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

Issue: Referral on AVR affiliated common stock

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☐	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

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

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

Maximum Reserve Factor	2025 AVR Schedule Line Number and Name
.1580	15 - Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries (See SVO Purposes & Procedures Manual)
	68 - Investments with the Underlying Characteristics of Common Stock – Affiliated Certain Other (See SVO Purposes & Procedures Manual)
.1945	16 - Subsidiary, Controlled or Affiliated Common Stocks – Other.
	69 - Investments with the Underlying Characteristics of Common Stock – Affiliated Other – All Other7

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

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

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

1. U.S. insurance companies using the methodology detailed in SSAP No. 97, paragraph 8.b.i. This is an equity method using audited statutory accounting principles valuation. The historical wording referenced in the in the SVO P&P Manual for this line was book equity of common stock issued by a U.S. insurer.

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

Key Points in Historical Research

1. **1992 - the AVR schedule begins and the equity section has 3 key SCA common stock lines:**
   - **Line 3 - Subsidiary, Controlled or Affiliated Common Stock – Life Insurer with an AVR**
     - Affiliated life with AVR maximum reserve factor of 0.00
     - <u>This line is relevant as it scopes out life insurance SCAs out of other SCA common stock lines. In 2025, line 4 has the same name and the scope of this line is unchanged.</u>
   - **Line 4 - Subsidiary, Controlled or Affiliated Common Stock – Certain Non-Life or Investment Subsidiaries** Part of this line was later scoped out Investment SCAs and the remainder became line 15 SCA Common Stock- Certain Other (lower factor of .20) P&P Manual references were to (see excerpt in authoritative literature):
     - Section 4 (B) (a)(i) (value of assets if held directly by the insurer) is akin to current day SSAP No. 97, 8.b.ii. and
     - Section 4(B) (a) (iii) is book equity value that cannot be applied to non-insurers and is akin to present day SSAP No. 97 8.b.i. It applies to non AVR holding insurers as SCA Life insurers with AVR are on line 3.
   - **Line 5 - Subsidiary, Controlled or Affiliated Common Stock –Other** (higher factor of .25) became line 16 with the same name and the scope which represents common stock in SCAs that are not in other lines. This line has been maintained through 2025.

2. **1994 - Investment subsidiaries are divided out of line 4 into separate lines 4-14 (AVR look-through charges by asset category) and other line numbers shift down.**
   - The remaining part of line 4 becomes **Line 15 Affiliated - Other Section 5(B) (a)(i) or (iii)**. With the move in the P&P Manual from Part Four to Part Five, the SVO P&P Manual reference was updated from Section 4 to 5 but there were no SVO valuation changes.
     - Section 5 (B) (a)(i) (value of assets if held directly by the insurer) is akin to current day SSAP No. 97, 8.b.ii. and
     - Section 5(B) (a) (iii) is book equity value that cannot be applied to non-insurers is akin to present day SSAP No. 97 8.b.i. Therefore it applies to non AVR holding insurers.
   - Prior AVR line 5 is now **Line 16 - Affiliated –Other (c)** AVR schedule footnote (c) Represents “Affiliated Common Stock-Other” Investments not allocated to another line within this section. This footnote was moved to the instructions in 1995.
3. **1996 - AVR schedule line names change – SVO Manual references are generic.**

- Line 15 -AVR Schedule name changed to "**Affiliate - Certain Other (See SVO Purposes & Procedures Manual)" <u>This is when the specific reference to the SVO section was removed from the line name.</u>**
- Line 15 - **ASI only include a generic reference to SVO P&P Manual.**
- Line 16 - AVR Schedule name changed to **" Affiliated – All Other"**

4. **1997 - AVR schedule contribution changes and SVO Manual moves guidance to Part Eight**
   - AVR schedule updates to add columns for the "Basic Contribution and Reserve Objective," but the Factor for line 15 remains 0.2 for Affiliate - Certain Other
   - SVO moves the guidance from Part Five to Part Eight.
     - Section 3 (a) – admitted asset equivalent for non-insurers (like SSAP No. 97, 8.b.ii.)
     - Section 3 (c)- Book value of Insurer's Common Stock (like SSAP No. 97 8.b.i.)

