

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

Issue: Derivative Premium Clarifications

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 developed in response to two issues. First, NAIC staff noted during internal reviews of *SSAP No. 86—Derivatives* and the Annual Statement Instructions that the terminology used for derivative financing premium was inconsistent and that the guidance for derivative financing premiums could be clarified. Second, as part of the ongoing Interest Maintenance Reserve (IMR) Ad Hoc Group meetings NAIC staff learned that there is some confusion within industry regarding whether statutory accounting guidance allows derivative premium costs to be captured in the calculation of realized losses for the derivative transaction. NAIC staff noted that within SSAP No. 86 there are several sections which provide derivative specific accounting guidance, and within these sections the guidance is clear that companies are to amortize derivative premiums over the life of the derivative contract. With amortization of the derivative premium, the derivative premium costs would not be a component in determining realized losses at expiration. As noted within the Definitions section of SSAP No. 86, derivative premiums represent the cost to acquire or write a derivative contract and is not an “underlying” in a derivative contract. As SSAP No. 86 only allows for the change in value attributable to the derivative underlying to be capitalized to IMR as a realized loss and as derivative premium costs are NOT a component of the derivative underlying, the guidance is clear that derivative premium costs should not be included in losses capitalized into IMR. To ensure this is abundantly clear, revisions have been recommended to both the “Definitions” and “Derivative Premium” sections to add language which specifically states that derivative premium costs cannot be capitalized into IMR.

Existing Authoritative Literature:

Statement of Statutory Accounting Principles No. 86—Derivatives

6. “Derivative Premium” is the cost to acquire or write a derivative contract. Derivative premium is not an “underlying” in a derivative contract and is not impacted by changes in an underlying interest of the derivative agreement. A derivative with contract terms that finance the derivative premium, so that the cost is paid or received throughout the derivative term or at derivative maturity, does not result with an “embedded derivative” addressed in paragraph 17.

Derivative Premium

19. Derivative premium is the amount paid (acquired derivative) or received (written derivative) to enter into a derivative contract. At inception, the premium generally represents the fair value of the derivative. Derivative premium that is not paid or received at inception represents a liability or receivable for the reporting entity. Derivatives with premiums not remitted at acquisition are considered “financed derivatives.” Financed derivatives shall be reported in accordance with the following provisions:

- a. At acquisition and subsequently, the gross reported fair value of the derivative shall exclude the impact of financing premiums. Only market changes in the actual fair value of the derivative shall be reflected as unrealized gains or losses.
- b. At acquisition and subsequently, premiums payable (acquired derivative) and premiums receivable (written derivatives) shall be separately reported as “payable for securities” and “receivables for securities.”

Disclosure Requirements

63. Reporting entities shall disclose the following for all derivative contracts used:
- a. General disclosures:
 - v. Identification of whether the reporting entity has derivative contracts with financing premiums. (For purposes of this term, this includes scenarios in which the premium cost is paid at the end of the derivative contract or throughout the derivative contract.);
 - h. For derivative contracts with financing premiums:
 - i. Disclose the aggregate, non-discounted total premium cost for these contracts and the premium cost due in each of the following four years, and thereafter. Also disclose the aggregate fair value of derivative instruments with financing premiums excluding the impact of the deferred or financing premiums.
 - ii. For each derivative contract with financing premiums:
 - (a) Whether premium cost is paid throughout the contract, or at derivative maturity;
 - (b) Next premium cost payment date;
 - (c) Total premium cost;
 - (d) Premium cost paid in prior years;
 - (e) Current year premium cost paid;
 - (f) Future unpaid premium cost;

EXHIBIT B – SPECIFIC HEDGE ACCOUNTING PROCEDURES FOR DERIVATIVES

2. Swaps, Collars, and Forwards (see also discussion in Introduction above):
- c. Cash Flows and Income:
 - i. Where the cost of the derivative is not combined with the hedged item:
 - (a) Amortization of premium paid or received on derivatives is an adjustment to net investment income or another appropriate caption within operating income consistent with the reporting of the hedged item;
 - (b) Periodic cash flows and accruals of income/expense are to be reported in a manner consistent with the hedged item, usually as net investment income or another appropriate caption within operating income.
 - ii. Where the cost of the derivative is combined with the hedged item, the cash flows and income of the derivative on Schedule DB is zero. All related amortization and cash flow accounting shall be reported with the hedged item instead of with the derivative.

