

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

**Issue: Investment Subsidiary Classification**

**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 as questions have been received on the classification of investments as “investment subsidiaries” in schedule D-6-1: Valuation of Shares of Subsidiary, Controlled or Affiliated Companies and in the Life RBC formula on pages LR042, LR043 and LR044.

For background, the concept of an investment subsidiary was reflected in *SSAP No. 46—Investments in Subsidiary, Controlled and Affiliated Entities* as “investments in noninsurance subsidiary, controlled or affiliated (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.” For these SCAs, the guidance in SSAP No. 46 required an equity measurement method adjusted to the statutory basis of accounting. With this adjustment to the statutory basis of accounting, the measurement of the SCA under SSAP No. 46 was intended to be consistent to the accumulated measurement of the underlying assets if they had been held directly. SSAP No. 46 was superseded by SSAP No. 88 as of Jan. 1, 2005, and the concept of an “investment subsidiary” (or a subsidiary designed to hold assets for the entity) was eliminated from statutory accounting guidance. The investment subsidiary guidance in the annual statement instructions was not deleted when the concept was eliminated from statutory accounting guidance. This is presumably because of the different charge that RBC applies to such entities if they meet specific criteria. SSAP No. 88 was later superseded by SSAP No. 97 as of Dec. 31, 2007, and is the current authoritative guidance for SCAs. Similar to SSAP No. 88, the concept of an “investment subsidiary” (or an SCA designed just to hold assets for the benefit of the reporting entity and its affiliates) is not in SSAP No. 97.

Under current guidance in SSAP No. 97, the concept of an SCA that simply holds assets is not reflected. Unless the SCA is an insurance subsidiary or engages in specific transactions on behalf of the entity or meets the revenue test, the SCA will be captured under paragraph 8.b.iii in SSAP No. 97 and reported based on the audited US GAAP equity value. Admittance is permitted if the parameters of the SSAP are met, which includes an audited financial statement supporting the US GAAP equity value. It is noted that the concept of an investment sub is still reflected in *SSAP No. 25—Affiliates and Other Related Parties*. The example of an entity only holding assets for the benefit of the insurer is an example of a non-economic transaction, where the assets are transferred/recognized at fair value, but any gain from the transfer is deferred until permanence can be verified.

From questions received and a review of financial statement reporting, the following list identifies issues:

- Situations have been identified in which companies have reported Schedule BA items (in scope of SSAP No. 48) as “investment subs” for RBC look through although those investments should not be captured within the classification. The concept for an “investment subsidiary” is for items reported as SCAs in scope of SSAP No. 97 with common and/or preferred stock ownership.
- Questions have been raised on whether companies can utilize the concept of an “investment sub” to avoid statutory accounting provisions for underlying assets but receive favorable RBC impact as if the SSAP criteria had been met. (For example, whether a company utilizes the bond RBC factors for a debt security

held within an investment subsidiary without verifying that the debt security would qualify as a bond under SSAP No. 26 or uses CRP ratings to determine RBC when the asset may have required an SVO-assigned designation if held directly.)