5. **1998 - Line 15 ASI updated to include specific SVO references again**
   - The ASI for line 15 referenced specific parts of the SVO P&P Manual, Part Eight, section 3 (a) (Admitted asset equivalent) [for non-insurers] and 3 (c) (Book Value of Insurer's Common Stock). (See authoritative literature section).

6. **1999 -** SVO P&P Manual no longer requires insurer book values in Part Eight, Section 3 (c) to be filed with the SVO beginning Jan. 1, 1999.

7. **2001 - SAP codification- SVO P&P Manual adds reference to *SSAP No. 46*—*Investments in Subsidiary, Controlled, and Affiliated Entities*, and ASI have a generic SVO ref.**
   - The 2001 ASI line 15 instructions replaces the specific reference to sections of the SVO P&P Manual and adds a generic reference. **<u>This is when the specific reference to the P&P Manual section was removed from the ASI and replaced with a generic P&P Manual reference.</u>** This generic reference to the P&P Manual continues through 2024.
   - SVO P&P Manual Part Eight was updated to reflect codification and begins referencing SSAP No. 46
   - The special insert (See p.45) to the 2000 publication includes tracked changes for the Jan. 1, 2001, for codification and the fling instructions begins referencing SSAP No. 46. Other sections of Part Eight, Section 3 note updates to the prior line fifteen references
     - Moved Part Eight, Section 3 (c) to Part Eight, Section 3 (b) (ii) A (This is a domestic insurer).
     - Information that matches the SSAP No. 46 valuation methods was added.
       - Part Eight Section 3(b)(i) Market with a discount rate, which is similar to current SSAP No. 97, paragraph 8.a.
       - Part Eight Section 3(b)(ii) equity Methods **<u>(A) and (B) are what was previously referenced for line 15</u>**
         - (A) investment in U.S. insurance SCA entities using SAP equity adjusted for goodwill - similar to SSAP No. 97 paragraph 8.b.i
         - (B) Investments in noninsurance SCA entities – no significant ongoing operations use an adjusted SAP basis that is an early version of what became SSAP No. 97 paragraph 8.b.ii.
         - (C) Investments in noninsurance SCA entities with significant ongoing operations – Use audited GAAP statements this is similar to SSAP No. 97 paragraph 8.b.iii.

8. **2003 - Changes for Line numbers and AVR Factors**
   - New row line 3 for FHLB was added to AVR common stock table, <u>so the key lines are now 16 and 17.</u>

- Instructions are unchanged except for the line numbers.
  AVR factors changes to .13 line 16/ line 59 Affiliated Certain Other and .16 for line 17 / line 60 Affiliated-Other this is due to implementation of Tax Effect Calculation page in RBC (one year delay in AVR changes, the RBC changes were effective 2002).

9. **2005 – SVO P&P Manual Updated to conform with SSAP No. 88**
   - SVO Purposes and Procedures Manual Part Eight was amended to bring it into conformity with new *SSAP No. 88—Subsidiary, Controlled and Affiliated Investments* (effective 2005). This added more sections to be consistent with SSAP No. 88.
     - Market value is essentially the same as current SSAP No. 97, paragraph 8a.
     - (A) US Insurance SCA is essentially the same as current SSAP No. 97, paragraph 8bi
     - (B) Investments in NON insurance SCAs includes the activity and revenue test like current SSAP No. 97, paragraph 8.b.ii.
     - (C) Investments in non-insurance SCA like current SSAP No. 97, paragraph 8.b.iii
     - (D) Investments in Foreign Insurance SCA use audited US GAAP with SAP adjustments for US business like current SSAP No. 97, paragraph 8.b.iv.
     - (E) investments in Foreign Non insurance SCA are allowed to used market, or activity or revenue test
   - No blanks or instruction changes for line 16 and 17

10. **2006 – Additional clarifications to SVP P&P Manual to match SSAP No. 88 better**.
    - 2006 SVO P&P Manual Part Eight guidance added more paragraphs references from SSAP No. 88 about holding companies and elements of the equity method like pick up and not double counting preferred stock etc.

