreciative of the on-going dialogue with SAPWG and offers the following additional comment on this topic:

- Regarding the transition guidance in paragraph 24, we recommend that transition be a surplus neutral event on the transition date. ALM Derivative hedges are designed to hedge surplus, i.e., keep surplus / liquidation value unchanged due to market interest rate changes. Accordingly, for transition, we suggest the following adjustment to paragraph 24 of the exposure draft:
 - ✓ 24. On the effective date, reporting entities with open derivatives in an existing approved program that qualifies as a highly effective hedge in scope of this statement are permitted to make a one-time adjustment to reclassify recognized unrealized gains and losses from derivative fair value changes to deferred assets and deferred liabilities ~~deferred assets and deferred liabilities~~ realized gains/losses in the statement of operations. This is permitted even though the derivative is still open. With the reclassification, the derivative's then current fair value shall represent the initial amortized cost basis. This cost basis should be amortized into the statement of operations over the remaining life of the derivative instrument not to exceed a 10-year period. The derivative and should and follow the provisions of this statement for future measurement. As such, future fair value fluctuations in the derivative shall not be recognized as unrealized gains or losses unless the derivative no longer qualifies in scope of this statement. At derivative maturity or qualifying de-designation (rebalancing), the change in fair value from initial application and the maturity/de-designation date shall be recognized as a deferred asset or liability pursuant to paragraphs 15.a and 15.b.

Once again, the ACLI appreciates the opportunity to provide comments and looks forward to continued dialogue on new statutory guidance for ALM Hedges.

Ref #2025-13: Residential Mortgage Loans Held in Statutory Trusts

The Working Group exposed a draft issue paper to detail for historical purposes the discussions and conclusions that occurred when developing the guidance for residential mortgage loans held in qualifying statutory trusts.

Interested parties have no comment on this item.

Ref #2025-27: SSAP No. 1 Modco/FWH Code

The Working Group re-exposed this agenda item with a specific request for regulator comments on the use of the restricted asset code in the investment schedules. The discussion identified that the restricted asset code is attributed to the entire reported investment, whereas only a portion of the investment may be restricted, and with substitutability requirements, the asset noted as restricted in the year-end investment schedules may not be the asset restricted subsequently. With the financial statement note disclosures, that identifies the amount of restricted assets by broad category, consideration will occur to delete the restricted asset codes from the investment

Statutory Accounting Principles Working Group
 May 1, 2026
 Page 3

schedules. However, before proceeding with that potential deletion, confirmation is first requested on any regulatory use and benefits of the codes.

Interested parties agree with the removal of the codes consistent with our prior comments on this proposal.

Ref #2026-01: Disclosure of FABNs and Similar Structures

The Working Group moved this item to the active listing, classified as a SAP clarification, and exposed revisions to *SSAP No. 52—Deposit-Type Contracts*, as illustrated above, to incorporate disclosures and a glossary for funding agreement backed notes and other similar structures. The proposed disclosures predominantly reflect revisions recommended by the Macroprudential (E) Working Group. The Macroprudential (E) Working Group is also sponsoring a blanks proposal to incorporate the disclosure changes for year-end 2026.

The ACLI appreciates the opportunity to provide comments on the Statutory Accounting Principles (E) Working Group (SAPWG) Ref #2026-01 regarding the disclosure of Funding Agreement-Backed SPV Issuances.

ACLI suggests that the ‘Issue’ at the beginning of the exposure be changed to “Disclosure of Funding Agreement-Backed SPV Issuances” to better reflect the changes being made.

ACLI recommends the following revisions to paragraph 23a in SSAP No. 52 to enhance clarity as to what is being reported. This will be consistent with our comments on the corresponding Blanks (E) Working Group exposure:

~~Balance of funding agreements per type of issuance, per type of issuance where the transaction contains a put feature or embedded option, and per type of issuance where the terms of the SPV Issuance differ from the terms of the corresponding funding agreement, and the BACV amount of collateral pledged by the reporting entity by type of transaction:~~

For each type of issuance, report the total balance of funding agreements, the balance where the transaction contains a put feature or embedded option¹, the balance where the terms of the SPV Issuance differ from the terms of the corresponding funding agreement², and the book adjusted carrying value (BACV) amount of invested assets collateral (i.e., not including the funding agreements) pledged by the reporting entity by type of transaction:

ACLI recommends the following edits to certain items under the proposed Glossary in SSAP No. 52 for clarification:

Funding Agreement-Backed Commercial Paper: Under funding agreement-backed commercial paper (FABCP) structures, the insurer issues a master funding agreement to an SPV. The FABCP master funding agreement contains a deposit schedule that is updated to reflect the terms of each new deposit under an FABCP program (each, a “Deposit”). The terms of a Deposit mirror the terms of a corresponding FABCP Issuance. The assets backing the master funding agreement consist of commercial paper with maturities of 360 days or less that are purchased by the insurer with the FABCP investors’ cash proceeds. The principal and interest payments on FABCPs are generally structured to align with the dollar amount of commercial paper backing the transaction. However, the insurer may not always be able to fully invest the proceeds due to the short maturities and frequent rollovers of commercial paper, which can create a duration mismatch. The short term nature and high liquidity of the underlying commercial paper partially mitigate this ALM mismatch.

Funding Agreement-Backed Repurchase Agreements: In a funding agreement-backed repurchase (FABR) agreement transaction, an SPV purchases a funding agreement issued by an insurer and then uses that funding agreement to enter into a repurchase agreement (repo) with a bank counterparty. In addition, the insurer pledges collateral into an account controlled by the SPV to support the repurchase transaction. The bank counterparty may rehypothecate, or repledge, all or a portion of the collateral pool. ~~This FABN structure expands repurchase capacity and balance sheet flexibility for the insurer while reducing the bank counterparty’s regulatory capital charge.~~

Funding Agreement-Backed Loans: ~~Funding agreement-backed loan (FABL) structures work similarly to FABNs, except the SPV is established by the bank counterparty, not the insurer. Another key difference from FABNs is that the FABL SPV enters into a loan directly with a bank instead of issuing notes. Effectively, though, the cash flows of the loan and notes operate similarly. Funding agreement-backed loans (FABL) are loans issued to bankruptcy-remote SPVs that are secured by funding agreements (FA) issued by the sponsoring insurance company to the SPV. Additionally, with FABLs, the insurer may pledges securities to a collateral into an account, for which the bank counterparty has a security interest pursuant to an account control agreement.~~

Funding Agreement-Backed Municipal Pre-Pay/Energy Bonds-Funding Agreements Issued into Muni Prepay Structures: ~~Funding agreement-backed municipal gas and electric prepayment bonds (FABMBs) These are a specialized segment of the municipal bond market that allows municipalities to secure a long-term, discounted supply of energy from a utility company. As part of this transaction an insurer issues a funding agreement to an SPV. The municipality issues a tax-exempt bond to investors and uses the proceeds to prepay for typically 20 to 30 years of energy delivery. The insurer’s funding agreement provides known scheduled principal payments to the SPV that supports the purchase of energy. provides interest payments on the bonds until such payments are recouped from consumers paying their utility bills. The SPV’s is a single purpose entity whose sole purpose is to execute the~~

Statutory Accounting Principles Working Group
May 1, 2026
Page 5

prepayment with the commodity supplier, ~~which is typically the commodity trading entity of an investment bank.~~

We welcome the opportunity to discuss our comments further and to support SAPWG's continued work on this issue.

Ref #2026-02 – Valuation of Funds Withheld

The Working Group moved this item to the active agenda, classified as a SAP clarification, and exposed revisions to *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* and the life annual statement instructions for various reporting schedules, to clarify the reporting of funds withheld under reinsurance contracts. With exposure, the Working Group also sponsored a blanks proposal to incorporate the revisions to the annual statement instructions.

The ACLI appreciates the opportunity to comment on the Statutory Accounting Principles (E) Working Group (SAPWG) Ref #2026-02, Valuation of Funds Withheld. While the ACLI agrees with the spirit of the exposed changes, we believe the proposed edits to SSAP No. 61 and the annual statement instructions require some modifications. The suggestions offered below are designed to provide for the diversity in funds withheld reinsurance transactions and ensure consistent accounting guidance for all funds withheld transactions regardless of the details of their structure.

Our suggestions, which are provided in Attachment A, would revise the description of the funds withheld liability in paragraphs 41.a and 53 of SSAP No. 61. While we appreciate the simplicity of the language proposed in the exposure, we found that interpretations vary with the terms of companies' reinsurance agreements. Although the funds withheld liability will often equal the carrying value of the invested assets held on the ceding entity's balance sheet, there are instances where that is not the case.

The funds withheld liability is a contractual liability, and it is determined based on the terms of the underlying reinsurance agreement. Some agreements do not associate the funds withheld liability with a specific quota share of invested assets, do not segregate invested assets, or have timing considerations that would make a literal interpretation of the proposed language more difficult. For example, some agreements that are not required to transfer investment risk, such as those covering term life insurance, may not specify which assets are associated with the funds withheld liability.

We believe these suggestions represent a conceptual change to the proposed language in SSAP No. 61, and we would appreciate the opportunity to discuss the appropriate implementation of these concepts in the annual statement instructions. ACLI members stand ready to discuss these details with NAIC staff and regulators.

In closing, we would like to thank SAPWG members and NAIC staff for the time they have already taken to discuss these issues with us, and for proactively working to improve statutory accounting guidance. We would welcome further discussion on the best way to ensure clear and

Statutory Accounting Principles Working Group
May 1, 2026
Page 6

consistent reporting for funds withheld liabilities.

Ref #2026-03EP: Various Editorial Revisions

The Working Group exposed editorial revisions to the AP&P Manual to: 1) replace the term “CUSIP” with “Security Identifier”; 2) add “U.S.” before “generally accepted accounting principles (GAAP) or “GAAP” as appropriate; and 3) remove the word “funding” from the beginning of the paragraph that describes Federal Home Loan Bank (FHLB) agreements.

Interested parties have no comment on this item.

* * * *

Thank you for considering interested parties’ comments. We look forward to working with you and the Working Group on these items. We would recommend working with NAIC staff prior to a blanks exposure to refine clarity as much as possible prior to the exposure. 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
Wil Oden, NAIC staff
Jake Stultz, NAIC staff
Interested parties

Attachment A

ACLI suggests updating the proposal as follows. Please note that the section below reflects NAIC staff additions in italics and the ACLI additions in bold:

1. SSAP No. 61

Accounting for Coinsurance With Funds Withheld Arrangements

40. The following accounting applies to coinsurance arrangements with funds withheld:
- a. Ceding Entity—Premiums paid or payable to the reinsurer net of any experience refunds shall reduce premium income. Policy benefit payments paid by the reinsurer shall reduce the ceding entity's reported policy benefits. Expense allowances paid by the reinsurer shall be reported separately in the summary of operations as they are earned. A net reduction to policy reserves shall be taken for the portion of the obligation assumed by the reinsurer. *Any amounts withheld by the ceding entity shall be recorded as a separate liability. The liability is based on the book adjusted carrying value of the assets held by the ceding entity to the extent that such funds were included as a part of the total assets and were not offset by a directly related credit on the asset page.* **A funds withheld liability is established, which is determined based on the terms of the reinsurance agreement. The assets held on the ceding entity's balance sheet to support the funds withheld liability are accounted under the appropriate statutory accounting principles for the specific asset(s).** Reporting entities filing the annual statement for life and accident and health insurers shall record any interest due or payable on the amounts withheld as a component of aggregate write-ins for miscellaneous deductions. Reporting entities filing the health annual statement shall record any interest due or payable on the amounts withheld as a component of aggregate write-ins for other income or expense.
 - b. Assuming Entity (Reinsurer)—Premiums received or receivable by the reinsurer net of any experience refunds shall increase premium income and policy benefit payments paid by the reinsurer shall increase the reported policy benefits. Expense allowances paid by the reinsurer shall be reported separately in the summary of operations when payable. The reinsurer shall record its share of the statutory policy reserves attributable to the business identified in the contract. Any funds withheld by the ceding entity shall be recorded as an accounts receivable. For reporting entities filing the annual statement for life and accident and health insurers shall record any interest earned or receivable on the funds withheld as a component of aggregate write-ins for miscellaneous income. Reporting entities filing the health annual statement shall record any interest earned or receivable on the funds withheld as a component of aggregate write-ins for other income or expense.