- Questions have been received on how companies comply with Life RBC LR044 instruction for Affiliate Type 4 *“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.”* Specifically, the measurement method for the SCA pursuant to SSAP No. 97—*Investments in Subsidiary, Controlled and Affiliated Entities* (audited U.S. GAAP equity) would not be consistent with the measurement of the assets if the assets were held directly (statutory basis). Questions arise whether the underlying assets within the investment subsidiary are converted to statutory basis of accounting prior to computation of RBC charge. In addition, there were questions as to how the RBC after covariance for the underlying assets owned is calculated for investment subsidiaries.
- According to Annual Statement instructions, investment subsidiaries also need to apply a “look-through” approach in Asset Valuation Reserve (AVR) calculation. However, diversity in practice has been observed and for companies that utilize Lines 5 – 14 of the AVR Equity and Other Invested Asset Component table to calculate AVR, the computation is not transparent.
- Questions have been raised on the current annual statement instructions for D-6-1 regarding the “imputed value on a statutory basis” and the direction for nonadmittance of the excess or reclassification in the “all other affiliates” category. Schedule D-6-1 does not determine the amount reported on balance sheet, as that amount is pulled from *Schedule D-2-2, Common Stocks*. Further, the A/S instructions for D-6-1 would not override the SSAP guidance that prescribes the measurement and admittance requirement as that is governed by SSAP No. 97, which is higher in the statutory hierarchy. These A/S instructions regarding the “imputed statutory value” appear to come from historical RBC guidance, and it is assumed that the calculation of the “imputed statutory value” was intended to be a pre-requisite for classifying as an investment sub. However, as the A/S guidance does not override SSAP, and what is captured would seemingly create a disconnect from what is reported on balance sheet, it seems to be causing confusion on application, as companies are not consistently reporting “investment subsidiaries” throughout the schedule, AVR and the RBC formula.
- From a review of the financial statements, the amounts reported for “investment subsidiaries” vary between D-6-1, AVR and RBC. From the 2023 filing, the amount reported in the RBC formula (which allows company RBC calculation based on the underlying assets) is significantly greater than the amount reported on D-6-1 and what is reported through the equity component of AVR.

The RBC background was noted from the 1995 “Raising the Safety Net” publication for RBC for P/C Insurance Companies is included as follows:

The general principle in determining the RBC of ... investment affiliates is to do so as if the affiliate were fully consolidated with the insurer. The committee recognizes that there is not necessarily any legal obligation for a parent to assist a subsidiary nor maintain adequate capital in the subsidiary; vice versa, a parent which wishes to remove excess capital from a subsidiary might sometimes face barriers in doing so. Nonetheless, the committee believes that the consolidation approach is the best way to measure the RBC of the parent, particularly when both the parent and the affiliate are going concerns. One particular advantage of this approach is that where there is a choice of whether to have ownership of an asset or placement of particular insurance business in either the parent or the subsidiary, the RBC calculation for

the parent remains the same whichever choice is made. The committee believes that this makes the RBC calculation less manipulable with respect to affiliate transactions.

D. Investment Affiliates - Investment affiliates are investment conduits whose function it is to hold and invest assets of the insurance company.\* Note that money management subsidiaries are not investment affiliates for this purpose. The RBC for an investment conduit is determined on a consolidated or "see through" basis by applying the appropriate asset factors to the assets owned by the affiliate.

\* An affiliate qualifies as an investment conduit if the following criteria are met:

- i. 95 percent or more of the affiliate's assets would qualify as admitted assets if directly owned by the insurer.
- ii. 95 percent or more of the affiliate's liabilities are paid-in capital, retained earnings or debt.
- iii. Combining the prorata ownership share of the asset so fall the investment conduit affiliates with the owning insurer's assets does not violate any state requirements concerning diversification of investments or limitations on investments in a single entity.
- iv. The investment conduit's statement value does not exceed the imputed value of the investment conduit using statutory accounting methodology admit the excess or move the affiliate to the "All Other Affiliated Common Stock" category.

Although the RBC calculation is within the purview of the Capital Adequacy (E) Task Force and its related RBC Working Groups, with the questions received for "investment subsidiaries," as well as the current lack of detail on the underlying assets used to determine RBC, this agenda item proposes the following potential actions:

- 1) Revisions to SSAP No. 97 to incorporate statutory accounting guidance for SCAs that hold assets on behalf of the reporting entity and affiliate (investment subsidiaries). By incorporating in SSAP, consideration can be given as to prescribing the measurement method and potential nonadmittance thresholds if the assets within the investment subsidiary would be nonadmitted if held directly. (As detailed within, the existing reference to measurement and nonadmittance in the instructions for D-6-1 would not overrule the guidance in SSAP No. 97. If the revisions to SSAP No. 97 are not supported, then the Working Group could consider sponsoring a blanks proposal to clarify the instructions in D-6-1 to prescribe allocation of the underlying investments in a manner that coincides with the SCA measurement and admittance under SSAP No. 97. (For example, if the equity measurement reported on balance sheet per SSAP No. 97 is \$100, but the imputed statutory value would be lower at \$80 (or higher at \$120), what should be reported on D-6-1 and how should that flow to RBC?)
- 2) Sponsor blanks proposals to capture new investment schedules, or perhaps expansions to existing investment schedules, to detail the underlying assets held within an investment subsidiary. As the RBC and AVR calculations require reporting entities to calculate RBC and AVR based on the underlying assets, this information should be readily available. If revisions are not incorporated into SSAP No. 97, these proposals can also clarify requirements for reporting as an investment subsidiary.
- 3) Referrals to the Capital Adequacy (E) Task Force and related RBC Working Groups to incorporate details that allow regulators to verify the RBC calculation for the underlying assets in investment subsidiaries. If blanks reporting revisions are incorporated that provide this detail, then the RBC formula can likely pull from those sources. If reporting revisions are not incorporated, then additional schedules or reporting lines would be necessary within the RBC formula.

**Existing Authoritative Literature:****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 an 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<sup>1</sup> 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*
    - (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

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<sup>1</sup> 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.

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
<b>*Investment Subsidiary .....</b>	<b>0799999</b>
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
<b>*Investment Subsidiary .....</b>	<b>1699999</b>
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.

### **Investments of Insurers Model Act (Model 280)**

<https://content.naic.org/sites/default/files/model-law-280.pdf>

Section 2. Definitions For purposes of this Act:

TT. "Investment subsidiary" means a subsidiary of an insurer engaged or organized to engage exclusively in the ownership and management of assets authorized as investments for the insurer if each subsidiary agrees to limit its investment in any asset so that its investments will not cause the amount of the total investment of the insurer to exceed any of the investment limitations or avoid any other provisions of this Act applicable to the insurer. As used in this subsection, the total investment of the insurer shall include: (1) Direct investment by the insurer in an asset; and (2) The insurer's proportionate share of an investment in an asset by an investment subsidiary of the insurer, which shall be calculated by multiplying the amount of the subsidiary's investment by the percentage of the insurer's ownership interest in the subsidiary

Note that the act contains multiple references to investment subsidiaries on limitations and diversification etc.

**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 – 2024 Fall National Meeting:**

NAIC staff recommend that the Working Group move this item to the active listing and expose this agenda item with a request for comments on the options offered to clarify statutory accounting guidelines (and resulting reporting impacts) for investment subsidiaries. As noted, with the exception of possible revisions to SSAP No. 97, the other possible actions are to sponsor blanks proposals or send referrals to the Capital Adequacy (E) Task Force and related RBC groups with a request for revisions. (Determination on whether this is a SAP classification or a new SAP concept will be based on the action directed.)

**Potential Actions:**

- 1) **Revisions to SSAP No. 97 to incorporate statutory accounting guidance for SCAs that hold assets on behalf of the reporting entity and affiliate (investment subsidiaries).** By incorporating in SSAP, consideration can be given as to prescribing the measurement method and potential nonadmittance thresholds if the assets within the investment subsidiary would be nonadmitted if held directly. (As detailed within, the existing reference to measurement and nonadmittance in the instructions for D-6-1 would not overrule the guidance in SSAP No. 97. If the revisions to SSAP No. 97 are not supported, then the Working Group could consider sponsoring a blanks proposal to clarify the instructions in D-6-1 to prescribe allocation of the underlying investments in a manner that coincides with the SCA measurement and admittance under SSAP No. 97.)
- 2) **Sponsor blanks proposals to capture new investment schedules, or perhaps expansions to existing investment schedules, to detail the underlying assets held within an investment subsidiary.** As the RBC and AVR calculations require reporting entities to calculate RBC and AVR based on the underlying assets, this information should be readily available. If revisions are not incorporated into SSAP No. 97, these proposals can also clarify requirements for reporting as an investment subsidiary.
- 3) **Referrals to the Capital Adequacy (E) Task Force and related RBC Working Groups to incorporate details that allow regulators to verify the RBC calculation for the underlying assets in investment subsidiaries.** If blanks reporting revisions are incorporated that provide this detail, then the RBC formula can likely pull from those sources. If reporting revisions are not incorporated, then additional schedules or reporting lines would be necessary within the RBC formula.