11. **2008 - SVO P&P Manual added references to SSAP No. 97, which replaced SSAP No. 88 and added Tokyo Stock Exchange**
    - SVO P&P Manual Part Eight references updated from SSAP No. 88 to *SSAP No. 97—Investments in Subsidiary Controlled and Affiliated Entities* explicitly reference the activity test in SSAP No. 97, paragraph 8.b.ii.
    - Added Tokyo Stock exchange for the market method (SSAP No. 97, paragraph 8.a.)
    - No blanks changes for lines 16 and 17
    - No instruction changes for lines 16 and 17

12. **2014 – AVR Blank removed line 14 mortgages in the affiliated investment subsidiary section and the key lines are back to lines 15 - Affiliated Certain Other and 16 - Affiliated Othe**r. No other changes to the instructions or reporting line instructions.

13. **2017 – SCA valuation moved from SVO P&P Manual to SSAP No. 97 and FRS**
    - The instructions for valuation of SCA investments were deleted from SVO P&P Manual. The deletion of the valuation instructions for SCA investments was accompanied by a decision of the Valuation of Securities (E) Task Force to transfer oversight of this activity to the Statutory Accounting Principles (E) Working Group and the Financial Regulatory Services Division.
    - **<u>The AVR instructions were not updated because of this transfer of valuation function.</u>** The AVR Instruction and Blanks continue to reference the SVO P&P Manual
    - SSAP No. 97 had an Exhibit A – SCA Reporting Process added for the filing instructions.

14. 2019 – AVR factors updated for tax changes

- AVR Factors refreshed to reflect Tax Changes (TCJA) (one year delay in AVR changes, RBC changes in 2018) AVR Equity line 15/line 68 (.1580) & line 16/ line 69 (.1945)
- Instructions for lines 15 still reference SVO no changes to lines 15 and 16 instructions

15. 2025 – Current Status

- Blank is the same still has SVO reference for line 15 Affiliated -Certain Other (See SVO Purposes and Procedures Manual)
- AVR Factors for SCA related lines (AVR Equity line 15 / line 68 (.1580) and for line 16/ line 69 (.1945) remain the same as 2019's
- The prior year (2024) instructions reference the SVO P&P Manual for line 15 has been updated to reference SSAP No. 97, this must have been an editorial change as it is not tracked.
- The prior year (2024) instructions reference to SVO P&P Manual for line 68 has been updated to reference SSAP No. 48, this must have been an editorial change as it is not tracked.

Existing Authoritative Literature:

1. The NAIC library website contains historical publications.
   - Life, Accident and Health/ Fraternal Annual Statement Instructions
   - Life, Accident and Health/ Fraternal Blanks
   - SVO P&P Manual

2. 2025 AVR line names and Life, Accident & Health/ Fraternal Annual Statement instructions (ASI) Lines 15 and 68 include generic references to SSAP No. 97:

AVR Equity Line	Instructions (Excerpt and emphasis added)
Line 4 – Subsidiary, Controlled or Affiliated Common Stocks – Life Insurer with an AVR	Report the book/adjusted carrying value of all common stocks owned in a controlled or affiliated company, or a subsidiary that is a life or fraternal insurance company that holds an AVR, in Columns 1 and 4. **These companies are required to carry their own asset valuation reserve or an equivalent, and therefore the common stocks are not required to be included in the asset valuation reserve of an affiliated company.**
Line 15 - Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries	Report the book/adjusted carrying value of all subsidiary, controlled or affiliated company common stocks owned that have been valued **according to the SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities** in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.
Line 16 - Subsidiary, Controlled or Affiliated Common Stocks – Other	Report that portion of the book/adjusted carrying value of all common stocks of all subsidiary, controlled or affiliated companies, **that have not been included on Lines 4 through 15,** in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively

Line 68 – Investments with the Underlying Characteristics of Common Stock – Affiliated Certain Other (See SVO Purposes & Procedures Manual)	…Line 68 should show all Schedule BA assets owned where the characteristics of the underlying investments are similar to subsidiary, controlled or affiliated company common stocks owned and these assets should be valued according to the **SSAP No. 48—Joint Ventures, Partnerships or Limited Liability Companies**. Categorize these assets consistent with the directions for Pages 32 and 33, Lines 1 through 4, 15 and 16…
Line 69 - Investments with the Underlying Characteristics of Common Stock – Affiliated Other – All Other	…. Categorize these assets consistent with the directions for Pages 32 and 33, Lines 1 through 4, 15 and 16…

3. Excerpt from 1992 SVO P&P Manual referenced on valuations of SCA common stock is below, the full 1992 Manual is at this link: 1992 SVO

SVO P&P Manual Part 4(B)(a)(i)	SVO P&P Manual Part 4(B)(a)(iii)
*…**the value of only such of the assets** of such company as would constitute lawful investments for the insurer if acquired or held directly by the insurer.*	***book value**, defined as in Section 4 (A)(c)*, provided, however, that the common stock of a non-insurance company may not be valued on the basis of this subsection (iii);* ** 4(A)(c) states: Association Values for common stocks which are not publicly traded which are <u>issued by insurance companies</u> will be equal to book value, which shall be calculated as follows: by dividing the amount of its capital and surplus as shown in its last annual statement or subsequent report of examination (excluding from surplus, reserves required by statute and any portion of surplus properly allocable to policyholders, rather than stockholders) less the value (par or redemption value, whichever is the greater) of all of its preferred stock, if any, outstanding, by the number of shares of its common stock issued and outstanding.*

4. 1998 SVO Manual move guidance to Part Eight SVO instructions (bolding added)

Section 3. Valuation Methods In fulfilling the requirements of Sections 1 and 2 above, insurance companies may use any of the following valuation methods:

(a) **Admitted Asset Equivalent** Pursuant to this method, which may only be used for non-insurance SCA companies, the value of the common stock is limited to the value of those assets of the SCA company that would constitute lawful investments for the insurance company, if acquired or held directly by the insurance company. **This is the sole valuation method that permits submission and use of an unaudited financial statement.**

(c) **Book Value of Insurer's Common Stock** Pursuant to this method, the value of the **common stock of an insurance company** is derived by reference to the insurance company's book value, calculated by dividing the company's NAIC Financial Statement Blank capital and surplus less the value of its preferred stock and surplus notes, by the number of shares of its issued and outstanding common stock. The insurance company is required to submit the NAIC Financial Statement Blank to the SVO. A noninsurance company may not use this valuation method.

5. 2001- Life Fraternal Annual Statement instructions for AVR equity line 15 – has a generic SVO reference.

Line 15 – Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries Report the book/adjusted carrying value of all subsidiary, controlled or affiliated company common stocks owned that have been valued according to the **Purposes and Procedures Manual of the Securities Valuation Office of the NAIC** in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10 respectively.

6. SVO P&P Manual Instructions 2008 Part Eight, Section 3 Valuation methods
Note (a) (i) describes the market valuation methods and is omitted. Underline was in the P&P Manual.

(ii) Equity Methods If a SCA investment does not meet the requirements for the market valuation approach in Section 3 (a) (i) of this Part, or if the requirements are met, but a reporting entity elects not to use the market valuation approach, the reporting entity's proportionate share of its investments in SCAs shall be recorded as follows:

(A) Investments in U.S. Insurance SCA Entities
Investments in U.S. insurance SCA entities shall be recorded based on the underlying audited statutory equity (where equity is defined as net of preferred stock and surplus notes of the investee) of the respective entity's financial statements, adjusted for any unamortized goodwill as provided for in SSAP No. 68.