Funds Held Under Reinsurance Treaties with Unauthorized Reinsurers or Certified Reinsurers

53. This liability is established for funds deposited by or contractually withheld from unauthorized reinsurers or certified reinsurers. *The liability is based on the book adjusted carrying value of the assets held by the ceding entity to the extent that such funds were included as a part of the total assets and were not offset by a directly related credit on the asset page.* **The funds withheld liability is determined based on the terms of the reinsurance agreement.**



May 1, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

Re: SAPWG Ref #2026-02 – Valuation of Funds Withheld

Dear Chair Clark,

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the Statutory Accounting Principles (E) Working Group (SAPWG) Ref #2026-02, Valuation of Funds Withheld. While the ACLI agrees with the spirit of the exposed changes, we believe the proposed edits to SSAP No. 61 and the annual statement instructions require some modifications. The suggestions offered below are designed to provide for the diversity in funds withheld reinsurance transactions and ensure consistent accounting guidance for all funds withheld transactions regardless of the details of their structure.

Our suggestions, which are provided in Attachment A, would revise the description of the funds withheld liability in paragraphs 41.a and 53 of SSAP No. 61. While we appreciate the simplicity of the language proposed in the exposure, we found that interpretations vary with the terms of companies' reinsurance agreements. Although the funds withheld liability will often equal the carrying value of the invested assets held on the ceding entity's balance sheet, there are instances where that is not the case.

The funds withheld liability is a contractual liability, and it is determined based on the terms of the underlying reinsurance agreement. Some agreements do not associate the funds withheld liability with a specific quota share of invested assets, do not segregate invested assets, or have timing considerations that would make a literal interpretation of the proposed language more difficult. For example, some agreements that are not required to transfer investment risk, such as those covering term life insurance, may not specify which assets are associated with the funds withheld liability.

We believe these suggestions represent a conceptual change to the proposed language in SSAP No. 61, and we would appreciate the opportunity to discuss the appropriate implementation of these concepts in the annual statement instructions. ACLI members stand ready to discuss these details with NAIC staff and regulators.

American Council of Life Insurers | 300 New Jersey Avenue, NW, 10th Floor | Washington, DC 20001

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 94 percent of industry assets in the United States.

In closing, we would like to thank SAPWG members and NAIC staff for the time they have already taken to discuss these issues with us, and for proactively working to improve statutory accounting guidance. We would welcome further discussion on the best way to ensure clear and consistent reporting for funds withheld liabilities.

Sincerely,



Shannon Jones
Sr. Director – Financial Reporting Policy
ShannonJones@acfi.com
202-624-2029



Hans Avery
Actuary
HansAvery@acfi.com
202-624-2012

Cc: Julie Gann, NAIC
Robin Marcotte, NAIC

Attachment A

ACLI suggests updating the proposal as follows. Please note that the section below reflects NAIC staff additions in italics and the ACLI additions in bold:

1. SSAP No. 61

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- a. Ceding Entity - Premiums paid or payable to the reinsurer net of any experience refunds shall reduce premium income. Policy benefit payments paid by the reinsurer shall reduce the ceding entity's reported policy benefits. Expense allowances paid by the reinsurer shall be reported separately in the summary of operations as they are earned. A net reduction to policy reserves shall be taken for the portion of the obligation assumed by the reinsurer. *Any amounts withheld by the ceding entity shall be recorded as a separate liability. The liability is based on the book adjusted carrying value of the assets held by the ceding entity to the extent that such funds were included as a part of the total assets and were not offset by a directly related credit on the asset page.* **A funds withheld liability is established, which is determined based on the terms of the reinsurance agreement. The assets held on the ceding entity's balance sheet to support the funds withheld liability are accounted under the appropriate statutory accounting principles for the specific asset(s).** Reporting entities filing the annual statement for life and accident and health insurers shall record any interest due or payable on the amounts withheld as a component of aggregate write-ins for miscellaneous deductions. Reporting entities filing the health annual statement shall record any interest due or payable on the amounts withheld as a component of aggregate write-ins for other income or expense.
 - b. Assuming Entity (Reinsurer) - Premiums received or receivable by the reinsurer net of any experience refunds shall increase premium income and policy benefit payments paid by the reinsurer shall increase the reported policy benefits. Expense allowances paid by the reinsurer shall be reported separately in the summary of operations when payable. The reinsurer shall record its share of the statutory policy reserves attributable to the business identified in the contract. Any funds withheld by the ceding entity shall be recorded as an accounts receivable. For reporting entities filing the annual statement for life and accident and health insurers shall record any interest earned or receivable on the funds withheld as a component of aggregate write-ins for miscellaneous income. Reporting entities filing the health annual statement shall record any interest earned or receivable on the funds withheld as a component of aggregate write-ins for other income or expense.

Funds Held Under Reinsurance Treaties with Unauthorized Reinsurers or Certified Reinsurers

53. This liability is established for funds deposited by or contractually withheld from unauthorized reinsurers or certified reinsurers. *The liability is based on the book adjusted carrying value of the assets held by the ceding entity to the extent that such funds were included as a part of the total assets and were not offset by a directly related credit on the asset page.* The funds withheld liability is determined based on the terms of the reinsurance agreement.



May 1, 2026

Mr. Kevin Clark
 Chair, Statutory Accounting Principles (E) Working Group
 National Association of Insurance Commissioners
 110 Walnut Street, Suite 1000
 Kansas City, MO 64106-2197

Re: SAPWG Ref #2024-15: SSAP No. 109 – ALM Derivatives

Dear Chair Clark,

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the Statutory Accounting Principles (E) Working Group (SAPWG) exposure draft Ref #2024-15: Asset Liability Management (ALM) Derivatives referred to above that was released for comment on March 23, 2026. We strongly support this exposure draft of statutory accounting guidance for interest-rate hedging derivatives used for ALM, also referred to as “ALM Derivatives”.

ACLI is very appreciative of the on-going dialogue with SAPWG and offers the following additional comment on this topic:

- Regarding the transition guidance in paragraph 24, we recommend that transition be a surplus neutral event on the transition date. ALM Derivative hedges are designed to hedge surplus, i.e., keep surplus / liquidation value unchanged due to market interest rate changes. Accordingly, for transition, we suggest the following adjustment to paragraph 24 of the exposure draft:
 - 24. On the effective date, reporting entities with open derivatives in an existing approved program that qualifies as a highly effective hedge in scope of this statement are permitted to make a one-time adjustment to reclassify recognized unrealized gains and losses from derivative fair value changes to ~~deferred assets and deferred liabilities~~ realized gains/losses in the statement of operations. This is permitted even though the derivative is still open. With the reclassification, the derivative's then current fair value shall represent the initial amortized cost basis. This cost basis should be amortized into the statement of operations over the remaining life of the derivative instrument not to exceed a 10-year period. The derivative should and follow the provisions of this statement for future measurement. As such, future fair value fluctuations in the derivative shall not be recognized as unrealized gains or losses unless the derivative no longer qualifies in scope of this statement. At derivative maturity or qualifying de-designation (rebalancing), the change in fair value from initial application and the maturity/de-designation date shall be recognized as a deferred asset or liability pursuant to paragraphs 15.a and 15.b.

American Council of Life Insurers | 300 New Jersey Avenue, NW, 10th Floor | Washington, DC 20001

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Once again, the ACLI appreciates the opportunity to provide comments and looks forward to continued dialogue on new statutory guidance for ALM Hedges. If you have any questions regarding this letter, please do not hesitate to contact us.

Sincerely,



Shannon Jones
Senior Director – Financial Reporting Policy
202-624-2029



Hans Avery
Actuary
202-624-2012

Cc: Julie Gann, NAIC
Robin Marcotte, NAIC

Comments received via email from the Maryland Insurance Administration

I wanted to reach out and let you know that we're in favor of keeping restricted asset codes in the investment schedules. We've found them to be very useful as part of my annual review of investment company investments, and also in support of the exam teams.

For example, part of our regular review and exams include ensuring that securities held for statutory deposits consist of eligible securities, e.g. cash, Treasuries, etc. By keeping the restricted asset code, it allows us to quickly match the deposits listed in Schedule E3 with securities listed in Schedule D. It also allows us to do a similar exercise when it comes to reconciling other collateral, e.g. sec lending, etc.

Gilbert Mendoza
Investment Specialist
Financial Regulation
Maryland Insurance Administration

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

Issue: ASU 2025-10, Accounting for Government Grants Received by Business Entities

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue:

In December 2025, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2025-10, Accounting for Government Grants Received by Business Entities* which establishes a new topic to provide accounting for a government grant received by a business entity, including guidance for (1) a grant related to an asset and (2) a grant related to income. Under ASU 2025-10, a grant related to an asset is a government grant, or part of a government grant, which is conditioned on the purchase, construction, or acquisition of an asset (for example, a long-lived asset or inventory). A grant related to income is a government grant, or part of a government grant, other than a grant related to an asset (for example, a grant that reimburses a business entity for operating expenses).

ASU 2025-10 continues to utilize the existing U.S GAAP disclosures in Topic 832: Government Grants, which were initially established through ASU 2021-10, Government Assistance and applied to government grant/assistance transactions accounted for by analogy using either the grant accounting model (IAS 20) or the contribution accounting model (Topic 958). ASU 2025-10 revised the scope of these disclosures so that they apply to a government grant received by a business entity and adopt many of the same accounting principles used under the grant accounting model. The Statutory Accounting Principles (E) Working Group previously addressed and rejected ASU 2021-10 and determined that neither the grant nor contribution methods of accounting for government grant/assistance transactions were permitted under SAP. Rather, government grants/assistance are to be recorded in accordance with gain contingency guidance per *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets (recognition allowed once realized)*, and are subject to the reporting disclosure requirements of both SSAP No. 5 and *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items*.

NAIC staff’s recommendation is that adoption of ASU 2025-10 is not necessary, as the guidance would be rarely utilized by insurance entities and the Working Group has already rejected the grant or contribution accounting models. Outside of the COVID-19 era programs such as the Paycheck Protection Program (PPP), Economic Injury Disaster Loans (EIDL), and Employee Retention Credits (ERC), government grant/assistance revenues are unusual and infrequent occurrences for insurers and existing guidance in SSAP No. 5 and SSAP No. 24 is sufficient to address such transactions.

Existing Authoritative Literature:

SSAP No. 5— Liabilities, Contingencies and Impairments of Assets:

Gain Contingencies

15. A gain is defined as an increase in surplus which results from peripheral or incidental transactions of a reporting entity and from all other transactions and other events and circumstances affecting the

reporting entity except those that result from revenues or investments by owners. If, on or before the balance sheet date, (a) the transaction or event has been fully completed, and (b) the amount of the gain is determinable, then the transaction or event is considered a gain, and is recognized in the financial statements. The definition of a gain excludes increases in surplus that result from activities that constitute a reporting entity's ongoing major or central operations or activities. Because investment activities are central to an insurer's operations, increases in surplus that result from such investment activities are excluded from the definition of gains. Revenues are inflows or other enhancements of assets of a reporting entity or settlements of its liabilities (or a combination of both) from providing products, rendering services, or other activities that constitute the reporting entity's ongoing major or central operations. Investments by owners include any type of capital infused into the surplus of the reporting entity.

