Date 10/28/2026

2026 Fall National Meeting
Dallas, TX

Statutory Accounting Principles (E) Working Group
Sunday, November 15, 2026
9:00 AM - 11:00 AM CT
Convention Center—Texas AB—Level 3

OVERVIEW AGENDA

HEARING AGENDA

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	• Ref #2026-14: Updates to INT 18-03 for OBBBA	1	3
3.	**SAPWG Hearing – Review of Comments on Exposed Items—*Kevin Clark (IA)***		
	• Ref #2023-14: AVR & IMR	3	4-6
	• Ref #2024-15: ALM Derivatives	10	7, 8
	• Ref #2026-06: Fair Value Disclosures	12	9
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	• Ref #2026-04: ASU 2025-10, Accounting for Government Grants Received by Business Entities	20	11
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OVERVIEW AGENDA

MEETING AGENDA

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5. SAPWG Meeting – Maintenance Agenda – Pending List—*Kevin Clark (IA)*		
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• Ref #2026-20: Tax Credits Project Accounting and Reporting Improvements	6	F
• Ref #2026-21: Disclosure Review	7	G
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6. SAPWG Meeting – Maintenance Agenda – Active Listing—*Kevin Clark (IA)*		
• Ref #2025-24: Commitments and Contingencies Disclosures	11	L, M
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• Invested Asset (E) Working Group Referral	13	N
• Update on SSAP No. 48 Discussions & Revisions	14	None
• Review of U.S. GAAP Exposures	14	O
• Kerper and Bowron Comments on the Unearned Premium Tests in SSAP No. 65	14	P

➢ **Comment Deadline for all other items – Friday, February 12, 2027**

Statutory Accounting Principles (E) Working Group
Hearing Agenda
November 15, 2026

ROLL CALL

Kevin Clark, Chair	Iowa	Steve Mayhew/Kristin Hynes	Michigan
Dale Bruggeman, Vice Chair	Ohio	Ned Cataldo	New Hampshire
Sheila Travis/Richard (Hamp) Russell	Alabama	Bob Kasinow	New York
Kim Hudson	California	Diana Sherman	Pennsylvania
William Arfanis/Michael Estabrook	Connecticut	Jamie Walker	Texas
Rylynn Brown	Delaware	Doug Stolte/Jennifer Blizzard	Virginia
Cindy Andersen	Illinois	Amy Malm/Levi Olson	Wisconsin
Shantell Taylor/Tom Travis	Louisiana		

NAIC Support Staff: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden

Note: This meeting will be recorded for subsequent use.

The Statutory Accounting Principles (E) Working Group met in regulator-to-regulator session on Nov. 10, 2026, pursuant to the NAIC Open Meetings Policy paragraph 6 (consultations with NAIC staff related to NAIC technical guidance of the *Accounting Practices and Procedures Manual*). No actions were taken during this meeting, as the discussions were for NAIC staff to present the technical guidance captured within the Fall National Meeting agenda.

REVIEW AND ADOPTION OF MINUTES

1. Summer National Meeting **(Attachment 1)**
2. October 7, 2026 **(Attachment 2)**

REVIEW AND ADOPTION of NON-CONTESTED POSITIONS

The Working Group may individually discuss these items, or may consider adoption in a single motion:

1. Ref #2026-14: Updates to INT 18-03 for OBBBA

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-14 (Jake)	**Updates to INT 18-03 for OBBBA**	**3 – Agenda Item**	**Comments Received**	**Att. 21 IP – 25**

Summary:
On August 12, 2026, the Working Group exposed revisions to nullify INT 18-03, effective Jan. 1, 2027, and to add language in *SSAP No. 101—Income Taxes* for Net Controlled Foreign Corporation Tested Income (NCTI). These revisions provide updates to guidance that was originally created by the Tax Cuts and Jobs

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Act (TCJA) and subsequently updated by the One Big Beautiful Bill Act (OBBBA), or for guidance from the TCJA that included an ending date for the provisions. With nullification of the INT, it will move to the Appendix H – Superseded SSAPs and Nullified Interpretations of the Accounting Practices and Procedures Manual for historical purposes. Appendix H is available on the Working Group website.

Interested Parties' Comments:
Interested parties have no comments on this item.

Recommendation:
NAIC staff recommend that the Working Group adopt this agenda item, which nullifies INT 18-03, effective Jan. 1, 2027, and adds language in SSAP No. 101 for Net Controlled Foreign Corporation Tested Income. These revisions update guidance that was originally created by the TCJA, and subsequently updated by the OBBBA, and eliminate guidance from the TCJA that have expired, or will expire in 2026.