(B) Investments in Non-Insurance SCA Entities Statutory Basis
Investments in non-insurance SCA entities engaged in the activities described in SSAP No. 97, paragraph 8b.ii. shall be adjusted to an audited statutory basis of accounting, if 20% or more of the SCA's revenue is generated from the reporting entities and its affiliates. For purposes of this section, revenue means GAAP revenue reported in the audited GAAP financial statements, excluding realized and unrealized capital gains and losses. Statutory basis of accounting shall be based on the underlying audited U.S. GAAP equity of the respective entity with the adjustments required by paragraph 9 of SSAP No. 97. If the reporting entity also holds an investment in preferred stock and or surplus notes refer to paragraphs 23 through 27 of SSAP No. 97. For guidance on investments in downstream holding companies refer to paragraphs 17-19 of SSAP No. 97.

(C) Investments in Non-Insurance SCA Entities GAAP Basis
Investments in non-insurance SCA entities that do not qualify under the preceding subparagraph (B) shall be recorded based on the audited GAAP equity of the investee.

(D) Investments in Foreign Insurance SCA Entities
Investments in foreign insurance SCA entities shall be recorded based on the underlying audited U.S. GAAP equity of the respective entity adjusted to a statutory basis of accounting, for reserves of the foreign insurance SCA with respect to the business it assumes directly and indirectly from an US insurer using the statutory accounting principles promulgated in the NAIC Accounting Practices and Procedures Manual and for any audit adjustments resulting from the annual GAAP

audit. Statutory basis of accounting shall be based on the underlying U.S. GAAP equity of the respective entity with the adjustments required by paragraph 9 of SSAP No. 97. GAAP is defined as those pronouncements included in the United States GAAP Hierarchy as described in *AICPA Statement of Auditing Standard No. 69*, The Meaning of Present Fairly in Conformity With GAAP. Foreign SCA entities are defined as those entities incorporated or otherwise legally formed under the laws of a foreign country. Foreign insurance SCA entities are defined as alien insurers formed according to the legal requirements of a foreign country.

(E) Investments in Foreign Non-Insurance SCA Entities
Investments in foreign non-insurance SCA entities shall follow the guidance in this Part Eight, Section 3(a)(ii)(B) or (C) based on the revenue and activity criteria noted above, which requires that accounting be based on the underlying adjusted audited U.S. GAAP equity of the respective entity. Statutory basis of accounting shall be based on the underlying audited U.S. GAAP equity of the respective entity with the adjustments required by paragraph 9 of SSAP No. 97.

(F) Investments in the Preferred Stock of an SCA
Investments in the preferred stock of an SCA shall be accounted for in accordance with the provisions of SSAP No. 32. If in addition to preferred stock the reporting entity also holds an investment in common stock and/or surplus notes refer to paragraphs 23 through 27 of SSAP No. 97 and paragraph 10 of SSAP No. 41.

7. *SSAP No. 48—Joint Ventures, Partnerships or Limited Liability Companies* (Bolding added):

7. Investments in these ventures, except for joint ventures, partnerships and limited liability companies with a minor ownership interest[1], shall be reported using an equity method as defined in *SSAP* ***No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*****, paragraphs 8.b.i. through 8.b.iv.** (The equity method calculation may result with a negative valuation of the investment; therefore, the SSAP No. 97 equity method calculation shall occur regardless of whether the investment is supported by an audit and the reporting entity will nonadmit the investment.) A reporting entity whose shares of losses in a SSAP No. 48 entity exceeds its investment in the SSAP No. 48 entity shall disclose the information required by SSAP No. 97, paragraph 35.a.