16. A gain contingency is defined as an existing condition, situation, or set of circumstances involving uncertainty as to possible gain (as defined in the preceding paragraph) to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur (e.g., a plaintiff has filed suit for damages associated with an event occurring prior to the balance sheet, but the outcome of the suit is not known as of the balance sheet date). Gain contingencies shall not be recognized in a reporting entity's financial statements. However, if subsequent to the balance sheet date but prior to the issuance of the financial statements, the gain contingency is realized, the gain shall be disclosed in the notes to financial statements and the unissued financial statements should not be adjusted to record the gain. A gain is generally considered realizable when noncash resources or rights are readily convertible to known amounts of cash or claims to cash.

SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items (grey shading added from emphasis):

Unusual/Infrequent Items

16. The nature, including a general description of the transactions, and financial effects of each unusual or infrequent event or transaction shall be disclosed in the notes to the financial statements. Gains or losses of a similar nature that are not individually material shall be aggregated. This disclosure shall include the line items which have been affected by the event or transaction considered to be unusual and/or infrequent. If the unusual or infrequent item is as the result of government assistance, disclosure shall additionally include the form in which the assistance has been received (for example, cash or other assets), and information regarding significant terms and conditions of the transaction, with items including, to the extent applicable, the duration or period of the agreement, and commitments made by the reporting entity, provisions for recapture, or other contingencies.

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 item 2022-04: ASU 2021-10, Government Assistance adopted ASU 2021-10 with modification on August 10, 2022.

Agenda item 2023-06: ASU 2021-10, Government Assistance was reassessed ASU 2021-10 at the recommendation of NAIC staff. On August 13, 2023, ASU 2021-10 was rejected for statutory accounting purposes, but general disclosures were incorporated into SSAP No. 24 for insurance companies which received government assistance.

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: William Oden – 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. 24—Discontinued Operations and Unusual or Infrequent Items* to reject *ASU 2025-10, Accounting for Government Grants Received by Business Entities*. NAIC staff recommend updating *SSAP No. 24* to change the term “government assistance” to “government grants” as the term “government assistance” is no longer used within U.S. GAAP and add an additional sentence to clarify that government grants are to be recorded in accordance with gain contingency guidance.

Recommended Revisions to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items*:

Unusual/Infrequent Items

16. The nature, including a general description of the transactions, and financial effects of each unusual or infrequent event or transaction shall be disclosed in the notes to the financial statements. Gains or losses of a similar nature that are not individually material shall be aggregated. This disclosure shall include the line items which have been affected by the event or transaction considered to be unusual and/or infrequent. If the unusual or infrequent item is ~~as~~ the result of government ~~assistance grants~~, the disclosures shall ~~additionally~~ include the form in which the ~~assistance grant~~ has been received (for example, cash or other assets), and information regarding significant terms and conditions of the transaction, with items including, to the extent applicable, the duration or period of the agreement, and commitments made by the reporting entity, provisions for recapture, or other contingencies. Government grants are to be treated as gain contingencies and shall be recognized and disclosed in accordance with *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets*.

Relevant Literature

24. This statement rejects *ASU 2021-10, Government Assistance: Disclosure by Business Entities about Government Assistance*. However, it does incorporate general disclosures about government assistance for all reporting entity types. This statement also rejects *ASU 2025-10, Accounting for Government Grants Received by Business Entities*.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/05-18-2026/A - 26-04 - ASU 2025-10 Govt Grants.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2026/05-18-2026/A-26-04-ASU2025-10GovtGrants.docx)

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

Issue: Securities Lending Restricted Asset Reporting

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: This agenda item has been prepared to clarify restricted asset reporting for securities lending transactions, particularly to clarify what should be reported as a restricted asset, and to address questions for potential double-counting that could occur based on existing guidance.

- For securities lending, current SSAP and annual statement instruction language refers to “collateral held” as the restricted asset, but in other similar situations, it is the lent asset still on the books that is reported as the restricted asset. Further, the RBC reference in LR017 for securities lending transactions refers to the asset “loaned to others” for the corresponding RBC charge, but pulls from the GI lines for “collateral held” under securities lending agreements.
- For securities lending, in *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures* and the corresponding financial statement restricted asset disclosure in Note 5L, there is a distinct restricted asset reporting line for “collateral held under security lending agreements” as well as a reporting category for assets received as collateral reported on the financial statements when there is a recognized liability to return. With the expansion of Note 5L, many questions have been received as companies seem to have interpreted the guidance to require the securities lending collateral in both locations, resulting with questions on double counting of collateral held under these agreements.

To provide an overview of a securities lending transaction:

A security lending transaction involves the temporary transfer of securities from one party (security lender) to another party (security borrower) and with the lender receiving collateral from the borrower to protect against the risk of loss. The lender receives a fee for the use of the security.

Under statutory accounting, when a reporting entity has entered into a securities lending arrangement, the lent asset is retained on the insurance company’s investment schedule and included within the financial statements and subject to the corresponding RBC factor for that asset. This lent asset is restricted and not under the control of the reporting entity. This classification should exist regardless of whether the reporting entity lender has received collateral in exchange for that asset that they can pledge or sell:

- If the reporting entity has received collateral that they can pledge or sell, the reporting entity is to recognize the collateral received on their financial statements with an obligation to return the collateral. As this collateral is recognized on the insurance entity’s books, it would be captured on an investment schedule and be subject to the corresponding RBC factor for that asset.

- If the reporting entity has received collateral that they cannot pledge or sell, then the reporting entity does not recognize that collateral on their financial statements and they do not recognize a liability to return. As this collateral is not recognized as an investment, there is no RBC asset charge.

Fundamentally, the asset loaned to the counterparty still reported on the insurance company's investment schedule should be what is captured as the "restricted asset" under a securities lending agreement. This agenda item proposes to incorporate changes to SSAP No. 1, the annual statement instructions and blanks to remove reference to "collateral held" and instead refer to the loaned asset.

For RBC purposes, the factor applied to this restricted asset will be influenced by whether the program qualifies as a conforming or non-conforming program (which is impacted by the type of collateral received) under the RBC requirements. However, the restricted asset classification will be to the lent asset still on the reporting entity's books and not to the collateral received.

- With this terminology change, collateral held for which the reporting entity does not have the ability to sell or pledge will not be captured as a restricted asset and under existing provisions, and will not be subject to any RBC factors. (This is because this collateral is not recognized on the reporting entity's financial statements.)
- With the terminology change, collateral held for which the reporting entity has the ability to sell or pledge shall be captured as a restricted asset on the investment schedule it is reported, and captured in Note 5L, in the category for which the entity has recognized collateral with the obligation to return. With the reporting in this category, under existing provisions, the collateral asset will not be subject to any additional RBC factors outside of the asset charge.

The revisions proposed in this agenda item should address both noted issues for 1) clarity in what should be reported as a restricted asset from securities lending transactions and 2) eliminate double counting for "collateral held" under securities lending agreements within the restricted asset disclosure. The restricted asset disclosure will capture the lent asset, and then if the entity has the ability to pledge or sell collateral received, the collateral received which is offset by a liability to return.

Existing Authoritative Literature:

SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures Correction of an Error

23. Reporting entities shall disclose¹ the following information in the financial statements:
- a. Amounts not recorded in the financial statements that represent segregated funds held for others, the nature of the assets and the related fiduciary responsibilities associated with such assets. One example of such an item is escrow accounts held by title insurance companies; and
 - b. The total combined (admitted and nonadmitted) book adjusted carrying value (BACV) of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category, and nature of any assets pledged to others as collateral or otherwise

¹ Disclosure of restricted assets shall be included in all annual and quarterly financial statements.

restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.)² in the general and separate accounts³ by the reporting entity in comparison to total assets and total admitted assets. (Pursuant to SSAP No. 4, paragraph 6, all assets pledged as collateral or otherwise restricted shall be reported in this disclosure regardless if the asset is considered an admitted asset.) Reporting entities shall also disclose differences in the amounts reported in this note versus the amounts reported for the same categories in the general interrogatories. This disclosure shall include the following restricted asset categories:

- i. Reported assets subject to contractual obligation for which liability is not shown;
 - ii. Collateral held under security lending agreements;
 - iii. Assets subject to repurchase agreements;
 - iv. Assets subject to reverse repurchase agreements;
 - v. Assets subject to dollar repurchase agreements;
 - vi. Assets subject to dollar reverse repurchase agreements;
 - vii. Assets placed under option contracts;
 - viii. Letter stock or securities restricted as to sale⁴ – excluding FHLB stock;
 - ix. FHLB capital stock;
 - x. Assets on deposit with states;
 - xi. Assets on deposit with other regulatory bodies;
 - xii. Pledged as collateral to the FHLB (including assets backing funding agreements);
 - xiii. Assets pledged as collateral not captured in other categories⁵; and
 - xiv. Other restricted assets.
- c. The BACV and nature of any assets received as collateral or assets that are held under modified coinsurance (modco) 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

² The aggregate information captured within this disclosure is intended to reflect the information reported in the Annual Statement Investment Schedules in accordance with the coding of investments that are not under the exclusive control of the reporting entity, including assets loaned to others and the information reported in the General Interrogatories, as well as information on restricted cash, cash equivalents and short-term investments.

³ Restricted assets in the separate account are not intended to reflect amounts "restricted" only because they are insulated from the general account or because they are attributed to specific policyholders. Separate account assets shall be captured in this disclosure only if they are restricted outside of these characteristics.

⁴ The nature, description and amount of the restriction are required in the disclosure.

⁵ Items captured in this category shall include assets reported within the financial statements that are pledged to a counterparty that have not been captured in other categories or within paragraph 23.c. Items reported should include, but not be limited to, assets pledged under derivative arrangements.

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.

SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

Excerpts from *SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* have been included to detail the securities lending requirements, but there are no references to the reporting of restricted assets for securities lending transactions within this guidance. (There are references for repurchase agreements in *SSAP No. 103* but not for securities lending transactions.)

Securities Lending Transactions

85. Securities lending transactions are generally initiated by broker-dealers and other financial institutions that need specific securities to cover a short sale or a customer’s failure to deliver securities sold. Securities lending transactions typically extend less than one year. Transferees (borrowers) of securities generally are required to provide collateral to the transferor (lender) of securities, commonly cash but sometimes other securities or standby letters of credit, with a value slightly higher than that of the securities borrowed. If the collateral is cash, the transferor typically earns a return by investing that cash at rates higher than the rate paid or rebated to the transferee. If the collateral is other than cash, the transferor typically receives a fee. Securities custodians or other agents commonly carry out securities lending activities on behalf of clients. Because of the protection of collateral (typically valued daily and adjusted frequently for changes in the market price of the securities transferred) and the short terms of the transactions, most securities lending transactions in themselves do not impose significant credit risks on either party. Other risks arise from what the parties to the transaction do with the assets they receive. For example, investments made with cash collateral impose market and credit risks on the transferor.

86. If the criteria conditions in paragraph 8 (sales criteria) are met, securities lending transactions shall be accounted for:

- a. By the transferor as a sale of the “loaned” securities for proceeds consisting of the cash collateral⁶ and a forward repurchase commitment.
- b. By the transferee as a purchase of the “borrowed” securities in exchange for the collateral and a forward resale commitment. During the term of that agreement, the transferor has surrendered control over the securities transferred and the transferee has obtained control over those securities with the ability to sell or transfer them at will. In that case, creditors of the transferor have a claim only to the “collateral” and the forward repurchase commitment.