Annual Statement Instructions: Notes to the Financial Statements:

NOTE 8.A.(8) Disclose the aggregate, non-discounted total premium cost for these contracts and the premium cost due in each of the following four years, and thereafter. Also disclose the aggregate fair value of derivative instruments with financing premiums, excluding the impact of the deferred or financing premiums.

Illustration:

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

A. Derivatives under SSAP No. 86—*Derivatives*

(8)

a.

<u>Fiscal Year</u>	<u>Derivative Premium Payments Due</u>
1. 2025	\$
2. 2026
3. 2027
4. 2028
5. Thereafter
6. Total Future Settled Premiums (Sum of 1 through 5)	<u>\$</u>

b.

	<u>Undiscounted Future Premium Commitments</u>	<u>Derivative Fair Value with Premium Commitments (Reported on DB)</u>	<u>Derivative Fair Value Excluding Impact of Future Settled Premiums</u>
1. Prior Year	\$	\$	\$
2. Current Year	\$	\$	\$

Annual Statement Instructions: Schedule DB – Definitions

“*Financing Premium*” means that the premium cost to acquire or enter into the derivative is paid at the end of the derivative contract or throughout the derivative contract.

Annual Statement Instructions: Schedule DB – Part A – Section 1

Column 30 – Fair Value of Derivative, Excluding Impact of Financing Premiums

Reflect the fair value of the derivative adjusted to exclude the impact of discounted future settled premiums. For example, if the fair value of the derivative reported in Column 16 has been reduced due to expected cash outflows representing the reporting entity’s future payment of financing premiums, the consideration of those future premium cash outflows shall be removed from the reported fair value of the derivative captured in this column.

(At acquisition, a derivative may be reported with a net zero fair value in Column 16 as the value of the derivative and the net present value of future financing premiums owed from the acquisition of the derivative may offset. The fair value reported in Column 30 shall reflect the fair value of the derivative without an offset for the future financing premiums.)

Column 31 – Unrealized Valuation Increase/(Decrease), Excluding Impact of Financing Premiums

Reflect the unrealized gain or unrealized loss reported for the derivative adjusted to exclude the impact from discounted future settled premiums. For example, if the valuation increase/valuation decrease reported in Column 17 includes “losses” to recognize the net present value of the financing cost owed by the reporting entity, those “losses” shall be removed from the unrealized valuation increase/decrease reflected in this column.

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 2012-17, which considered *ASU 2011-22, Disclosures about Offsetting Assets and Liabilities*, was finalized by the Working Group Nov. 29, 2012. This agenda item adopted revisions to SSAPs No. 64, 86 and 103. The adopted revisions, effective Jan. 1, 2013, 1) revise and clarify that offsetting is only allowed in accordance with SSAP No. 64, paragraphs 2-4; 2) modify the adoption of FIN 39 rejecting the ability to offset in accordance with master netting agreements and rejecting FSP FIN 39-1 and FIN 41; and 3) rejecting ASU 2011-11 for statutory accounting.

Overview of ASU 2011-11:

ASU 2011-11 was issued in December 2011 to require entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting agreement. This ASU was issued as the differences in the offsetting requirements between U.S. GAAP and IFRS accounted for a significant difference in the amounts presented under those standards. These differences reduce the comparability of between U.S. GAAP and IFRS, and the users of financial statements requested that these differences be addressed expeditiously. **The objective of the ASU 2011-11 amendments is to facilitate comparison between entities that prepare financial statements under U.S. GAAP and those prepared under IFRS.** Reporting entities are required to apply the ASU 2011-11 amendments for annual reporting periods beginning on or after Jan. 1, 2013, and interim periods within those annual periods. Entities are required to provide the disclosures required by those amendments retrospectively for all comparative periods presented.