Footnote[1] With the identification of whether the reporting entity has a minor ownership interest, reporting entities must also identify whether the investment is a related-party transaction. Pursuant to the concepts reflected in *SSAP No. 25—Affiliates and Other Related Parties*, consideration shall be given to the substance of the transaction and the parties whose action or performance materially impacts the insurance reporting entity holding the security. For example, if the underlying assets within a SSAP No. 48 entity represent assets issued by an affiliate, then the SSAP No. 48 entity shall be considered a related party (affiliate) investment, with the transaction subject to the accounting and reporting provisions of SSAP No. 25. As identified in SSAP No. 25, it is erroneous to conclude that the inclusion of a non-related intermediary, or the presence of non-related assets in a structure predominantly comprised of related party investments, eliminates the requirement to identify and assess the investment transaction as a related party arrangement.

8. SSAP No. 97

Applying the Market Valuation, Audited Statutory Equity and Audited GAAP Equity Methods

8. The admitted investments in SCA entities shall be valued using either the market valuation approach (as described in paragraph 8.a.), or one of the equity methods (as described in paragraph 8.b.) adjusted as appropriate in accordance with the guidance in *SSAP No. 25—Affiliates and Other Related Parties*, paragraph 18.d.

a. **Market valuation (Omitted for brevity)**

b. If a SCA investment does not meet the requirements for the market valuation approach in paragraph 8.a. or, if the requirements are met but a reporting entity elects not to use that approach, the reporting entity's proportionate share of its investments in SCAs shall be recorded as follows:

i. Investments in U.S. insurance SCA entities shall be recorded based on either 1) the underlying audited statutory equity of the respective entity's financial statements, adjusted for any unamortized goodwill as provided for in *SSAP No. 68—Business Combinations and Goodwill*[2] or 2) the underlying audited statutory equity of the respective entity's financial statements, adjusted for any unamortized goodwill, modified to remove the impact of any permitted or prescribed accounting practices that depart from the NAIC *Accounting Practices and Procedures Manual*. Reporting entities shall record investments in U.S. insurance SCA entities on at least a quarterly basis, and shall base the investment value on the most recent quarterly information available from the SCA. Entities may recognize their investment in U.S. insurance SCA entities based on the unaudited statutory equity in the SCAs year-end annual statement if the annual SCA audited financial statements are not complete as of the filing deadline. The recorded statutory equity shall be adjusted for audit adjustments, if any, as soon as the annual audited financial statements have been completed. Annual consolidated or combined audits are allowed if completed in accordance with the Model Regulation Requiring Annual Audited Financial Reports as adopted by the SCA's domiciliary state;

ii. Investments in both U.S. and foreign noninsurance SCA entities that are engaged in the following transactions or activities:

(a) Collection of balances as described in *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers*

(b) Sale/lease or rental of EDP Equipment and Software as described in *SSAP No. 16—Electronic Data Processing Equipment and Software*

(c) Sale/lease or rental of furniture, fixtures, equipment or leasehold improvements as described in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*

(d) Loans to employees, agents, brokers, representatives of the reporting entity or SCA as described in *SSAP No. 20—Nonadmitted Assets*

[2] If the insurance SCA employs accounting practices that depart from the NAIC accounting practices and procedures, and the reporting insurance entity has not adjusted the valuation of the insurance SCA to be consistent with the NAIC accounting practices and procedures, (i.e., retains the effect of the permitted or prescribed practice in its valuation), disclosure about those accounting practices that affect the insurance SCA's net income and surplus shall be made pursuant to paragraph 37. If the reporting entity has adjusted the investment in the insurance SCA with the resulting valuation being consistent with the accounting principles of the AP&P Manual, the disclosures in paragraph 37 are not required.

(e) Sale/lease or rental of automobiles, airplanes and other vehicles as described in *SSAP No. 20—Nonadmitted Assets*

(f) Providing insurance services on behalf of the reporting entity including but not limited to accounting, actuarial, auditing, data processing, underwriting, collection of premiums, payment of claims and benefits, policyowner services

(g) Acting as an insurance or administrative agent or an agent for a government instrumentality performing an insurance function (e.g. processing of state workers compensations plans, managing assigned risk plans, Medicaid processing etc.)