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REVIEW of COMMENTS on EXPOSED ITEMS

The following items are open for discussion and will be considered separately.

1. Ref #2023-14: AVR & IMR
2. Ref #2024-15: ALM Derivatives
3. Ref #2026-06: Fair Value Disclosures
4. Ref #2026-02: Valuation of Funds Withheld
5. Ref #2026-04: ASU 2025-10, Accounting for Government Grants Received by Business Entities
6. Ref #2026-08: SSAP No. 21 – ICOLI
7. Ref #2026-09: SSAP No. 86 – RSATs
8. Ref #2026-10: SSAP No. 26 – Embedded ALM Risk
9. Ref #2026-11: Residential Mortgage Loan Definition
10. Ref #2026-12: Retroactive Reinsurance Exception
11. Ref #2026-13: Medicaid Updates
12. Ref #2026-15: SSAP No. 23 – Canadian Translations

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-14 (Julie)	**SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve**	**4 – SSAP No. 7 5 – Issue Paper 6 – Other SSAP Revisions**	**Comments Received**	**Att. 21 ACLI – 1**

Summary:
On August 12, 2026, the Working Group exposed revised IMR documents, reflecting the revisions proposed by NAIC staff, with an updated January 1, 2028, effective date. Revisions were not incorporated to revise the admittance limit, as the Working Group concluded that the 10% admittance cap, pursuant to the provisions in INT 23-01, would remain for 2026 and 2027. Subsequently, the Working Group may consider increasing the admittance limit after verification of compliance with established guardrails for the application and recognition of IMR.

Exposed revised IMR documents included a summary of revisions, a revised S*SAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*, a corresponding issue paper, proposed revisions to other SSAPs, and reporting revisions.

ACLI Comments:
The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on SAPWG Ref #2023-14 – Interest Maintenance Reserve (IMR) from the Statutory Accounting Principles (E) Working Group (Working Group), which re-exposes the comprehensive revisions to SSAP No. 7, the related Issue Paper, revisions to other SSAPs, and proposed annual statement reporting changes. ACLI appreciates the continued constructive engagement among the Working Group, NAIC staff, regulators, and industry throughout the development of the long-term IMR framework.

ACLI supports the continued effort to establish durable guidance that appropriately distinguishes non-economic interest-rate-related gains and losses from credit-related and liquidity-driven losses. We also

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appreciate that many revisions in the current exposures reflect industry feedback and improve alignment among SSAP No. 7, the Issue Paper, other affected SSAPs, and the Annual Statement Instructions.

Our comments below focus on the technical, operational, and reporting provisions in the current re-exposure. ACLI is separately engaged with SAPWG regarding the requested industry plan for compliance and reporting accuracy associated with admission of net negative IMR and does not address that issue in this letter.

Revised SSAP No. 7

ACLI offers the following comments on specific provisions of the revised SSAP No. 7:

- Asset Valuation Reserve. ACLI supports the clarifications regarding realized losses on sales of fixed income investments and derivatives. We suggest the following edit for additional clarification (i.e., that derivative counterparties, which may have an NAIC designation, are not allocated to AVR per this paragraph).

  - 9. Realized losses on sales of fixed income investments and derivatives that otherwise would qualify for the IMR under paragraph 10 are allocated to AVR if the investment or derivative counterparty has experienced credit deterioration, as defined as one of the following: (IP 21)

    i. For those with NAIC designations[3] (excluding derivative counterparties), if the NAIC designation has declined by more than 3 designation changes and does not have an ending NAIC 1 designation.

- Known liquidity sale losses. ACLI supports immediate recognition of known liquidity sale losses and the related controls and attestation framework. However, ACLI's goal is to ensure the guidance is drafted in a manner that clearly conveys its intended application and minimizes ambiguity for reporting entities. ACLI believes this can be accomplished by further aligning the language in paragraphs 13 and 29 and providing additional specificity where appropriate. To support this objective, ACLI worked with NAIC staff to develop the following proposed revisions.