Agenda item 2013-07, which considered *ASU 2013-01: Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities*, was finalized on August 24, 2013. This ASU was issued to clarify that the scope of ASU 2011-11 applies to derivatives (including embedded derivatives), repurchase and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either netted as they meet the right of setoff under ASC 210-20-45 or ASC 815-10-45, or are subject to a master netting agreement or similar agreement. The SAP adopted revisions allowed reporting entities to continue offsetting derivatives, repurchase and reverse repurchase agreements, and securities borrowing and securities lending transactions with a valid right of offset, but incorporated disclosures to illustrate the netting impact. This adoption action included a referral to the Blanks (E) Working Group for annual statement instruction revisions and to recommend development of additional schedules to reconcile the amount reported gross on DB to the amount reported net on the balance sheet.

Agenda item 2016-48 considered accounting and reporting revisions for derivatives with financing premiums. Although discussion occurred proposing a gross accounting and reporting approach, the revisions adopted on November 6, 2017 within that agenda item incorporated aggregate disclosures and new electronic columns in Schedule DB to capture the impact of financing premiums in derivative reporting.

Agenda 2019-38 considered the accounting and reporting of financing derivative transactions pursuant to a review of information from the 2018 year-end statutory financial statements. The agenda item was adopted on July 30, 2020, and included revisions to SSAP No. 86 to ensure consistency in the gross reporting of derivatives without inclusion of financing components and in reporting amounts owed to/from the reporting entity from the acquisition or writing of derivatives.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:

None.

Convergence with International Financial Reporting Standards (IFRS):

None.

Staff Recommendation:

NAIC Staff recommends that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions to SSAP No. 86—*Derivatives* and the annual statement instructions to ensure consistent terminology for derivative financing premium and to further clarify that derivative premium costs are not to be capitalized to IMR. The proposed revisions to SSAP No. 86 and the annual statement are illustrated below.

Staff Review Completed by:

NAIC Staff – William Oden, October 2024

Status:

On November 17, 2024, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as a SAP clarification, and exposed this agenda item proposing revisions to SSAP No. 86—*Derivatives* and the annual statement instructions to ensure consistent terminology for derivative financing premiums and to further clarify that derivative premium costs shall not be recognized as a realized gain/loss.

Proposed Edits to SSAP No. 86 - Fall National Meeting:

6. “Derivative Premium” is the cost to acquire or write a derivative contract. Derivative premium is not an “underlying” in a derivative contract and is not impacted by changes in an underlying interest of the derivative agreement. A derivative with contract terms that finance the derivative premium (financing premium), so that the ~~cost is~~ premiums are paid or received throughout the derivative term or at derivative maturity, does not result with an “embedded derivative” which is addressed in paragraph 17. For the purposes of this statement, unpaid or deferred premiums are considered synonymous with financing premium. Derivative premium costs are not to be included in the calculation of realized losses nor capitalized to the interest maintenance reserve (IMR) as derivative premium costs are is-not considered an underlying in the derivative contract.

Derivative Premium

19. Derivative premium is the amount paid (acquired derivative) or received (written derivative) to enter into a derivative contract. At inception, the premium generally represents the fair value of the derivative but does not represent an underlying in the derivative contract. Accordingly, derivative premium costs are not to be included in the calculation of realized losses capitalized to IMR. Derivative premiums are to be amortized over the life of the derivative contract with the amortization recorded as an adjustment to net investment income or another appropriate caption within operating income consistent with the reporting of the derivative contract. Derivative premium that is not paid or received at inception of the derivative contract represents financing premium and shall be recorded as a liability or receivable for the reporting entity. Derivatives with premiums not remitted at acquisition are considered “financed derivatives.” Financed derivatives shall be reported in accordance with the following provisions:

- a. At acquisition and subsequently, the gross reported fair value of the derivative shall exclude the impact of financing premiums. Only market changes in the actual fair value of the derivative shall be reflected as unrealized gains or losses. Even if the derivative premium is fully financed, a derivative contract asset/liability must be recorded and the derivative premium amortized over the life of the derivative contract.
- b. At acquisition and subsequently, financing premiums payable (acquired derivative) and financing premiums receivable (written derivatives) shall be separately reported as “payable for securities” and “receivables for securities.”