(h) Purchase or securitization of acquisition costs

and if 20% or more of the SCA's revenue is generated from the reporting entity and its affiliates, then the underlying equity of the respective entity's audited U.S. Generally Accepted Accounting Principles (GAAP) financial statements shall be adjusted to a limited statutory basis of accounting in accordance with paragraph 9. For purposes of this section, revenue means GAAP revenue reported in the audited U.S. GAAP financial statements excluding realized and unrealized capital gains/losses. Foreign SCA entities are defined as those entities incorporated or otherwise legally formed under the laws of a foreign country. Paragraphs 22-27 provide guidance for investments in holding companies;

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: The Working Group received this referral from the Life Risk-based Capital (E) Working Group at the 2025 Summer National Meeting.

Convergence with International Financial Reporting Standards (IFRS): None

Staff Review Completed by: Robin Marcotte – NAIC Staff

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

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

1. Line 15 - Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries be updated to include:

    a. Remove the reference to the SVO Purposes & Procedures Manual in the line name in the annual statement.

b. Add references to SSAP No. 97, paragraph 8.b.i (audited U.S. Insurers SAP equity) and paragraph 8.b.ii (audited GAAP for a non-insurance entity with limited SAP adjustments) to the instructions. This is consistent with specific historical SVO references that the line includes valuations with statutory adjustments. Note that historical information did not include foreign insurance entities.

c. Note that because of existing AVR Common Stock Line 4 - Affiliated Life insurance with AVR are excluded from line 15 and NAIC staff recommend that this be stated.

2. Line 68 - Investments with the Underlying Characteristics of Common Stock – Affiliated Certain Other (See SVO Purposes & Procedures Manual)

   a. Remove the reference to the SVO Purposes & Procedures Manual in the line name in the annual statement. Add SAP equity to line 15 name.

   b. Include in line 68 investments with more than a minor ownership interest as described in SSAP No. 48 which are valued in accordance with SSAP No. 97, paragraph 8.b.i.; or paragraph 8.b.ii. and explicitly note that this line does not include life entities with AVR which are reported in line 67.

   c. Note that the instructions for lines 65-68 are quite brief, so NAIC staff would recommend further instructions to these lines. With the sponsored blanks proposal for this item, NAIC staff will work with the Blanks team to propose clarifying edits to these lines, as well as the corresponding common stock lines.

   d. The currently exposed blanks proposal number 2025-27BWG affects the AVR schedule and instructions to add a section on collateralized loan obligations (CLO), collateralized bond obligations (CBO) and collateralized debt obligations (CDO). This will require section and line renumbering of the AVR schedule and lines. For ease of review the following is a cross reference of current line numbers and the proposed line numbers in 2025-27BWG.

Current line number	Line number in 2025-27BWG
Line 4	Section A, Line 4
Line 15	Section A, Line 15
Line 16	Section A, Line 16
Line 65	Section F, Line 1
Line 66	Section F, Line 2
Line 67	Section F, Line 3
Line 68	Section F, Line 4
Line 69	Section F, Line 5

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

Proposed revisions for exposure consideration
The line numbers that will match the line numbers if proposal 2025-27BWG is adopted are shown in item 2 d above for ease of review to allow for coordination with other ongoing projects.

Life, Accident & Health/ Fraternal Annual Statement

Asset Valuation Reserve Equity And Other Invested Asset Component – Basic Contribution, Reserve Objective And Maximum Reserve Calculations

Current line #	Current line name
Line 15	Affiliated certain other SAP equity ~~(See SVO Purposes & Procedures Manual)~~
Line 68	Affiliated certain other ~~(See SVO Purposes & Procedures Manual)~~

Life, Accident & Health/ Fraternal Annual Statement Instructions
Asset Valuation Reserve Equity And Other Invested Asset Component – Basic Contribution, Reserve Objective And Maximum Reserve Calculations

Line 15 – Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries

Report the book/adjusted carrying value of all subsidiary, controlled or affiliated company common stocks owned that have been valued according to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities in paragraph 8.b.i and paragraph 8.b.ii in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively. This line does not include common stock of subsidiary, controlled, or affiliated entities holding an AVR. Such entities are disclosed in line 4 - Subsidiary, Controlled or Affiliated Common Stocks – Life Insurer with an AVR.

