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	☐	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

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:

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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.

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Existing Authoritative Literature:

Life, Accident & Health/Fraternal Annual Statement Instructions:

Liabilities

L**ine 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)

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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.

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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**

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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 presentation[1] of the value[2] 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**

[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.).

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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.

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

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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:**

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~~Total amount from~~ Report the total book adjusted carrying value of the funds withheld assets for unauthorized and certified reinsurers. T~~t~~his 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

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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.

On May 18, 2026, the Statutory Accounting Principles (E) Working Group exposed additional revisions *to SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*, as illustrated below, to clarify the reporting of funds withheld under reinsurance contracts. With exposure, the Working Group also directed NAIC staff to work with industry to refine the exposed language and directed NAIC staff to coordinate on updating the currently exposed blanks proposal 2026-10BWG to change the 2026 effective date and to incorporate additional revisions to the annual statement instructions.

1. Exposed revisions to SSAP No. 61, additional revisions from the prior exposure shown as shaded text.

   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.

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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.

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

c. 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 (using applicable statutory accounting principles) of the funds withheld assets for unauthorized and certified reinsurers. T~~t~~his 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.

d. **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 value (using applicable statutory accounting principles) 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 (using applicable statutory accounting principles) of the amount of funds withheld on coinsurance contracts.

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

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Report the book adjusted carrying value (using applicable statutory accounting principles) 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 (using applicable statutory accounting principles) 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 (using applicable statutory accounting principles) 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.

On August 12, 2026, the Statutory Accounting Principles (E) Working Group exposed modified guidance for SSAP No. 61, as illustrated below. The prior exposure had proposed revisions to SSAP No. 61, paragraph 40 on coinsurance with funds withheld and paragraph 53 on unauthorized and certified reinsurers, however the modified exposed guidance recommends moving the new proposed guidance to SSAP No. 61, paragraph 22, which is a paragraph focusing on accounting and reporting. (The proposed revisions to paragraphs 40 and 53 have been modified from the prior exposure.) The Working Group directed that the Reinsurance Task Force be notified of the exposure. The effective date for the prior blanks proposal was changed to year-end 2027 and was deferred on May 28. Additional modifications to the blanks proposal will be developed after finalizing the SSAP No. 61 guidance.

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The August 12, 2026, exposed modifications to the current SSAP No. 61 guidance are illustrated below: (These revisions do not show changes from the prior exposure. Only the new proposed guidance is shown.)

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.

i. The ceding entity shall establish a funds withheld liability for funds deposited by or withheld from reinsurers pursuant to the reinsurance agreement. For agreements for which withheld collateral is segregated and investment risk ceded, the funded portion of the funds withheld liability shall be valued in accordance with the appropriate statement(s) of statutory accounting principles. Any unfunded portion of the funds withheld liability shall be reported at an amount equal and offsetting to the receivable described in paragraph 22.e.ii. For agreements that do not cede investment risk and segregate assets, the funds withheld liability shall equal the amount determined in accordance with the contract terms.

ii. The ceding entity shall also establish a reinsurance receivable for the unfunded amount of collateral owed by the reinsurer as of the reporting date in accordance with the contract terms.

iii. The funds withheld assets held on the ceding entity's investment schedules shall be accounted under the appropriate statement(s) of statutory accounting principles for the specific asset(s).

f. Collateral deficiency liability

i. Reinsurance with unauthorized and certified reinsurers require collateral to support credit for reinsurance under Appendix A-785. A liability shall be established for any deficiency of required collateral as described in paragraphs 47-51.

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ii. For purposes of determining a collateral deficiency of assets withheld on the ceding entity's balance sheet shall be valued in accordance with the appropriate statement(s) of statutory accounting principles for the assets held. Collateral assets not held on the balance sheet, such as in a qualifying trust under Appendix A-785, shall be valued at fair value.

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 which shall mirror what is recorded by the cedant pursuant to paragraph 22.e.

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 deposited by the reinsurer which are held on the ceding entity's balance sheet or amounts contractually withheld by the ceding entity shall be recorded as a separate liability. (See funds withheld accounting guidance in paragraph 22.) 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.

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. (See funds withheld accounting guidance in paragraph 22.)

On November 15, 2026, the Statutory Accounting Principles (E) Working Group adopted, as final, exposed revisions to *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* as illustrated below, with minor revisions suggested by interested parties. Adopted revisions clarify the reporting and accounting of funds withheld liabilities under reinsurance contracts with a Dec. 31, 2027, effective date. NAIC staff was also directed to draft an Blanks (E) Working Group proposal.

The following revisions to SSAP No. 61 were adopted. The additional minor revisions suggested by interested parties to paragraphs 22.e. and 22.f. are shown as gray shaded text below:

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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.

i. The ceding entity shall establish a funds withheld liability for funds deposited by or withheld from reinsurers pursuant to the reinsurance agreement. For agreements for which withheld collateral is segregated and investment risk ceded, the funded portion of the funds withheld liability shall be valued in accordance with the appropriate statement(s) of statutory accounting principles. Any unfunded portion of the funds withheld liability shall be reported at an amount equal and offsetting to the receivable described in paragraph 22.e.ii. For agreements that do not cede investment risk and segregate assets, the funds withheld liability shall equal the amount determined in accordance with the contract terms.

ii. The ceding entity shall also establish a reinsurance receivable for the unfunded amount of collateral, or a reinsurance payable for the overfunded amount of collateral, contractually owed by/to the reinsurer as of the reporting date in accordance with the contract terms.

iii. The funds withheld assets held on the ceding entity's investment schedules shall be accounted under the appropriate statement(s) of statutory accounting principles for the specific asset(s).

f. Collateral deficiency liability

i. Reinsurance with unauthorized and certified reinsurers require collateral to support credit for reinsurance under Appendix A-785. A liability shall be established for any deficiency of required collateral as described in paragraphs 47-51.

ii. For purposes of determining ~~a~~the collateral deficiency liability if applicable, the ~~of~~ assets withheld on the ceding entity's balance sheet shall be valued in accordance with the appropriate statement(s) of statutory accounting principles

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for the assets held. Collateral assets not held on the balance sheet, such as in a qualifying trust under Appendix A-785, shall be valued at fair value.

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 which shall mirror what is recorded by the cedant pursuant to paragraph 22.e.

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 deposited by the reinsurer which are held on the ceding entity's balance sheet or amounts contractually withheld by the ceding entity shall be recorded as a separate liability. (See funds withheld accounting guidance in paragraph 22.) 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.

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. (See funds withheld accounting guidance in paragraph 22.)

Effective Date and Transition

95. Clarifications of existing guidance adopted in November 2026 regarding valuation of funds withheld in paragraphs 22.e., 22. f., 23.d., 40.a. and 53 are effective December 31, 2027, the clarification shall be accounted for as a change in accounting principles in accordance with SSAP No. 3.

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