87. Many securities lending transactions are accompanied by an agreement that entitles and obligates the transferor to repurchase or redeem the transferred financial assets before their maturity under which the transferor maintains effective control over those financial assets (paragraphs 51-52). Those transactions shall be accounted for as secured borrowings, in which cash (or securities that the holder or its agent is permitted by contract or custom to sell or repledge) received as collateral is considered the amount borrowed, the securities loaned are considered pledged as collateral against the cash or securities borrowed and reclassified as set forth

⁶ If the “collateral” in a transaction that meets the criteria in paragraph 8 is a financial asset that the holder or its agent is permitted by contract or custom to sell or repledge, that financial asset is proceeds of the sale of the “loaned” securities. To the extent that the “collateral” consists of letters of credit or other financial instruments that the holder or its agent is not permitted by contract or custom to sell or repledge, a securities lending transaction does not satisfy the sale criteria and is accounted for as a loan of securities by the transferor to the transferee.

in paragraph 19.a., and any rebate paid to the transferee of securities is interest on the cash or securities the transferor is considered to have borrowed.

88. The transferor of securities being “loaned” accounts for cash received in the same way whether the transfer is accounted for as a sale or a secured borrowing. The cash received shall be recognized as the transferor’s asset – as shall investments made with that cash, even if made by agents or in pools with other securities lenders – along with the obligation to return the cash. If securities that may be sold or repledged are received, the transferor of the securities being “loaned” accounts for those securities in the same way as it would account for cash received.

89. The transferor of securities being “loaned” accounts for collateral received in the same way whether the transfer is accounted for as a sale or a secured borrowing. The collateral received shall be recognized as the transferor’s asset – as shall investments made with that collateral, even if made by agents or in pools with other securities lenders – along with the obligation to return the collateral. If securities that may be sold or repledged are received by the transferor or its agent, the transferor of the securities being “loaned” accounts for those securities in the same way as it would account for collateral received. Collateral which may be sold or repledged by the transferor or its agent is reflected on balance sheet, along with the obligation to return the asset⁷. Collateral received which may not be sold or repledged by the transferor or its agent is off balance sheet⁸. For collateral on the balance sheet, the reporting is determined by the administration of the program.

- a. Securities lending programs where the collateral received by the reporting entity’s unaffiliated agent that can be sold or repledged is reported on the balance sheet. The collateral received and reinvestment of that collateral by the reporting entity’s unaffiliated agent shall be reflected as a one-line entry on the balance sheet (Securities Lending Collateral) and a detailed schedule will be required each quarter and at year-end to list the description of the collateral asset. This description shall include the NAIC designation, fair value; book adjusted carrying value and maturity date. A separate liability shall also be established to record the obligation to return the collateral (Collateral from Securities Lending Activities).
- b. Securities lending programs where the collateral received by the reporting entity that can be sold or repledged is reported on the balance sheet. If the reporting entity is the administrator of the program, then, the collateral received and any reinvestment of that collateral is reported with the invested assets of the reporting entity based on the type of investment (i.e. bond, common stock, etc.). A separate liability shall also be established to record the obligation to return the collateral (Collateral from Securities Lending Activities).
- c. Securities lending programs where the collateral received by the reporting entity’s affiliated agent can report using either one-line reporting (paragraph 89.a.) or investment schedule reporting (paragraph 89.b.).

90. Reinvestment of the collateral by the reporting entity or its agent shall follow the same impairment guidance as other similar invested assets reported on the balance sheet. Any fees received by the transferor for loaning the securities shall be recorded as miscellaneous investment income.

⁷ If cash is received by the transferor or its agent and reinvested or repledged it is reported on balance sheet. It is explicitly intended that when the lender bears reinvestment risk, that collateral is on balance sheet.

⁸ An example of collateral which is off balance sheet is when securities are received by the transferor or its agent in which the collateral must be held and returned, without the ability to transfer or repledge the collateral. This would involve limited situations in which the transferor or agent is prohibited from reinvesting the collateral.

Annual Statement References: (Key references shaded)

- Note 5L Instruction & Disclosure Template: “Collateral Held Under Security Lending Agreements” – (This matches SSAP No. 1.)
- General Interrogatories:
 - 25.04: For the reporting entity’s securities lending program, report amount of collateral for conforming programs as outlined in the RBC instructions.
 - 25.05: For the reporting entity’s securities lending program, report amount of collateral for other programs

Life RBC References: (Key references shaded)

Instructions to LR017 – Off-Balance Sheet and Other Items:

Line (1) – (Note: The following provisions are required for “conforming programs”)

Securities lending programs that have all of the following elements are eligible for a lower off-balance sheet charge:

1. A written plan adopted by the Board of Directors that outlines the extent to which the insurer can engage in securities lending activities and how cash collateral received will be invested.
2. Written operational procedures to monitor and control the risks associated with securities lending. Safeguards to be addressed should, at a minimum, provide assurance of the following:
 - a. Documented investment guidelines, including, where applicable, those between lender and investment manager with established procedure for review of compliance.
 - b. Investment guidelines for cash collateral that clearly delineate liquidity, diversification, credit quality, and average life/duration requirements.
 - c. Approved borrower lists and loan limits to allow for adequate diversification.
 - d. Holding excess collateral with margin percentages in line with industry standards, which are currently 102% (or 105% for cross currency loans).
 - e. Daily mark-to-market of lent securities and obtaining additional collateral needed to ensure that collateral at all times exceeds the value of the loans to maintain margin of 102% of market.
 - f. Not subject to any automatic stay in bankruptcy and may be closed out and terminated immediately upon the bankruptcy of any party.
3. A binding securities lending agreement (standard “Master Lending Agreement” from Securities Industry and Financial Markets Association) is in writing between the insurer, or its agent on behalf of the insurer, and the borrowers.
4. Acceptable collateral is defined as cash, cash equivalents, direct obligations of, or securities that are fully guaranteed as to principal and interest by, the government of the United States or any agency of the United States, or by the Federal National Mortgage Association or the Federal Home Loan Mortgage

Corporation and NAIC 1-designated securities. Affiliate-issued collateral would not be deemed acceptable. In all cases the collateral held must be permitted investments in the state of domicile for the respective insurer.

Collateral included in General Interrogatories, Part 1, Line 25.04 of the annual statement should be included on Line (1).

Line (2) – (Items captured on this line represent “non-conforming programs”)

Collateral from all other securities lending programs should be reported General Interrogatories, Part 1, Line 25.05 and included in Line (2).

LR017:

(1) Loaned to Others - Conforming Securities Lending Program General Interrogatories, Line 25.04

(2) Loaned to Others - Securities Lending Program – Other General Interrogatories Line 25.05

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 Item 2024-24: *Conforming Repurchase Agreements* was developed in response to a January 2024 referral received from the Life RBC (E) Working Group in response to an ACLI request to modify the treatment of repurchase agreements in the Life RBC formula. Agenda Item 2024-24 identified differences in accounting between securities lending and repurchase agreements. In August 2024, the Working Group exposed a memo detailing the accounting, reporting and RBC guidance for repurchase and securities lending transactions with a number of notes and questions identified within. In March 2025, the Working Group directed NAIC staff to develop clarifying revisions to the SSAP No. 103 guidance, as time allows, recognizing that other projects may be of greater importance. This terminology issue regarding the restricted asset was identified as part of that project.

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 revisions to *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures* to clarify that the restricted asset reporting for securities lending transactions shall reflect the asset lent by the reporting entity that is still reflected on the reporting entity’s financial statements and not the collateral held. If collateral has been received that can be sold or pledged, then that collateral shall be reported in the restricted asset disclosure as collateral recognized on the financial statements with an obligation recognized to return. This collateral reporting shall not impact the reporting of the asset lent under the securities lending agreement.

With this revision, it is recommended that the Working Group sponsor a blanks proposal to make corresponding revisions to Note 5L as well as the General Interrogatories. It is also recommended that the Working Group send a referral to the Capital Adequacy (E) Task Force to clarify references as appropriate within the RBC instructions.

(NAIC staff has included the life RBC instructions to illustrate potential revisions. As shown, the existing reference on form LR017 for “Loaned to Others” is consistent with the proposed edits in this agenda item and does not need revision.)

Although it is too late to incorporate blanks template changes for YE 2026, NAIC staff recommend that this item proceed to provide guidance on the reporting of restricted assets and what should be captured in Note 5L, with revisions proposed to be reflected in the blanks for 1Q 2026 reporting. This item is proposed to be captured outside of the comprehensive securities lending / repurchase agreement project to provide needed immediate clarity on the disclosure reporting and address questions on the potential double-counting of securities lending collateral within the disclosure.

Proposed Revisions to SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures

23. Reporting entities shall disclose⁹ the following information in the financial statements:
- a. Amounts not recorded in the financial statements that represent segregated funds held for others, the nature of the assets and the related fiduciary responsibilities associated with such assets. One example of such an item is escrow accounts held by title insurance companies; and
 - b. The total combined (admitted and nonadmitted) book adjusted carrying value (BACV) of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category, and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.)¹⁰ in the general and separate accounts¹¹ by the reporting entity in comparison to total assets and total admitted assets. (Pursuant to SSAP No. 4, paragraph 6, all assets pledged as collateral or otherwise restricted shall be reported in this disclosure regardless if the asset is considered an admitted asset.) Reporting entities shall also disclose differences in the amounts reported in this note versus the amounts reported for the same categories in the general interrogatories. This disclosure shall include the following restricted asset categories:
 - i. Reported assets subject to contractual obligation for which liability is not shown;
 - ii. ~~Collateral held under~~Assets lent under security lending agreements;
 - iii. Assets subject to repurchase agreements;
 - iv. Assets subject to reverse repurchase agreements;
 - v. Assets subject to dollar repurchase agreements;

⁹ Disclosure of restricted assets shall be included in all annual and quarterly financial statements.

¹⁰ The aggregate information captured within this disclosure is intended to reflect the information reported in the Annual Statement Investment Schedules in accordance with the coding of investments that are not under the exclusive control of the reporting entity, including assets loaned to others and the information reported in the General Interrogatories, as well as information on restricted cash, cash equivalents and short-term investments.

¹¹ Restricted assets in the separate account are not intended to reflect amounts “restricted” only because they are insulated from the general account or because they are attributed to specific policyholders. Separate account assets shall be captured in this disclosure only if they are restricted outside of these characteristics.

- vi. Assets subject to dollar reverse repurchase agreements;
 - vii. Assets placed under option contracts;
 - viii. Letter stock or securities restricted as to sale¹² – excluding FHLB stock;
 - ix. FHLB capital stock;
 - x. Assets on deposit with states;
 - xi. Assets on deposit with other regulatory bodies;
 - xii. Pledged as collateral to the FHLB (including assets backing funding agreements);
 - xiii. Assets pledged as collateral not captured in other categories¹³; and
 - xiv. Other restricted assets.
- c. The BACV and nature of any assets received as collateral or assets that are held under modified coinsurance (modco) 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.

Proposed Revisions for Blanks Proposal:

Annual Statement References:

- Note 5L Instruction & Disclosure Template: “~~Collateral Held~~Assets Lent Under Security Lending Agreements” – (This matches SSAP No. 1)
- General Interrogatories:
 - 25.04: For the reporting entity’s securities lending program, report assets lent amount of collateral for~~under security lending~~ conforming programs as outlined in the RBC instructions.
 - 25.05: For the reporting entity’s securities lending program, report assets lent amount of collateral for other (non-conforming) programs

Proposed Revisions for Capital Adequacy Referral:

Instructions to LR017 – Off-Balance Sheet and Other Items:

Line (1)

¹² The nature, description and amount of the restriction are required in the disclosure.

¹³ Items captured in this category shall include assets reported within the financial statements that are pledged to a counterparty that have not been captured in other categories or within paragraph 23.c. Items reported should include, but not be limited to, assets pledged under derivative arrangements.