Line 16 – Subsidiary, Controlled or Affiliated Common Stocks – Other

Report that portion of the book/adjusted carrying value of all common stocks of all subsidiary, controlled or affiliated companies, that have not been included on Lines 4 through 15, in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

Lines 65 through 69 – Other Invested Assets with Underlying Characteristics of Common Stocks Report the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investments are similar to common stock (Lines 1999999 and 2099999) in Columns 1 and 4. Categorize these assets consistent with the directions for Pages 32 and 33, the corresponding the common stock line have the underlying characteristics of Lines 1 through 4, 15 and 16.

Line 1- Unaffiliated public corresponds to line 65
Line 2 - Unaffiliated private corresponds to line 66
Line 4 – Affiliated Life with AVR corresponds to line 67
Line 15 Affiliated-certain other SAP Equity corresponds to line 68
Line 16 Affiliated all other corresponds to line 69

For Line 65, the reserve factor must be calculated on an individual company basis. It is equal to 15.8% times the beta factor as discussed in the Pages 32 and 33, Line 1 instructions, and must be at least 12.15% but not more than 24.31%. Multiply the amount in Column 4 by the calculated reserve factors in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

For Lines 66 through 69, multiply the amounts in Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

Line 67 should show Schedule BA assets with the underlying characteristics of common stocks for an affiliated life insurance entity carrying AVR.

Line 68 should show all Schedule BA assets owned where the characteristics of the underlying investments are similar to subsidiary, controlled or affiliated company common stocks owned and these assets which hold more than a minor ownership interest per ~~should be valued according to the~~ *SSAP No. 48—Joint Ventures, Partnerships or Limited Liability Companies* which are valued according to the requirements in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* in paragraph 8.b.i and paragraph 8.b.ii. This line does not include assets with the underlying characteristics of common stocks of a life entity holding an AVR as such entities are disclosed in line 67.

Line 69 should show all Schedule BA assets owned where the characteristics of the underlying investments are similar to affiliated common stocks and these are the assets that are not included in lines 67 or 68.

~~Categorize these assets consistent with the directions for Pages 32 and 33, Lines 1 through 4, 15 and 16. For Line 65, the reserve factor must be calculated on an individual company basis. It is equal to 15.8% times the beta factor as discussed in the Pages 32 and 33, Line 1 instructions, and must be at least 12.15% but not more than 24.31%. Multiply the amount in Column 4 by the calculated reserve factors in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively. For Lines 66 through 69, multiply the amounts in Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.~~

Status:

On May 18, 2026, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as a SAP clarification, and exposed the above revisions to the Life, Accident & Health/Fraternal Annual Statement blank and instructions as described and illustrated above. In addition, the Life Risk-based Capital (E) Working Group will be notified of the exposure. No revisions to statements of statutory accounting principles are exposed. After exposure of this agenda item, NAIC staff recommend that the Working Group sponsor a blanks proposal to incorporate instruction changes to the noted AVR reporting lines, as well as to review other AVR reporting lines (particularly lines 65-69) to ensure the instructions are clear.

On August 12, 2026, the Statutory Accounting Principles (E) Working Group adopted, as final, the agenda item and directed NAIC staff to proceed with sponsoring a proposal to update the 2027 Life, Accident & Health/Fraternal Annual Statement blank and instructions to incorporate instruction changes to the noted AVR reporting lines, as well as to revisions to other AVR reporting lines (particularly lines 65-69) to ensure the instructions are clear. In addition, the Working Group directed that the Life Risk-Based Capital (E) Working Group should be notified of the plan to submit a blanks proposal. This agenda item does not include any SSAP revisions.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/08-12-26 Summer National Meeting/Adoptions/26-07 - AVR referral on SCA.docx