24. For those derivatives which qualify for hedge accounting, the change in the carrying value or cash flow of the derivative shall be recorded consistently with how the changes in the carrying value or cash flow of the hedged asset, liability, firm commitment or forecasted transaction are recorded. Upon termination of a derivative that qualified for hedge accounting, the gain or loss shall adjust the basis of the hedged item and be recognized in income in a manner that is consistent with the hedged item (alternatively, if the item being hedged is subject to ~~Interest~~

~~Maintenance Reserve (IMR)~~, the gain or loss on the hedging derivative may be realized and shall be subject to IMR upon termination.) Entities who choose the alternative method shall apply it consistently thereafter.

63.a.v. Identification of whether the reporting entity has derivative contracts with financing premiums. (For purposes of this term, this includes scenarios in which the premium cost is paid/received at the end of the derivative contract or throughout the derivative contract.);

63.h.i. Disclose the aggregate, non-discounted total premium cost for these contracts and the premium cost due in each of the following four years, and thereafter. Also disclose the aggregate fair value of derivative instruments with financing premiums excluding the impact of ~~the deferred or~~ financing premiums.

63.h.ii. For each derivative contract with financing premiums:

- (a) Whether premium cost is paid/received throughout the contract, or at derivative maturity;
- (b) Next premium cost payment date;
- (c) Total premium cost;
- (d) Premium cost paid/received in prior years;
- (e) Current year premium cost paid/received;
- (f) Future unpaid/unreceived premium cost;

Footnote ³ Pursuant to paragraph 19, the gross reported value of a derivative and the determination of unrealized gains or losses shall exclude the impact of financing premiums. ~~Financing P~~remiums payable or receivable from the acquisition or writing of a derivative shall not be reflected in the gross reporting of derivatives or in determining the fair value change in a derivative.

Proposed Edits to Annual Statement Instructions - Fall National Meeting:

NOTE 8.A.(8) Disclose the aggregate, non-discounted total premium cost for these contracts and the premium cost due in each of the following four years, and thereafter. Also disclose the aggregate fair value of derivative instruments with financing premiums, excluding the impact of ~~the deferred or~~ financing premiums.

Illustration:

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A. Derivatives under SSAP No. 86—Derivatives

(8)

a.

	<u>Fiscal Year</u>	<u>Derivative Premium</u> <u>Payments Due</u>
1.	2025	\$
2.	2026
3.	2027
4.	2028
5.	Thereafter
6.	Total Future Settled Financing Premiums (Sum of 1 through 5)	\$

b.

	<u>Undiscounted Future Premium Commitments</u>	<u>Derivative Fair Value with Premium Commitments (Reported on DB)</u>	<u>Derivative Fair Value Excluding Impact of Future Settled-Financing Premiums</u>
1. Prior Year	\$	\$	\$
2. Current Year	\$	\$	\$

SCHEDULE DB – PART A – SECTION 1

Column 30 – Fair Value of Derivative, Excluding Impact of Financing Premiums

Reflect the fair value of the derivative adjusted to exclude the impact of discounted ~~future-settled financing~~ premiums. For example, if the fair value of the derivative reported in Column 16 has been reduced due to expected cash outflows representing the reporting entity’s future payment of financing premiums, the consideration of those future premium cash outflows shall be removed from the reported fair value of the derivative captured in this column.

(At acquisition, a derivative may be reported with a net zero fair value in Column 16 as the value of the derivative and the net present value of ~~future-financing~~ premiums owed from the acquisition of the derivative may offset. The fair value reported in Column 30 shall reflect the fair value of the derivative without an offset for the ~~future-financing~~ premiums.)

Column 31 – Unrealized Valuation Increase/(Decrease), Excluding Impact of Financing Premiums

Reflect the unrealized gain or unrealized loss reported for the derivative adjusted to exclude the impact from discounted ~~future-settled-financing~~ premiums. For example, if the valuation increase/valuation decrease reported in Column 17 includes “losses” to recognize the net present value of the financing ~~cost~~ premiums owed by the reporting entity, those future “losses” shall be removed from the unrealized valuation increase/decrease reflected in this column.