Securities lending programs that have all of the following elements are eligible for a lower off-balance sheet charge:

1. A written plan adopted by the Board of Directors that outlines the extent to which the insurer can engage in securities lending activities and how cash collateral received will be invested.
2. Written operational procedures to monitor and control the risks associated with securities lending. Safeguards to be addressed should, at a minimum, provide assurance of the following:
 - a. Documented investment guidelines, including, where applicable, those between lender and investment manager with established procedure for review of compliance.
 - b. Investment guidelines for cash collateral that clearly delineate liquidity, diversification, credit quality, and average life/duration requirements.
 - c. Approved borrower lists and loan limits to allow for adequate diversification.
 - d. Holding excess collateral with margin percentages in line with industry standards, which are currently 102% (or 105% for cross currency loans).
 - e. Daily mark-to-market of lent securities and obtaining additional collateral needed to ensure that collateral at all times exceeds the value of the loans to maintain margin of 102% of market.
 - f. Not subject to any automatic stay in bankruptcy and may be closed out and terminated immediately upon the bankruptcy of any party.
3. A binding securities lending agreement (standard "Master Lending Agreement" from Securities Industry and Financial Markets Association) is in writing between the insurer, or its agent on behalf of the insurer, and the borrowers.
4. Acceptable collateral is defined as cash, cash equivalents, direct obligations of, or securities that are fully guaranteed as to principal and interest by, the government of the United States or any agency of the United States, or by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation and NAIC 1-designated securities. Affiliate-issued collateral would not be deemed acceptable. In all cases the collateral held must be permitted investments in the state of domicile for the respective insurer.

Assets Lent Collateral under conforming securities lending programs included in General Interrogatories, Part 1, Line 25.04 of the annual statement should be included on Line (1).

Line (2)

Collateral—Assets Lent Underfrom all other securities lending programs should be reported General Interrogatories, Part 1, Line 25.05 and included in Line (2).

LR017: (No revisions proposed)

(1) Loaned to Others - Conforming Securities Lending Program General Interrogatories, Line 25.04

(2) Loaned to Others - Securities Lending Program – Other General Interrogatories Line 25.05

Staff Review Completed by: Julie Gann, April 2026. <https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2026/05-18-2026/B-26-05-SecLending-RestrictedAsset.docx>

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

Issue: Fair Value Disclosures

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: This agenda item has been prepared to eliminate the disclosure exclusion for “equity method investments” from the aggregate disclosure on financial instruments captured in *SSAP No. 100—Fair Value*. With this current scope exclusion, investments in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, and investments in scope of *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, which are reported under an equity method, are not being captured.

As background, the disclosure requirements in SSAP No. 100 were predominantly adopted to match U.S. GAAP when *FAS 157, Fair Value Measurements* was first adopted in SSAP No. 100 for statutory accounting in 2009. Since the December 31, 2010, effective date of SSAP No. 100, there have not been significant revisions to the original fair value disclosure requirements.

The U.S. GAAP financial instrument fair value disclosure has an exclusion for “investments accounted for under the equity method.” This exclusion was initially adopted for statutory accounting to match the U.S. GAAP disclosure, but has recently been questioned, as these investments are required to be disclosed with a fair value on Schedule BA (for SSAP No. 48 investments) and on D-2-2 (for SSAP No. 97 investments). There was also a question received on whether equity investments should be required to complete the fair value components on the new public/private security disclosure since they are not required to be disclosed under the SSAP No. 100 aggregate financial instrument fair value disclosure. Regardless of the financial instrument exclusion, for these, and all reported investments, fair value is required to be disclosed in the investment schedules in accordance with the fair value definition in SSAP No. 100:

Fair Value Definition: Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For investments reported under the equity method, the calculated equity method may not reflect an exit price fair value. If reporting entities are not using observable market inputs in the determination of fair value, which would include using the equity method as a proxy for fair value, then the reported fair value shall be identified as a level 3 fair value.

To eliminate questions, ensure consistency in reporting, and ensure that regulators have complete disclosures on financial instruments held as investments, including aggregate information on equity investments backed by level 3 fair values, this agenda item proposes to remove the “investments accounted for under the equity method” disclosure exclusion from the financial instrument fair value disclosure. This will create a U.S. GAAP to SAP disclosure mismatch in guidance requirements, but due to measurement method differences (e.g., investments held at fair value under U.S. GAAP may be held under a different standard under SAP), existing fair value disclosures already do not agree between U.S. GAAP and SAP.

This disclosure revision is proposed to be in effect for December 31, 2026. The existing disclosure illustration allows for variable lines; therefore, it is not required to revise the disclosure to implement this change. With adoption, a blanks proposal will be sponsored to capture the references to SSAP No. 48 and SSAP No. 97 investments within the disclosure illustration.

Although the focus of this agenda item is the current “investments accounted for under the equity method” exclusion from the financial instrument disclosure, NAIC staff has included the SSAP No. 100, paragraph 50 disclosure for review. This disclosure, which was also adopted from U.S. GAAP in 2009, is limited to assets measured and reported at fair value. This disclosure has historically generated numerous questions, as there are few investments routinely measured and reported at fair value under statutory accounting (e.g., common stock and derivatives), therefore only limited information is captured in this disclosure. The fair value level 3 roll-forward is captured within this disclosure scope. As such, it’s not possible for regulators to quickly assess the aggregate change in level 3 fair values from this disclosure, and regulators that would like to have that detail would need to complete an aggregation of the per investment reporting that occurs on the investment schedules.

If desired by regulators, a subsequent agenda item could occur to reconsider the fair value disclosures captured for investments that are measured and reported at fair value. With the limited scope, NAIC staff is uncertain how regulators use these disclosures and requests comments on their use and if they are beneficial.

Existing Authoritative Literature:

The entire disclosure section from SSAP No. 100 has been included below. As noted, the focus of this agenda item is the elimination of the exclusion for “investments accounted for under the equity method” from the aggregate disclosure on financial instruments captured in paragraph 57f. This is shaded for ease of reference.

The disclosures are organized as follows:

Paragraph 49 – Objective

Paragraph 50 – Investments Measured and Reported at Fair Value

Paragraph 53 – Requirement to Disclosure in Investment Schedules

Paragraph 54 – Requirements on the Use of Net Asset Value (NAV)

Paragraph 55 – Disclosure on Fair Value of Financial Instruments

Paragraph 58 – Not Practicable to Estimate Fair Value

SSAP No. 100—Fair Value

Disclosures

49. The objective of the disclosure requirements is to provide information about assets and liabilities measured at fair value in the financial statements as well as fair value amounts disclosed in the notes to financial statements or reporting schedules. To meet these objectives, the reporting entity shall disclose the information in paragraphs 50 through 59.
50. For each class of assets and liabilities measured and reported¹ at fair value or NAV in the statement of financial position after initial recognition. The reporting entity shall determine appropriate classes of assets and liabilities in accordance with the annual statement instructions.

¹ The term “reported” is intended to reflect the measurement basis for which the asset or liability is classified within its underlying SSAP. For example, a bond with an NAIC designation of 2 is considered an amortized cost measurement and is not included within this disclosure even if the amortized cost and fair value measurement are the same. An example of when such a situation may occur includes a bond that is written down as other-than-temporarily impaired as of the date of financial position. The amortized cost of the bond after the recognition

- a. The fair value/NAV measurements at the reporting date.
- b. The level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3). Investments reported at NAV shall not be captured within the fair value hierarchy, but shall be separately identified.
- c. For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in the valuation technique (for example, changing from a market approach to an income approach or the use of an additional valuation technique), the reporting entity shall disclose that change and the reason(s) for making it.
- d. For fair value measurements categorized within Level 3 of the fair value hierarchy a reconciliation from the opening balances to the closing balances disclosing separately changes during the period attributable to the following:
 - i. Total gains or losses for the period recognized in income or surplus.
 - ii. Purchases, sales, issues, and settlements (each type disclosed separately).
 - iii. The amounts of any transfers into or out of Level 3 and the reasons for those transfers. Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.
- e. A reporting entity shall consistently follow its policy for determining when transfers between levels are recognized. The policy about the timing of recognizing transfers shall be the same for transfers into Level 3 as that for transfers out of Level 3. Examples of policies for when to recognize the transfers are as follows:
 - i. The actual date of the event or change in circumstances that caused the transfer.
 - ii. The beginning of the reporting period.
 - iii. The end of the reporting period.

51. For derivative assets and liabilities, the reporting entity shall present both of the following:

- a. The disclosures required by paragraphs 50.a. and 50.b. on a gross basis.
- b. The reconciliation disclosures required by paragraph 50.c., 50.d. and 50.e. on either a gross or net basis.

52. The quantitative disclosures required in paragraphs 50-51 of this standard shall be presented using a tabular format.

53. The reporting entity shall disclose the fair value hierarchy and the method used to obtain the fair value measurement, or the use of NAV, for all items in which fair value is disclosed within the annual statement

of the other-than-temporary impairment may agree to fair value, but under SSAP No. 26 this security is considered to still be reported at amortized cost.

investment schedules. This disclosure is satisfied by the completion of the investment schedules in the Annual statement and is not required quarterly.

54. For investments measured using the NAV practical expedient pursuant to paragraph 41, a reporting entity shall disclose information that helps users of its financial statements to understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value per share. A reporting entity shall disclose the following information for instances in which the investment may be sold below NAV, or if there are significant restrictions in the liquidation of an investment held at NAV:

- a. The NAV along with a description of the investment/investment strategy of the investee.
- b. If the investment that can never be redeemed with the investees, but the reporting entity receives distributions through the liquidation of the underlying assets of the investees, the period of time over which the underlying assets are expected to be liquidated by the investees if the investee has communicated the timing to the reporting entity or announced the timing publicly. If the timing is unknown, the reporting entity shall disclose that fact.
- c. The amount of the reporting entity's unfunded commitments related to investments in the class.
- d. A general description of the terms and conditions upon which the investor may redeem the investment.
- e. The circumstances in which an otherwise redeemable investment in the class (or a portion thereof) might not be redeemable (for example, investments subject to a lockup or gate). Also, for those otherwise redeemable investments that are restricted from redemption as of the reporting entity's measurement date, the reporting entity shall disclose when the restriction from redemption might lapse if the investee has communicated that timing to the reporting entity or announced the timing publicly. If the timing is unknown, the reporting entity shall disclose that fact and how long the restriction has been in effect.
- f. Any other significant restriction on the ability to sell investments in the class at the measurement date.
- g. If a group of investments would otherwise meet the criteria in paragraph 47 but the individual investments to be sold have not been identified (for example, if a reporting entity decides to sell 20% of its investments in private equity funds but the individual investments to be sold have not been identified), so the investments continue to qualify for the practical expedient in paragraph 41, the reporting entity shall disclose its plans to sell and any remaining actions required to complete the sale(s).

55. The reporting entity is encouraged, but not required, to combine the fair value information disclosed under this standard with the fair value information disclosed under other accounting pronouncements (for example, disclosures about fair value of financial instruments) in the periods in which those disclosures are required, if practicable. The reporting entity also is encouraged, but not required, to disclose information about other similar measurements, if practicable.

Disclosures about Fair Value of Financial Instruments

56. A reporting entity shall disclose in the notes to the financial statements, as of each date for which a statement of financial position is presented in the quarterly or annual financial statements, the aggregate fair value or NAV for all financial instruments and the level within the fair value hierarchy in which the fair value measurements in their entirety fall. This disclosure shall be summarized by type of financial instrument, for which

it is practicable to estimate fair value, except for certain financial instruments identified in paragraph 57. Fair value disclosed in the notes shall be presented together with the related admitted values in a form that makes it clear whether the fair values and admitted values represent assets or liabilities and to which line items in the Statement of Assets, Liabilities, Surplus and Other Funds they relate. Unless specified otherwise in another SSAP, the disclosures may be made net of encumbrances, if the asset or liability is so reported. A reporting entity shall also disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. If it is not practicable for an entity to estimate the fair value of the financial instrument or a class of financial instruments, and the investment does not qualify for the NAV practical expedient, the aggregate carrying amount for those items shall be reported as “not practicable” with additional disclosure as required in paragraph 50.

