

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

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

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SSAP No. 56	SSAP No. 56—Separate Accounts Delete Disclosure 32.d. The disclosure is no longer applicable with previously adopted revisions.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

Staff Recommendation:

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

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

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

40. The financial statements shall include the following disclosures:
- f. For the most recent balance sheet, the book/adjusted carrying values and the fair values of bonds and assets in scope of this statement, reported in statutory annual statement Schedule D, Part 1A, due:
 - i. In one year or less (including items without a maturity date which are payable on demand and in good standing);
 - ii. After one year through five years;
 - iii. After five years through ten years;

iv. After ten years through twenty years.

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

2. SSAP No. 41—Surplus Notes – Delete remaining reference to “CRP designations”

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

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

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

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

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

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

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

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

These paragraphs have been deleted/revised:

Separate Account AVR and IMR Reporting

~~18.23. An AVR is generally required for separate accounts when the insurer reporting entity, rather than the policyholder/contractholder, suffers the loss in the event of asset default or fair value loss. An AVR is required unless:~~

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

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

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

Separate Account AVR and IMR Reporting

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

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

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

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

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

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

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

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

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

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

INT 22-01 Discussion

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

- a. The WI Program is fully guaranteed by Freddie Mac and ensures that the investor will receive pass-through certificates, backed by mortgage loans held in trust, that reflect the terms of the investment set at original acquisition. In the event that the K-Deal certificates cannot be acquired, Freddie Mac is guaranteed to provide payment to the investor that reflects the full principal and interest per the original terms of the agreement, which reflects the payments that would have been received overtime if K-Deal certificates had been acquired.
- b. The definition of a forward contract in *SSAP No. 86* reflects an agreement between two parties that commit one party to purchase and another party to sell the instrument underlying the contract at a specified future date. With the WI Trust Program, the investor does not have a future commitment to acquire securities, as the investor acquires the WI Trust certificate on day one of the transaction and the investor is not required to convert the WI Trust certificates at any time. This WI Trust certificate is not a derivative instrument, as at the time of acquisition, the certificate reflects a tradeable investment in a trust structure backed by cash and a Freddie Mac guarantee of cash flows in accordance

with terms established at original acquisition. In addition to having no variation to the investor as a result of an underlying interest, there is no requirement on the investor to take delivery of a different investment. The ability to convert the WI Trust certificate to a K-Deal certificate is strictly an election to the investor and is not a requirement to receive the pass-through cash flows per the terms of the initial investment.

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

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

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

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

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

Status:

On May 22, 2025, the Statutory Accounting Principles (E) Working Group exposed the editorial revisions detailed in this agenda item.

On August 11, 2025, the Statutory Accounting Principles (E) Working Group adopted the revisions as exposed.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/08-11-25 Summer National Meeting/Adoptions/25-17EP May 2025.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2025/08-11-25%20Summer%20National%20Meeting/Adoptions/25-17EP%20May%202025.docx)