SCHEDULE DB – PART A – SECTION 2

Column 29 – Fair Value of Derivative, Excluding Impact of Financing Premiums

Reflect the fair value of the derivative adjusted to exclude the impact of discounted ~~future settled~~ financing premiums. For example, if the fair value of the derivative reported in Column 16 has been reduced due to expected cash outflows representing the reporting entity’s future payment of financing premiums, the consideration of those future premium cash outflows shall be removed from the reported fair value of the derivative captured in this column.

(At acquisition, a derivative may be reported with a net zero fair value in Column 16 as the value of the derivative and the net present value of ~~future-financing~~ premiums owed from the acquisition of the derivative may offset. The fair value reported in Column 29 shall reflect the fair value of the derivative without an offset for the ~~future-financing~~ premiums.)

Column 30 – Unrealized Valuation Increase/(Decrease), Excluding Impact of Financing Premiums

Reflect the unrealized gain or unrealized loss reported for the derivative adjusted to exclude the impact from discounted ~~future-settled~~ financing premiums. For example, if the valuation increase/valuation decrease reported in Column 17 includes “losses” to recognize the net present value of the financing ~~cost~~ premiums owed by the reporting entity, those future “losses” shall be removed from the unrealized valuation increase/decrease reflected in this column.

SCHEDULE DB – PART B – SECTION 1

Column 28 – Fair Value of Derivative, Excluding Impact of Financing Premiums

Reflect the fair value of the derivative adjusted to exclude the impact of discounted ~~future settled~~ financing premiums. For example, if the fair value of the derivative reported in Column 16 has

been reduced due to expected cash outflows representing the reporting entity's future payment of financing premiums, the consideration of those future premium cash outflows shall be removed from the reported fair value of the derivative captured in this column.

(At acquisition, a derivative may be reported with a net zero fair value in Column 16 as the value of the derivative and the net present value of ~~future~~-financing premiums owed from the acquisition of the derivative may offset. The fair value reported in Column 28 shall reflect the fair value of the derivative without an offset for the ~~future~~-financing premiums.)

Column 29 – Unrealized Valuation Increase/(Decrease), Excluding Impact of Financing Premiums

Reflect the unrealized gain or unrealized loss reported for the derivative adjusted to exclude the impact from discounted ~~future-settled~~financing premiums. For example, if the valuation increase/valuation decrease reported in Column 17 includes “losses” to recognize the net present value of the financing ~~cost~~ premiums owed by the reporting entity, those ~~future~~ “losses” shall be removed from the unrealized valuation increase/decrease reflected in this column.

SCHEDULE DB – PART B – SECTION 2

Column 24 – Fair Value of Derivative, Excluding Impact of Financing Premiums

Reflect the fair value of the derivative adjusted to exclude the impact of discounted ~~future settled~~financing premiums. For example, if the fair value of the derivative reported in column 16 has been reduced due to expected cash outflows representing the reporting entity's future payment of financing premiums, the consideration of those future premium cash outflows shall be removed from the reported fair value of the derivative captured in this column.

(At acquisition, a derivative may be reported with a net zero fair value in column 16 as the value of the derivative and the net present value of ~~future~~-financing premiums owed from the acquisition of the derivative may offset. The fair value reported in column 30 shall reflect the fair value of the derivative without an offset for the ~~future~~-financing premiums.)

Column 25 – Unrealized Valuation Increase/(Decrease), Excluding Impact of Financing Premiums

Reflect the unrealized gain or unrealized loss reported for the derivative adjusted to exclude the impact from discounted ~~future-settled~~financing premiums. For example, if the valuation increase/valuation decrease reported in column 17 includes “losses” to recognize the net present value of the financing ~~cost~~ premium owed by the reporting entity, those ~~future~~ “losses” shall be removed from the unrealized valuation increase/decrease reflected in this column.