  - 13. ~~Known l~~Liquidity sale losses are realized losses that occur when an IMR qualifying fixed income investments are sold and the proceeds are not reinvested into other IMR qualifying fixed income investments. While it is impractical to track sales and reinvestment on an asset-by-asset basis, reporting entities shall not defer losses from sales for which it is known that proceeds will not be reinvested into other IMR qualifying fixed income investments. ~~These include s~~ Situations in which reinvestment may be known to not occur include, ~~such as,~~ but are not limited to, sales used to fund surrenders/withdrawals, derivative collateral calls, or other needs that lead to a decision to sell investments. ~~as well as any other situation (e.g., derivative collateral calls or any other business entity expenses).~~ Additionally, ~~R~~reporting entities shall implement control procedures designed to identify material known liquidity sale losses. The reporting entity ~~and~~ shall attest to having identified and recognized all material known liquidity sales losses in the quarterly and annual financial statement disclosures. (IP 25)

  - 29. Reporting entities are required to complete the following disclosures in the annual and quarterly financial statements: (IP P 102)

- b. Reporting entities shall include an attestation regarding know liquidity sales losses: (IP 103)

    i. The reporting entity has a documented process to identify material known liquidity sales losses, as addressed in paragraph 13. ~~Including but not limited to sales used to fund surrenders/withdrawals as well as other liquidity needs (e.g., derivative collateral calls or other business entity expenses).~~

- Treatment when the proof is not completed or passed. Paragraph 19 should expressly distinguish entities that are not required to complete the proof from entities that are required to complete it but do not do so or do not pass both tests. This distinction will avoid an unintended implication that all entities are subject to the same adjustment.

    - 19. Reporting entities (other than those described in paragraphs 17a and 17b) that do not pass both tests within the proof of reinvestment disclosure are only permitted to defer current year realized losses to the IMR that can be offset by current year IMR realized gains. Any realized losses in excess of realized gains must be recognized as realized capital losses. This guidance shall be followed regardless of whether a reporting entity admits net negative IMR. If a reporting entity does not complete or pass the proof of reinvestment, the reporting entity is permitted to recognize current year IMR losses beyond what is offset by current year IMR realized gains resulting from the following two exceptions only. These exceptions are permitted ~~as~~ because the net negative losses are not from the sale of fixed-income investments~~, such as~~; therefore, these IMR impacts are outside the parameters of the proof of reinvestment calculations. (IP P. 28)

Issue Paper for SSAP No. 7

ACLI appreciates the expanded historical discussion and the revisions made to conform the Issue Paper to SSAP No. 7. Because the Issue Paper will provide the supporting rationale and implementation history for the new framework, its terminology and examples should closely track the final authoritative guidance.

ACLI offers the following comments on specific provisions of the revised Issue Paper:

- Realized gains on liquidity sales should be allocated to IMR.

    - 104. Pursuant to the discussion involving excess withdrawals and the elimination of the excess withdrawal calculation, reporting entities shall include an attestation regarding known liquidity sale losses: (SSAP P.29b)

        - b. The reporting entity has not allocated any ~~gains or~~ losses to IMR from known liquidity sales. Realized losses allocated to the IMR are attributable to investment activity related to a block of recognized insurance liabilities, whereby the proceeds have been reinvested in fixed income investments.

- Appendix B & C – Proof of Reinvestment for both general and separate account: The proceeds of a liquidity sale are the transaction cash flows that are no longer available for reinvestment by the

insurance company. The realized capital loss recognized on the disposal of the investment is an accounting value, not a cash flow.

- **Line 6 of Proof of Reinvestment:** Proceeds of ~~K~~known liquidity sales where a realized capital loss was recognized

- We also suggest paragraph 108c have the following changes:

  - c. Proceeds from Investments: Include the proceeds from sales of bonds and mortgage loans. As of year-end 2025, there was no data-captured disclosure that identified the proceeds from bond sales specifically, as available information aggregated proceeds from both sales and maturities. Revisions for year-end 2026 will include new data-captured disclosures for bonds to separately detail proceeds from sales and maturities. Upon implementation of the new disclosure, the proof of reinvestment calculation will refer to the location of that specific disclosure. Company internal records will be used for mortgage loans, which are not activity traded and have limited sales occurrences. The proceeds from the sales of bonds and mortgage loans in the proof is then adjusted to remove ~~realized capital losses that were recognized directly to capital losses due to known~~ the proceeds of all known liquidity sales in which a realized capital loss was recognized, where the proceeds were not reinvested into new qualifying fixed-income investments.

- Additionally, ACLI recommends adding a checkbox to both the General Account and Separate Account proof of reinvestment forms that would allow a company to indicate whether it was eligible to defer losses but elected not to complete the proof, versus completed the proof and did not satisfy the requirements. While the practical outcome is the same in both cases, namely that losses cannot be deferred, this distinction would provide regulators with additional compliance information and greater transparency regarding whether a company chose not to perform the proof or was not eligible to defer losses because it did not meet the applicable requirements.