57. The disclosures about fair value prescribed in paragraph 56 are not required for the following:
- a. Employers' and plans' obligations for pension benefits, other postretirement benefits including health care and life insurance benefits, postemployment benefits, employee stock option and stock purchase plans, and other forms of deferred compensation arrangements, as defined in *SSAP No. 12—Employee Stock Ownership Plans*, *SSAP No. 92—Postretirement Benefits Other Than Pensions*, *SSAP No. 102—Pensions* and *SSAP No. 104—Share-Based Payments*.
 - b. Substantively extinguished debt subject to the disclosure requirements of *SSAP No. 103—Transfer and Servicing of Financial Assets and Extinguishments of Liabilities*.
 - c. Insurance contracts, other than financial guarantees and deposit-type contracts .
 - d. Lease contracts as defined in *SSAP No. 22—Leases*.
 - e. Warranty obligations and rights.
 - f. Investments accounted for under the equity method.
 - g. Equity instruments issued by the entity.
 - h. Deposit liabilities with no defined or contractual maturities.

58. If it is not practicable for an entity to estimate the fair value of a financial instrument or a class of financial instruments, and the investment does not qualify for the NAV practical expedient, the following shall be disclosed:

- a. Information pertinent to estimating the fair value of that financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity; and
- b. The reasons why it is not practicable to estimate fair value.

59. In the context of this standard, practicable means that an estimate of fair value can be made without incurring excessive costs. It is a dynamic concept: what is practicable for one entity might not be for another; what is not practicable in one year might be in another. For example, it might not be practicable for an entity to estimate the fair value of a class of financial instruments for which a quoted market price is not available because it has not yet obtained or developed the valuation model necessary to make the estimate, and the cost of obtaining an independent valuation appears excessive considering the materiality of the instruments to the entity. Practicability, that is, cost considerations, also may affect the required precision of the estimate; for example, while in many cases it might seem impracticable to estimate fair value on an individual instrument basis, it may be practicable for a class of financial instruments in a portfolio or on a portfolio basis. In those cases,

the fair value of that class or of the portfolio should be disclosed. Finally, it might be practicable for an entity to estimate the fair value only of a subset of a class of financial instruments; the fair value of that subset should be disclosed.

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):

The Investment Analysis (E) Working Group (INVAWG) is currently conducting a review of level 3 fair values and reviewing the results of Note 20.

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 revisions to *SSAP No. 100—Fair Value Disclosures* to eliminate the disclosure exclusion for “investments accounted for under the equity method” from the fair value financial instrument disclosure. This disclosure revision is proposed to be effective Dec. 31, 2026, as the disclosure illustration can accommodate this change without an annual statement instruction or template change. It is recommended that the Working Group sponsor a blanks proposal to include reference to *SSAP No. 48* and *SSAP No. 97* investments within the disclosure illustration to provide further clarity that those investments should be included. Additionally, it is recommended that this blanks proposal complete a review of the Annual Statement Instructions to ensure that all references to fair value refer to the determination under *SSAP No. 100*, and any remaining references to use of the “SVO or NAIC published market value when available” be removed. Values obtained from the SVO reflect a mix of Level 2 and Level 3 fair values, and should not be used if Level 1 fair value information is available.

With the exposure of this agenda item, comments are requested on the other disclosures in *SSAP No. 100*, particularly the disclosures limited to items measured and reported at fair value, and how those disclosures are utilized by regulators, and if further revisions would provide enhanced benefits to regulators.

Note: It is anticipated that the Invested Assets (E) Working Group may propose further revisions to Note 20C to ensure consistent reporting across reporting entities. (Currently, with the variable reporting lines, companies are reporting their financial instruments with different reporting captions, making comparisons and assessments difficult to complete.)

Proposed Revisions to *SSAP No. 100—Fair Value*

Disclosures about Fair Value of Financial Instruments

56. A reporting entity shall disclose in the notes to the financial statements, as of each date for which a statement of financial position is presented in the quarterly or annual financial statements, the aggregate fair value or NAV for all financial instruments and the level within the fair value hierarchy in which the fair value measurements in their entirety fall. This disclosure shall be summarized by type of financial instrument, for which it is practicable to estimate fair value, except for certain financial instruments identified in paragraph 57. Fair value disclosed in the notes shall be presented together with the related admitted values in a form that makes it clear whether the fair values and admitted values represent assets or liabilities and to which line items in the Statement of Assets, Liabilities, Surplus and

Other Funds they relate. Unless specified otherwise in another SSAP, the disclosures may be made net of encumbrances, if the asset or liability is so reported. A reporting entity shall also disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. If it is not practicable for an entity to estimate the fair value of the financial instrument or a class of financial instruments, and the investment does not qualify for the NAV practical expedient, the aggregate carrying amount for those items shall be reported as “not practicable” with additional disclosure as required in paragraph 50.

57. The disclosures about fair value prescribed in paragraph 56 are not required for the following:
- a. Employers' and plans' obligations for pension benefits, other postretirement benefits including health care and life insurance benefits, postemployment benefits, employee stock option and stock purchase plans, and other forms of deferred compensation arrangements, as defined in *SSAP No. 12—Employee Stock Ownership Plans*, *SSAP No. 92—Postretirement Benefits Other Than Pensions*, *SSAP No. 102—Pensions* and *SSAP No. 104—Share-Based Payments*.
 - b. Substantively extinguished debt subject to the disclosure requirements of *SSAP No. 103—Transfer and Servicing of Financial Assets and Extinguishments of Liabilities*.
 - c. Insurance contracts, other than financial guarantees and deposit-type contracts .
 - d. Lease contracts as defined in *SSAP No. 22—Leases*.
 - e. Warranty obligations and rights.
 - ~~f. Investments accounted for under the equity method.~~
 - ~~g.f.~~ Equity instruments issued by the entity.
 - ~~h.g.~~ Deposit liabilities with no defined or contractual maturities.

Staff Review Completed by: Julie Gann, April 2026.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2026/05-18-2026/C-25-06-SSAPNo.100-FVDisclosures.docx>

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

Issue: Referral on AVR affiliated common stock

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue:

This agenda item is to respond to a referral from the Life Risk-Based Capital (E) Working Group which was received at the 2025 Summer National Meeting. The referral forwarded comments received on life risk-based capital proposal 2025-04-L Other Long-Term Assets (LR008). Specifically, the American Council of Life Insurers (ACLI) raised questions on the asset valuation reserve (AVR) equity reporting lines for subsidiary, controlled or affiliated (SCA) common stock on the AVR reporting schedule in the Life, Accident & Health/ Fraternal Annual Statement and requested clarifications to the AVR blanks and instructions.

The following four AVR equity schedule lines were highlighted in the referral for clarification:

Maximum Reserve Factor	2025 AVR Schedule Line Number and Name
.1580	15 - Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries (See SVO Purposes & Procedures Manual)
	68 - Investments with the Underlying Characteristics of Common Stock – Affiliated Certain Other (See SVO Purposes & Procedures Manual)
.1945	16 - Subsidiary, Controlled or Affiliated Common Stocks – Other.
	69 - Investments with the Underlying Characteristics of Common Stock – Affiliated Other – All Other7

AVR was first applicable in 1992, and the original instructions and line names included references to specific SCA valuation categories for the SCA common stock lines for “affiliated – certain other.” However over time specific references to SCA valuations associated with the “affiliated – certain other” were removed from the AVR schedule and instructions which caused the distinction between the line categories for “affiliated certain other” and “affiliated other” to become unclear.

This agenda item provides a recommendation to clarify the reporting for these categories based on an overview of key research points from using the NAIC library resources, to review historical AVR instructions and schedules and the references to the SCA valuation methods previously within in the *Securities Valuation Office (SVO) Purpose & Procedures Manual* (P&P Manual) and the guidance currently in the *Accounting Practices and Procedures Manual*.

As detailed below in the “Key Points in Historical Research” NAIC staff has identified that the historical intent of what is “line 15 - Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries” is most similar to the current methods of SCA valuation in *SSAP No. 97—Investments in Subsidiary Controlled and Affiliated Entities* described below. Note that because of existing “Line 4 - Subsidiary, Controlled or Affiliated Common

Stocks – Life Insurers with an AVR” are excluded from line 15:

1. U.S. insurance companies using the methodology detailed in SSAP No. 97, paragraph 8.b.i. This is an equity method using audited statutory accounting principles valuation. The historical wording referenced in the in the SVO P&P Manual for this line was book equity of common stock issued by a U.S. insurer.
2. Non-insurance companies (foreign and domestic) using the methodology detailed in SSAP No. 97, paragraph 8.b.ii. This is an equity method using audited generally accepted accounting principles (GAAP) with limited statutory adjustments. The historical wording for this line initially noted non-insurance companies and the value of assets if the held directly by an insurer. The historical intent of this wording is to arrive at either a statutory accounting valuation or a SAP like valuation for the assets.

Key Points in Historical Research

1. **1992 - the AVR schedule begins and the equity section has 3 key SCA common stock lines:**
 - **Line 3 - Subsidiary, Controlled or Affiliated Common Stock – Life Insurer with an AVR**
 - Affiliated life with AVR maximum reserve factor of 0.00
 - This line is relevant as it scopes out life insurance SCAs out of other SCA common stock lines. In 2025, line 4 has the same name and the scope of this line is unchanged.
 - **Line 4 - Subsidiary, Controlled or Affiliated Common Stock – Certain Non-Life or Investment Subsidiaries**
Part of this line was later scoped out Investment SCAs and the remainder became line 15 SCA Common Stock- Certain Other (lower factor of .20) P&P Manual references were to (see excerpt in authoritative literature):
 - Section 4 (B) (a)(i) (value of assets if held directly by the insurer) is akin to current day SSAP No. 97, 8.b.ii. and
 - Section 4(B) (a) (iii) is book equity value that cannot be applied to non-insurers and is akin to present day SSAP No. 97 8.b.i. It applies to non AVR holding insurers as SCA Life insurers with AVR are on line 3.
 - **Line 5 - Subsidiary, Controlled or Affiliated Common Stock –Other** (higher factor of .25) became line 16 with the same name and the scope which represents common stock in SCAs that are not in other lines. This line has been maintained through 2025.
2. **1994 - Investment subsidiaries are divided out of line 4 into separate lines 4-14 (AVR look-through charges by asset category) and other line numbers shift down.**
 - The remaining part of line 4 becomes **Line 15 Affiliated - Other Section 5(B) (a)(i) or (iii)**. With the move in the P&P Manual from Part Four to Part Five, the SVO P&P Manual reference was updated from Section 4 to 5 but there were no SVO valuation changes.
 - Section 5 (B) (a)(i) (value of assets if held directly by the insurer) is akin to current day SSAP No. 97, 8.b.ii. and
 - Section 5(B) (a) (iii) is book equity value that cannot be applied to non-insurers is akin to present day SSAP No. 97 8.b.i. Therefore it applies to non AVR holding insurers.
 - Prior AVR line 5 is now **Line 16 - Affiliated –Other (c)** AVR schedule footnote (c) Represents “Affiliated Common Stock-Other” Investments not allocated to another line within this section. This footnote was moved to the instructions in 1995.