On February 25, 2025, the Working Group adopted as final SAP clarification revisions to SSAP No. 86 and the annual statements related to financing premium (Issue 1). The Working Group also directed NAIC staff to incorporate the previously exposed revisions regarding clarifications on the calculation and recognition of realized losses from derivative premium (Issue 2) into agenda item 2024-15: ALM Derivatives for further consideration. The rationale for this movement was based on discussions with interested parties, where it was pointed out that there are several complicating factors when trying to clarify this calculation but also that the main concern on the inclusion of derivative premium costs in the calculation of realized losses was that it could be capitalized into IMR and deferred. The adopted revisions are reflected below:

Adopted edits to SSAP No. 86 – 2/25/2025 Interim Meeting (Issue 1 revisions ONLY)

6. “Derivative Premium” is the cost to acquire or write a derivative contract. Derivative premium is not an “underlying” in a derivative contract and is not impacted by changes in an underlying interest of the derivative agreement. A derivative with contract terms that finance the derivative premium (financing premium), so that the ~~cost is~~premiums are paid or received throughout the derivative term or at derivative maturity, does not result with

an “embedded derivative” which is addressed in paragraph 17. For the purposes of this statement, unpaid or deferred premiums are considered synonymous with financing premium.

Derivative Premium

19. Derivative premium is the amount paid (acquired derivative) or received (written derivative) to enter into a derivative contract. At inception, the premium generally represents the fair value of the derivative but does not represent an underlying in the derivative contract. Derivative premium that is not paid or received at inception of the derivative contract represents financing premium and shall be recorded as a liability or receivable for the reporting entity. Derivatives with premiums not remitted at acquisition are considered “financed derivatives.” Financed derivatives shall be reported in accordance with the following provisions:

- a. At acquisition and subsequently, the gross reported fair value of the derivative shall exclude the impact of financing premiums. Only market changes in the actual fair value of the derivative shall be reflected as unrealized gains or losses. Even if the derivative premium is fully financed, a derivative contract asset/liability must be recorded.
- b. At acquisition and subsequently, financing premiums payable (acquired derivative) and financing premiums receivable (written derivatives) shall be separately reported as “payable for securities” and “receivables for securities.”

24. For those derivatives which qualify for hedge accounting, the change in the carrying value or cash flow of the derivative shall be recorded consistently with how the changes in the carrying value or cash flow of the hedged asset, liability, firm commitment or forecasted transaction are recorded. Upon termination of a derivative that qualified for hedge accounting, the gain or loss shall adjust the basis of the hedged item and be recognized in income in a manner that is consistent with the hedged item (alternatively, if the item being hedged is subject to Interest Maintenance Reserve (IMR), the gain or loss on the hedging derivative may be realized and shall be subject to IMR upon termination.) Entities who choose the alternative method shall apply it consistently thereafter.

63.a.v. Identification of whether the reporting entity has derivative contracts with financing premiums. (For purposes of this term, this includes scenarios in which the premium cost is paid/received at the end of the derivative contract or throughout the derivative contract.);

63.h.i. Disclose the aggregate, non-discounted total premium cost for these contracts and the premium cost due in each of the following four years, and thereafter. Also disclose the aggregate fair value of derivative instruments with financing premiums excluding the impact of ~~the deferred or~~ financing premiums.

63.h.ii. For each derivative contract with financing premiums:

- (a) *Whether premium cost is paid/received throughout the contract, or at derivative maturity;*
- (b) *Next premium cost payment date;*
- (c) *Total premium cost;*
- (d) *Premium cost paid/received in prior years;*
- (e) *Current year premium cost paid/received;*
- (f) *Future unpaid/unreceived premium cost;*

Footnote ³ Pursuant to paragraph 19, the gross reported value of a derivative and the determination of unrealized gains or losses shall exclude the impact of financing premiums. Financing Premiums payable or receivable from the acquisition or writing of a derivative shall not be reflected in the gross reporting of derivatives or in determining the fair value change in a derivative.

Adopted edits to Annual Statement Instructions which will be recommended to Blanks (E) Working Group– 2/25/2025 Interim Meeting (Issue 1 revisions ONLY)

NOTE 8.A.(8) Disclose the aggregate, non-discounted total premium cost for these contracts and the premium cost due in each of the following four years, and thereafter. Also disclose the aggregate fair value of derivative instruments with financing premiums, excluding the impact of ~~the deferred or~~ financing premiums.

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A. Derivatives under SSAP No. 86—*Derivatives*

(8) a.