**Staff Review Completed by:** Julie Gann, NAIC Staff—November 2024

**Status:**

On November 17, 2024, the Statutory Accounting Principles (E) Working Group moved this item to the active listing and exposed this concept agenda item requesting comments on options to clarify accounting guidelines and resulting reporting impacts for investment subsidiaries.



On March 24, 2025, the Statutory Accounting Principles (E) Working Group deferred agenda item for investment subsidiaries and directed NAIC staff to develop an agenda item for consideration of Delaware Statutory Trusts (DSTs) holding residential mortgage loans.

**Staff Recommendation – 2025 Summer National Meeting:**

**Based on discussions with regulators, NAIC staff recommend revisions to eliminate the investment subsidiary concept from the instructions, effective December 31, 2026. As such, NAIC staff recommend exposure of proposed edits to D-6-1 and AVR along with Working Group direction to sponsor a corresponding Blanks proposal. These edits do not result in SSAP revisions as the concept of an investment subsidiary does not exist in SSAP No. 97. Upon adoption of the proposed blanks changes, NAIC staff recommends a referral to the Life Risk-Based Capital (E) Working Group to eliminate the corresponding RBC instructions. The edits that would be proposed in this referral are also illustrated below.** NAIC staff also requests additional industry comments on any other investment classes currently reported as investment subsidiaries that may warrant separate consideration. At present, residential mortgage loans held within statutory trusts, as outlined in agenda item 2025-13, are under discussion for potential inclusion in *SSAP No. 37—Mortgage Loans*.

It is important to note that this change does not prohibit insurers from owning investment subsidiaries. As discussed, the Investments of Insurers Model Act (Model 280; see Authoritative Literature section) permits insurers to hold investments through such subsidiaries. However, Model 280 only authorizes the structure and does not provide accounting or reporting guidance. Accounting and reporting guidance is primarily established by the SSAPs and, secondarily per the statutory hierarchy, the Annual Statement Instructions.

The SSAPs previously contained specified guidance for investment subsidiaries but it was ultimately removed due to persistent challenges in distinguishing investment subsidiaries from operating subsidiaries. Although a dual test based on revenue and activity was originally used for making this determination, regulators observed that the dual test was being creatively interpreted to gain favorable RBC treatment. The current issue stems from the fact that while SSAP No. 97 guidance for investment subsidiaries was eliminated, the corresponding Annual Statement Instructions for Schedule D-6-1 and AVR regarding investment subsidiaries were not updated accordingly. As a result, insurers have continued to be able to report investment subsidiaries under that framework, which effectively allows look-through RBC treatment to be circumvented for investments held in investment subsidiaries. Because investment subsidiaries are no longer recognized under SSAPs, there is no applicable statutory accounting or measurement guidance for investments held through them. This also means there are no mechanisms to ensure compliance with SSAP requirements, state investment limitations, or the RBC calculation. Reporting of the imputed SAP valuation for RBC relies solely on company-provided records. Furthermore, Schedule D-6-1's instruction requires reporting entities to measure investment subsidiaries using "imputed statutory value" which is an undefined term and conflicts with SSAP No. 97 which requires measurement based on audited U.S. GAAP. It is anticipated that SCAs previously reported as investment subsidiaries would be subject to the guidance stipulated for *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, paragraphs 8.b.ii or 8.b.iii depending on whether the investment meets the activity test.

The removal of investment subsidiaries from the Annual Statement Instructions aligns with their prior elimination from the SSAPs. While reintroducing the investment subsidiary concept under SSAP No. 97 was considered, ongoing concerns remain regarding the difficulty in distinguishing operating subsidiaries from investment subsidiaries, as well as concerns over the complexity of changes which would be required to clarify look-through accounting treatment, RBC validation, and transparency of reporting.