3. **1996 - AVR schedule line names change – SVO Manual references are generic.**
 - Line 15 -AVR Schedule name changed to "Affiliate - Certain Other (See SVO Purposes & Procedures Manual)" This is when the specific reference to the SVO section was removed from the line name.
 - Line 15 - **ASI only include a generic reference to SVO P&P Manual.**
 - Line 16 - AVR Schedule name changed to “ Affiliated – All Other”

4. **1997 - AVR schedule contribution changes and SVO Manual moves guidance to Part Eight**
 - AVR schedule updates to add columns for the "Basic Contribution and Reserve Objective,” but the Factor for line 15 remains 0.2 for Affiliate - Certain Other
 - SVO moves the guidance from Part Five to Part Eight.
 - Section 3 (a) – admitted asset equivalent for non-insurers (like SSAP No. 97, 8.b.ii.)
 - Section 3 (c)- Book value of Insurer’s Common Stock (like SSAP No. 97 8.b.i.)

5. **1998 - Line 15 ASI updated to include specific SVO references again**
 - The ASI for line 15 referenced specific parts of the SVO P&P Manual, Part Eight, section 3 (a) (Admitted asset equivalent) [for non-insurers] and 3 (c) (Book Value of Insurer’s Common Stock). (See authoritative literature section).

6. **1999 - SVO P&P Manual no longer requires insurer book values in Part Eight, Section 3 (c) to be filed with the SVO beginning Jan. 1, 1999.**

7. **2001 - SAP codification- SVO P&P Manual adds reference to SSAP No. 46—Investments in Subsidiary, Controlled, and Affiliated Entities, and ASI have a generic SVO ref.**
 - The 2001 ASI line 15 instructions replaces the specific reference to sections of the SVO P&P Manual and adds a generic reference. This is when the specific reference to the P&P Manual section was removed from the ASI and replaced with a generic P&P Manual reference. This generic reference to the P&P Manual continues through 2024.
 - SVO P&P Manual Part Eight was updated to reflect codification and begins referencing SSAP No. 46
 - The [special insert](#) (See p.45) to the 2000 publication includes tracked changes for the Jan. 1, 2001, for codification and the fling instructions begins referencing SSAP No. 46. Other sections of Part Eight, Section 3 note updates to the prior line fifteen references
 - Moved Part Eight, Section 3 (c) to Part Eight, Section 3 (b) (ii) A (This is a domestic insurer).
 - Information that matches the SSAP No. 46 valuation methods was added.
 - Part Eight Section 3(b)(i) Market with a discount rate, which is similar to current SSAP No. 97, paragraph 8.a.
 - Part Eight Section 3(b)(ii) equity Methods **(A) and (B) are what was previously referenced for line 15**
 - (A) investment in U.S. insurance SCA entities using SAP equity adjusted for goodwill - similar to SSAP No. 97 paragraph 8.b.i
 - (B) Investments in noninsurance SCA entities – no significant ongoing operations use an adjusted SAP basis that is an early version of what became SSAP No. 97 paragraph 8.b.ii.
 - (C) Investments in noninsurance SCA entities with significant ongoing operations – Use audited GAAP statements this is similar to SSAP No. 97 paragraph 8.b.iii.

8. 2003 - Changes for Line numbers and AVR Factors

- New row line 3 for FHLB was added to AVR common stock table, so the key lines are now 16 and 17.
- Instructions are unchanged except for the line numbers.
AVR factors changes to .13 line 16/ line 59 Affiliated Certain Other and .16 for line 17 / line 60 Affiliated-Other this is due to implementation of Tax Effect Calculation page in RBC (one year delay in AVR changes, the RBC changes were effective 2002).

9. 2005 – SVO P&P Manual Updated to conform with SSAP No. 88

- SVO Purposes and Procedures Manual Part Eight was amended to bring it into conformity with new *SSAP No. 88—Subsidiary, Controlled and Affiliated Investments* (effective 2005). This added more sections to be consistent with SSAP No. 88.
 - Market value is essentially the same as current SSAP No. 97, paragraph 8a.
 - (A) US Insurance SCA is essentially the same as current SSAP No. 97, paragraph 8bi
 - (B) Investments in NON insurance SCAs includes the activity and revenue test like current SSAP No. 97, paragraph 8.b.ii.
 - (C) Investments in non-insurance SCA like current SSAP No. 97, paragraph 8.b.iii
 - (D) Investments in Foreign Insurance SCA use audited US GAAP with SAP adjustments for US business like current SSAP No. 97, paragraph 8.b.iv.
 - (E) investments in Foreign Non insurance SCA are allowed to used market, or activity or revenue test
- No blanks or instruction changes for line 16 and 17

10. 2006 – Additional clarifications to SVP P&P Manual to match SSAP No. 88 better.

- 2006 SVO P&P Manual Part Eight guidance added more paragraphs references from SSAP No. 88 about holding companies and elements of the equity method like pick up and not double counting preferred stock etc.

11. 2008 - SVO P&P Manual added references to SSAP No. 97, which replaced SSAP No. 88 and added Tokyo Stock Exchange

- SVO P&P Manual Part Eight references updated from SSAP No. 88 to *SSAP No. 97—Investments in Subsidiary Controlled and Affiliated Entities* explicitly reference the activity test in SSAP No. 97, paragraph 8.b.ii.
- Added Tokyo Stock exchange for the market method (SSAP No. 97, paragraph 8.a.)
- No blanks changes for lines 16 and 17
- No instruction changes for lines 16 and 17

12. 2014 – AVR Blank removed line 14 mortgages in the affiliated investment subsidiary section and the key lines are back to lines 15 - Affiliated Certain Other and 16 - Affiliated Other. No other changes to the instructions or reporting line instructions.

13. 2017 – SCA valuation moved from SVO P&P Manual to SSAP No. 97 and FRS

- The instructions for valuation of SCA investments were deleted from SVO P&P Manual. The deletion of the valuation instructions for SCA investments was accompanied by a decision of the Valuation of Securities (E) Task Force to transfer oversight of this activity to the Statutory Accounting Principles (E) Working Group and the Financial Regulatory Services Division.

- **The AVR instructions were not updated because of this transfer of valuation function.** The AVR Instruction and Blanks continue to reference the SVO P&P Manual
- SSAP No. 97 had an Exhibit A – SCA Reporting Process added for the filing instructions.

14. 2019 – AVR factors updated for tax changes

- AVR Factors refreshed to reflect Tax Changes (TCJA) (one year delay in AVR changes, RBC changes in 2018) AVR Equity line 15/line 68 (.1580) & line 16/ line 69 (.1945)
- Instructions for lines 15 still reference SVO no changes to lines 15 and 16 instructions

15. 2025 – Current Status

- Blank is the same still has SVO reference for line 15 Affiliated -Certain Other (See SVO Purposes and Procedures Manual)
- AVR Factors for SCA related lines (AVR Equity line 15 / line 68 (.1580) and for line 16/ line 69 (.1945) remain the same as 2019's
- The prior year (2024) instructions reference the SVO P&P Manual for line 15 has been updated to reference SSAP No. 97, this must have been an editorial change as it is not tracked.
- The prior year (2024) instructions reference to SVO P&P Manual for line 68 has been updated to reference SSAP No. 48, this must have been an editorial change as it is not tracked.

Existing Authoritative Literature:

1. The NAIC library website contains historical publications.
 - [Life, Accident and Health/ Fraternal Annual Statement Instructions](#)
 - [Life, Accident and Health/ Fraternal Blanks](#)
 - [SVO P&P Manual](#)
2. 2025 AVR line names and Life, Accident & Health/ Fraternal Annual Statement instructions (ASI) Lines 15 and 68 include generic references to SSAP No. 97:

AVR Equity Line	Instructions (Excerpt and emphasis added)
Line 4 – Subsidiary, Controlled or Affiliated Common Stocks – Life Insurer with an AVR	Report the book/adjusted carrying value of all common stocks owned in a controlled or affiliated company, or a subsidiary that is a life or fraternal insurance company that holds an AVR, in Columns 1 and 4. These companies are required to carry their own asset valuation reserve or an equivalent, and therefore the common stocks are not required to be included in the asset valuation reserve of an affiliated company.
Line 15 - Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries	Report the book/adjusted carrying value of all subsidiary, controlled or affiliated company common stocks owned that have been valued according to the SSAP No. 97— Investments in Subsidiary, Controlled and Affiliated Entities in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

Line 16 - Subsidiary, Controlled or Affiliated Common Stocks – Other	Report that portion of the book/adjusted carrying value of all common stocks of all subsidiary, controlled or affiliated companies, that have not been included on Lines 4 through 15 , in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively
Line 68 – Investments with the Underlying Characteristics of Common Stock – Affiliated Certain Other (See SVO Purposes & Procedures Manual)	...Line 68 should show all Schedule BA assets owned where the characteristics of the underlying investments are similar to subsidiary, controlled or affiliated company common stocks owned and these assets should be valued according to the SSAP No. 48—Joint Ventures, Partnerships or Limited Liability Companies . Categorize these assets consistent with the directions for Pages 32 and 33, Lines 1 through 4, 15 and 16...
Line 69 - Investments with the Underlying Characteristics of Common Stock – Affiliated Other – All Other	... Categorize these assets consistent with the directions for Pages 32 and 33, Lines 1 through 4, 15 and 16...

3. Excerpt from 1992 SVO P&P Manual referenced on valuations of SCA common stock is below, the full 1992 Manual is at this link: [1992 SVO](#)

SVO P&P Manual Part 4(B)(a)(i)	SVO P&P Manual Part 4(B)(a)(iii)
<i>...the value of only such of the assets of such company as would constitute lawful investments for the insurer if acquired or held directly by the insurer.</i>	<p>book value, defined as in Section 4 (A)(c)*, provided, however, that the common stock of a non-insurance company may not be valued on the basis of this subsection (iii);</p> <p>* 4(A)(c) states: Association Values for common stocks which are not publicly traded which are <u>issued by insurance companies</u> will be equal to book value, which shall be calculated as follows: by dividing the amount of its capital and surplus as shown in its last annual statement or subsequent report of examination (excluding from surplus, reserves required by statute and any portion of surplus properly allocable to policyholders, rather than stockholders) less the value (par or redemption value, whichever is the greater) of all of its preferred stock, if any, outstanding, by the number of shares of its common stock issued and outstanding.</p>

4. 1998 SVO Manual move guidance to Part Eight SVO instructions (bolding added)

Section 3. Valuation Methods In fulfilling the requirements of Sections 1 and 2 above, insurance companies may use any of the following valuation methods:

(a) **Admitted Asset Equivalent** Pursuant to this method, which may only be used for non-insurance SCA companies, the value of the common stock is limited to the value of those assets of the SCA company that would constitute lawful investments for the insurance company, if acquired or held directly by the insurance company. **This is the sole valuation method that permits submission and use of an unaudited financial statement.**

(c) **Book Value of Insurer's Common Stock** Pursuant to this method, the value of the **common stock of an insurance company** is derived by reference to the insurance company's book value, calculated by dividing the company's NAIC Financial Statement Blank capital and surplus less the value of its preferred stock and surplus notes, by the number of shares of its issued and outstanding common stock. The insurance company is required to submit the NAIC Financial Statement Blank to the SVO. A noninsurance company may not use this valuation method.

5. 2001- Life Fraternal Annual Statement instructions for AVR equity line 15 – has a generic SVO reference.

Line 15 – Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries Report the book/adjusted carrying value of all subsidiary, controlled or affiliated company common stocks owned that have been valued according to the **Purposes and Procedures Manual of the Securities Valuation Office of the NAIC** in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10 respectively.

6. SVO P&P Manual Instructions 2008 Part Eight, Section 3 Valuation methods

Note (a) (i) describes the market valuation methods and is omitted. Underline was in the P&P Manual.