	<u>Fiscal Year</u>	<u>Derivative Premium Payments Due</u>
1.	2025	\$
2.	2026
3.	2027
4.	2028
5.	Thereafter
6.	Total Future Settled <u>Financing</u> Premiums (Sum of 1 through 5)	\$

b.

	<u>Undiscounted Future Premium Commitments</u>	<u>Derivative Fair Value with Premium Commitments (Reported on DB)</u>	<u>Derivative Fair Value Excluding Impact of Future Settled <u>Financing</u> Premiums</u>
1.	Prior Year	\$	\$
2.	Current Year	\$	\$

SCHEDULE DB – PART A – SECTION 1

Column 30 – Fair Value of Derivative, Excluding Impact of Financing Premiums

Reflect the fair value of the derivative adjusted to exclude the impact of discounted ~~future-settled financing~~ premiums. For example, if the fair value of the derivative reported in Column 16 has been reduced due to expected cash outflows representing the reporting entity’s future payment of financing premiums, the consideration of those future premium cash outflows shall be removed from the reported fair value of the derivative captured in this column.

(At acquisition, a derivative may be reported with a net zero fair value in Column 16 as the value of the derivative and the net present value of ~~future~~-financing premiums owed from the acquisition of the derivative may offset. The fair value reported in Column 30 shall reflect the fair value of the derivative without an offset for the ~~future~~-financing premiums.)

Column 31 – Unrealized Valuation Increase/(Decrease), Excluding Impact of Financing Premiums

Reflect the unrealized gain or unrealized loss reported for the derivative adjusted to exclude the impact from discounted ~~future-settled~~ financing premiums. For example, if the valuation increase/valuation

decrease reported in Column 17 includes “losses” to recognize the net present value of the financing ~~cost~~ premiums owed by the reporting entity, those future “losses” shall be removed from the unrealized valuation increase/decrease reflected in this column.

SCHEDULE DB – PART A – SECTION 2

Column 29 – Fair Value of Derivative, Excluding Impact of Financing Premiums

Reflect the fair value of the derivative adjusted to exclude the impact of discounted ~~future~~ settled financing premiums. For example, if the fair value of the derivative reported in Column 16 has been reduced due to expected cash outflows representing the reporting entity’s future payment of financing premiums, the consideration of those future premium cash outflows shall be removed from the reported fair value of the derivative captured in this column.

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SCHEDULE DB – PART B – SECTION 1

Column 28 – Fair Value of Derivative, Excluding Impact of Financing Premiums

Reflect the fair value of the derivative adjusted to exclude the impact of discounted ~~future~~ settled financing premiums. For example, if the fair value of the derivative reported in Column 16 has been reduced due to expected cash outflows representing the reporting entity’s future payment of financing premiums, the consideration of those future premium cash outflows shall be removed from the reported fair value of the derivative captured in this column.

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SCHEDULE DB – PART B – SECTION 2

Column 24 – Fair Value of Derivative, Excluding Impact of Financing Premiums

Reflect the fair value of the derivative adjusted to exclude the impact of discounted ~~future~~ settled financing premiums. For example, if the fair value of the derivative reported in column 16 has been reduced due to expected cash outflows representing the reporting entity’s future payment of financing premiums, the consideration of those future premium cash outflows shall be removed from the reported fair value of the derivative captured in this column.

(At acquisition, a derivative may be reported with a net zero fair value in column 16 as the value of the derivative and the net present value of ~~future~~-financing premiums owed from the acquisition of the derivative may offset. The fair value reported in column 30 shall reflect the fair value of the derivative without an offset for the ~~future~~-financing premiums.)

Column 25 – Unrealized Valuation Increase/(Decrease), Excluding Impact of Financing Premiums

Reflect the unrealized gain or unrealized loss reported for the derivative adjusted to exclude the impact from discounted ~~future settled~~-financing premiums. For example, if the valuation increase/valuation decrease reported in column 17 includes “losses” to recognize the net present value of the financing ~~cost~~ premium owed by the reporting entity, those future “losses” shall be removed from the unrealized valuation increase/decrease reflected in this column.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/02-25-25/Adoptions/24-23 - Derivative Premium Clarification.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/02-25-25/Adoptions/24-23-DerivativePremiumClarification.docx)