**August 2025 Exposed changes to Annual Statement Instructions – For a SAPWG Sponsored Blanks Proposal:**

**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
<del>*Investment Subsidiary .....</del>	<del>0799999</del>
Other Affiliates .....	08999990799999
Subtotals – Preferred Stocks .....	09999990899999
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
<del>*Investment Subsidiary .....</del>	<del>1699999</del>
Other Affiliates .....	17999991699999
Subtotals – Common Stocks .....	18999991799999
Totals – Preferred and Common Stocks .....	19999991899999

~~\*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.~~

***Proposed changes to RBC/AVR Instructions – To be Referred to LRBCWG:***

***2024 RBC 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.

#### **2024 AVR Instructions:**

Lines 5

through 14 ~~Subsidiary, Controlled or Affiliated Common Stock Investment Subsidiaries~~

Report the book/adjusted carrying value of all common stocks owned in an investment subsidiary or that portion of the book/adjusted carrying value of holding company subsidiaries that represents investments in investment subsidiaries in Column 1, any related party encumbrances on these common stocks in Column 2, and any third party encumbrances on these common stocks in Column 3. If a portion of the book/adjusted carrying value of a holding company subsidiary is reflected in Column 1, the debt of that holding company subsidiary should be reflected in Columns 2 and 3. However, the total holding company debt to be reflected in Columns 2 and 3 should not exceed the aggregate book/adjusted carrying value of any investment subsidiaries on the holding company subsidiary books. (An investment subsidiary is any subsidiary, other than a holding company subsidiary, engaged or organized to engage primarily in the ownership and management of investments authorized as investments for the reporting entity. A broker-dealer or money management firm that manages outside funds is not an investment subsidiary. This definition is intended to be identical to the investment subsidiary definition for Risk-Based Capital (RBC) purposes and will be amended if the RBC definition is changed.) Allocate the common stock value in Column 1 and the encumbrances in Columns 2 and 3 among Lines 5 through 14 based on the nature of the underlying investment held by the investment subsidiary. Follow the Securities Valuation Office guidelines and categorize these assets as if the SVO had assigned a NAIC designation of 1 through 6, P1 through P6, or RP1 through RP6. Report the sum of Columns 1, 2, and 3 in Column 4.

For Lines 5 through 11, multiply the amount in Column 4 by the appropriate bond, preferred stock, or other fixed income instrument (excluding mortgage loans) reserve factors (as listed in Columns 5, 7 and 9 of the various sections of the Equity Component schedule) and report the products in Columns 6, 8 and 10, respectively.

For Line 12, multiply the amount in Column 4 by the reserve factors calculated for Columns 5, 7 and 9 (see instructions for Line 1 of this schedule) and report the products in Columns 6, 8 and 10, respectively.

For Line 13, multiply the amount 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.

For Line 14, multiply the amounts included in Column 4 by the reserve factors and breakdowns used for directly owned real estate and report the products in Columns 6, 8 and 10, respectively.

On August 11, 2025, the Statutory Accounting Principles (E) Working Group exposed revisions described in the August 2025 exposed changes to eliminate the investment subsidiary concept from the annual statement instructions, effective December 31, 2026, and directed NAIC staff to sponsor a corresponding Blanks proposal. The intent to send a referral to the Life Risk-Based Capital (E) Working Group upon adoption of the agenda item, along with suggested RBC instruction changes, was also exposed.

On December 9, 2025, the Statutory Accounting Principles (E) Working Group adopted this agenda item supporting revisions to eliminate the investment subsidiary concept from the annual statement instructions, effective December 31, 2026, and directed a referral to the Capital Adequacy (E) Task Force with the recommended RBC instruction changes. This agenda item did not result in SSAP revisions.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/12-9-25FallNationalMeeting/Adoptions/24-21-InvestmentSubsidiaries.docx>