(ii) Equity Methods If a SCA investment does not meet the requirements for the market valuation approach in Section 3 (a) (i) of this Part, or if the requirements are met, but a reporting entity elects not to use the market valuation approach, the reporting entity's proportionate share of its investments in SCAs shall be recorded as follows:

- (A) Investments in U.S. Insurance SCA Entities
Investments in U.S. insurance SCA entities shall be recorded based on the underlying audited statutory equity (where equity is defined as net of preferred stock and surplus notes of the investee) of the respective entity's financial statements, adjusted for any unamortized goodwill as provided for in SSAP No. 68.
- (B) Investments in Non-Insurance SCA Entities Statutory Basis
Investments in non-insurance SCA entities engaged in the activities described in SSAP No. 97, paragraph 8b.ii. shall be adjusted to an audited statutory basis of accounting, if 20% or more of the SCA's revenue is generated from the reporting entities and its affiliates. For purposes of this section, revenue means GAAP revenue reported in the audited GAAP financial statements, excluding realized and unrealized capital gains and losses. Statutory basis of accounting shall be based on the underlying audited U.S. GAAP equity of the respective entity with the adjustments required by paragraph 9 of SSAP No. 97. If the reporting entity also holds an investment in preferred stock and or surplus notes refer to paragraphs 23 through 27 of SSAP No. 97. For guidance on investments in downstream holding companies refer to paragraphs 17-19 of SSAP No. 97.

- (C) Investments in Non-Insurance SCA Entities GAAP Basis
Investments in non-insurance SCA entities that do not qualify under the preceding subparagraph (B) shall be recorded based on the audited GAAP equity of the investee.
- (D) Investments in Foreign Insurance SCA Entities
Investments in foreign insurance SCA entities shall be recorded based on the underlying audited U.S. GAAP equity of the respective entity adjusted to a statutory basis of accounting, for reserves of the foreign insurance SCA with respect to the business it assumes directly and indirectly from an US insurer using the statutory accounting principles promulgated in the NAIC Accounting Practices and Procedures Manual and for any audit adjustments resulting from the annual GAAP audit. Statutory basis of accounting shall be based on the underlying U.S. GAAP equity of the respective entity with the adjustments required by paragraph 9 of SSAP No. 97. GAAP is defined as those pronouncements included in the United States GAAP Hierarchy as described in AICPA Statement of Auditing Standard No. 69, The Meaning of Present Fairly in Conformity With GAAP. Foreign SCA entities are defined as those entities incorporated or otherwise legally formed under the laws of a foreign country. Foreign insurance SCA entities are defined as alien insurers formed according to the legal requirements of a foreign country.
- (E) Investments in Foreign Non-Insurance SCA Entities
Investments in foreign non-insurance SCA entities shall follow the guidance in this Part Eight, Section 3(a)(ii)(B) or (C) based on the revenue and activity criteria noted above, which requires that accounting be based on the underlying adjusted audited U.S. GAAP equity of the respective entity. Statutory basis of accounting shall be based on the underlying audited U.S. GAAP equity of the respective entity with the adjustments required by paragraph 9 of SSAP No. 97.
- (F) Investments in the Preferred Stock of an SCA
Investments in the preferred stock of an SCA shall be accounted for in accordance with the provisions of SSAP No. 32. If in addition to preferred stock the reporting entity also holds an investment in common stock and/or surplus notes refer to paragraphs 23 through 27 of SSAP No. 97 and paragraph 10 of SSAP No. 41.

7. SSAP No. 48—Joint Ventures, Partnerships or Limited Liability Companies (Bolding added):

7. Investments in these ventures, except for joint ventures, partnerships and limited liability companies with a minor ownership interest¹, shall be reported using an equity method as defined in **SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, paragraphs 8.b.i. through 8.b.iv.** (The equity method calculation may result with a negative valuation of the investment; therefore, the SSAP No. 97 equity method calculation shall occur regardless of whether the investment is supported by an audit and the reporting entity will nonadmit the investment.) A reporting entity whose shares of losses in a SSAP No. 48 entity exceeds its investment in the SSAP No. 48 entity shall disclose the information required by SSAP No. 97, paragraph 35.a.

Footnote¹ With the identification of whether the reporting entity has a minor ownership interest, reporting entities must also identify whether the investment is a related-party transaction. Pursuant to the concepts reflected in *SSAP No. 25—Affiliates and Other Related Parties*, consideration shall be given to the substance of the transaction and the parties whose action or

performance materially impacts the insurance reporting entity holding the security. For example, if the underlying assets within a SSAP No. 48 entity represent assets issued by an affiliate, then the SSAP No. 48 entity shall be considered a related party (affiliate) investment, with the transaction subject to the accounting and reporting provisions of SSAP No. 25. As identified in SSAP No. 25, it is erroneous to conclude that the inclusion of a non-related intermediary, or the presence of non-related assets in a structure predominantly comprised of related party investments, eliminates the requirement to identify and assess the investment transaction as a related party arrangement.

8. SSAP No. 97

Applying the Market Valuation, Audited Statutory Equity and Audited GAAP Equity Methods

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. Market valuation (Omitted for brevity)

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 Goodwill*² 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:

² 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.

- (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*
- (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;

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:
The Working Group received this referral from the Life Risk-based Capital (E) Working Group at the 2025 Summer National Meeting.

Convergence with International Financial Reporting Standards (IFRS): None

Staff Review Completed by: Robin Marcotte – NAIC Staff

Staff Recommendation: NAIC staff recommend that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to the Life, Accident & Health/ Fraternal Annual Statement blank and instructions as described below. In addition, the Life Risk-based Capital (E) Working Group

should be notified of the exposure. No revisions to statements of statutory accounting principles are recommended. After exposure of this agenda item, NAIC staff recommend that the Working Group sponsor a blanks proposal to incorporate instruction changes to the noted AVR reporting lines, as well as to review other AVR reporting lines to ensure the instructions are accurate.

The proposed revisions detailed below include SCAs with statutory accounting impacted valuations (excluding life SCAs that have an AVR) in line 15, receiving a lower RBC charge as the “SCA – Certain Other” category, and all other SCAs captured in line 16.

1. Line 15 - Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries be updated to include:
 - a. Remove the reference to the SVO Purposes & Procedures Manual in the line name in the annual statement.
 - b. Add references to SSAP No. 97, paragraph 8.b.i (audited U.S. Insurers SAP equity) and paragraph 8.b.ii (audited GAAP for a non-insurance entity with limited SAP adjustments) to the instructions. This is consistent with specific historical SVO references that the line includes valuations with statutory adjustments. Note that historical information did not include foreign insurance entities.
 - c. Note that because of existing AVR Common Stock Line 4 - Affiliated Life insurance with AVR are excluded from line 15 and NAIC staff recommend that this be stated.

2. Line 68 - Investments with the Underlying Characteristics of Common Stock – Affiliated Certain Other (See SVO Purposes & Procedures Manual)
 - a. Remove the reference to the SVO Purposes & Procedures Manual in the line name in the annual statement. Add SAP equity to line 15 name.
 - b. Include in line 68 investments with more than a minor ownership interest as described in SSAP No. 48 which are valued in accordance with SSAP No. 97, paragraph 8.b.i.; or paragraph 8.b.ii. and explicitly note that this line does not include life entities with AVR which are reported in line 67.
 - c. Note that the instructions for lines 65-68 are quite brief, so NAIC staff would recommend further instructions to these lines. With the sponsored blanks proposal for this item, NAIC staff will work with the Blanks team to propose clarifying edits to these lines, as well as the corresponding common stock lines.
 - d. The currently exposed blanks proposal number 2025-27BWG affects the AVR schedule and instructions to add a section on collateralized loan obligations (CLO), collateralized bond obligations (CBO) and collateralized debt obligations (CDO). This will require section and line renumbering of the AVR schedule and lines. For ease of review the following is a cross reference of current line numbers and the proposed line numbers in 2025-27BWG.

Current line number	Line number in 2025-27BWG
Line 4	Section A, Line 4
Line 15	Section A, Line 15
Line 16	Section A, Line 16
Line 65	Section F, Line 1

Line 66	Section F, Line 2
Line 67	Section F, Line 3
Line 68	Section F, Line 4
Line 69	Section F, Line 5

- Line 69 - Investments with the Underlying Characteristics of Common Stock – Affiliated Other – All Other revisions have been proposed to add instruction for line 69 that parallels the guidance for line 16 - Subsidiary, Controlled or Affiliated Common Stocks – Other.

Proposed revisions for exposure consideration

The line numbers that will match the line numbers if proposal 2025-27BWG is adopted are shown in item 2 d above for ease of review to allow for coordination with other ongoing projects.

Life, Accident & Health/ Fraternal Annual Statement

Asset Valuation Reserve Equity And Other Invested Asset Component – Basic Contribution, Reserve Objective And Maximum Reserve Calculations

Current line #	Current line name
Line 15	Affiliated certain other SAP equity (See SVO Purposes & Procedures Manual)
Line 68	Affiliated certain other (See SVO Purposes & Procedures Manual)

Life, Accident & Health/ Fraternal Annual Statement Instructions

Asset Valuation Reserve Equity And Other Invested Asset Component – Basic Contribution, Reserve Objective And Maximum Reserve Calculations

Line 15 – Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries

Report the book/adjusted carrying value of all subsidiary, controlled or affiliated company common stocks owned that have been valued according to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities in paragraph 8.b.i and paragraph 8.b.ii in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively. This line does not include common stock of subsidiary, controlled, or affiliated entities holding an AVR. Such entities are disclosed in line 4 - Subsidiary, Controlled or Affiliated Common Stocks – Life Insurer with an AVR.

Line 16 – Subsidiary, Controlled or Affiliated Common Stocks – Other

Report that portion of the book/adjusted carrying value of all common stocks of all subsidiary, controlled or affiliated companies, that have not been included on Lines 4 through 15, in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

Lines 65 through 69 – Other Invested Assets with Underlying Characteristics of Common Stocks Report the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investments are similar to common stock (Lines 1999999 and 2099999) in Columns 1 and 4.

Categorize these assets consistent with the directions for Pages 32 and 33, the corresponding the common stock line have the underlying characteristics of Lines 1 through 4, 15 and 16.

Line 1- Unaffiliated public corresponds to line 65

Line 2 - Unaffiliated private corresponds to line 66

Line 4 – Affiliated Life with AVR corresponds to line 67

Line 15 Affiliated-certain other SAP Equity corresponds to line 68

Line 16 Affiliated all other corresponds to line 69

For Line 65, the reserve factor must be calculated on an individual company basis. It is equal to 15.8% times the beta factor as discussed in the Pages 32 and 33, Line 1 instructions, and must be at least 12.15% but not more than 24.31%. Multiply the amount in Column 4 by the calculated reserve factors in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

For Lines 66 through 69, multiply the amounts in Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

Line 67 should show Schedule BA assets with the underlying characteristics of common stocks for an affiliated life insurance entity carrying AVR.

Line 68 should show all Schedule BA assets owned where the characteristics of the underlying investments are similar to subsidiary, controlled or affiliated company common stocks owned and these assets which hold more than a minor ownership interest per should be valued according to the SSAP No. 48—Joint Ventures, Partnerships or Limited Liability Companies which are valued according to the requirements in SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities in paragraph 8.b.i and paragraph 8.b.ii. This line does not include assets with the underlying characteristics of common stocks of a life entity holding an AVR as such entities are disclosed in line 67.

Line 69 should show all Schedule BA assets owned where the characteristics of the underlying investments are similar to affiliated common stocks and these are the assets that are not included in lines 67 or 68.

~~Categorize these assets consistent with the directions for Pages 32 and 33, Lines 1 through 4, 15 and 16. For Line 65, the reserve factor must be calculated on an individual company basis. It is equal to 15.8% times the beta factor as discussed in the Pages 32 and 33, Line 1 instructions, and must be at least 12.15% but not more than 24.31%. Multiply the amount in Column 4 by the calculated reserve factors in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively. For Lines 66 through 69, multiply the amounts in Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.~~