- Suggestions for Separate Account Proof of Reinvestment:

  - **Line 7:** The Data Source should read "Sum of lines 4 + 5 – 6" to properly remove known liquidity losses in Line 6.

  - **Line 11:** The Description should read as follows to ensure the proper value is carried over from the Green Book - Bonds (General Account Basis Only) - Net Admitted

  - **Line 12:** The Description should read as follows to ensure the proper value is carried over from the Green Book - Mortgages (General Account Basis Only) - Net Admitted

Revisions to Other SSAPs

ACLI generally supports the related revisions intended to align other SSAPs with the revised SSAP No. 7. We recommend a final consistency review of all cross-references, defined terms, and transition provisions before adoption.

Proposed Reporting Changes

ACLI supports enhanced transparency by way of the included IMR rollforward. ACLI proposes the tracked changes included in Appendix I to improve the clarity, readability, and usability of the instructions. The proposed edits are intended to make the guidance more concise and user-friendly while preserving the underlying intent. Brief explanations accompanying the tracked changes provide the rationale for each proposed revision.

- ACLI has also worked closely with NAIC staff to review and provide input on the proposed Exhibit of Capital Gains and Losses. The discussions have been constructive and focused on maintaining consistency with other statutory exhibits, appropriately addressing the treatment of taxes, and reflecting both IMR and AVR in a manner that supports the objectives of regulators while preserving the integrity of statutory reporting. ACLI appreciates the opportunity to provide feedback and looks forward to the revised exposure.

Implementation and Transition

ACLI appreciates the adopted January 1, 2028, effective date. The revisions will require coordinated changes across investment accounting, actuarial, reinsurance, financial reporting, data governance, and control environments. Vendors and reporting entities will need sufficient time to develop, integrate, test, and validate the required calculations, data flows, disclosures, attestations, and reconciliations.

To support orderly implementation, ACLI recommends that the Working Group:

- Finalize the accounting guidance, Annual Statement Instructions, forms, note disclosures, and interrogatories as a coordinated package sufficiently in advance of the effective date.

- Coordinate the final IMR guidance with the related ALM derivatives, replications, reinsurance, actuarial, and blanks projects to avoid conflicting effective dates or reporting requirements.

ACLI welcomes the opportunity to continue working with NAIC staff and SAPWG to resolve the remaining technical and implementation matters and to support a clear, durable, and operational long-term IMR framework.

Interested Parties' Comments:

Interested parties support the comment letter submitted by the ACLI on this exposure.

Recommendation:

NAIC staff recommend that the Working Group adopt the exposed S*SAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*, corresponding issue paper and "revisions to other SSAPs" with the SSAP and issue paper edits suggested by the ACLI, as well as a few additional items noted, for a January 1, 2028, effective date. These revisions are shown within the ACLI comment letter summary, included in the revised attachments, and summarized as follows: (Revisions were made to both the SSAP and Issue Paper as appropriate.)

- SSAP No. 7, Paragraph 9: Revisions exclude NAIC designations from counterparties from being considered within the threshold for designation changes in allocating to IMR or AVR.

- SSAP No. 7, Paragraph 13 & 29: Revised guidance to clarify known liquidity sales in one location.

- SSAP No. 7, paragraph 19: Reference prior paragraph with exclusions for when the proof of reinvestment is not required.

- SSAP No. 7, paragraph 29e, includes disclosure requirement for the reconciliation of admitted negative IMR to the reported IMR for PBR and AAT. (This reconciliation is required already per paragraph 25c, and the disclosure is being drafted by industry to allow for compliance verification.) Revisions were also incorporated to remove references to cash flow testing (CFT) in paragraphs 24b, 25c and 29e as CFT is a form of asset adequacy testing (AAT).

- Issue Paper, paragraph 104a-b: Eliminate the word "gain" when referring to known liquidity sales allocated to the IMR and incorporate the term "material" to match the SSAP.

- Issue Paper, paragraph 108.d (iv): Added a reference to "YRT-Mortality Risk Only" business as premiums that shall be removed from the proof of reinvestment. (This edit was received from the ACLI after submission of the comment letter but supported by NAIC staff and regulators.)

- Issue Paper, Proof of Reinvestment: Incorporate clarifying reference and guidance for known liquidity sales and to clarify that the separate account calculation includes items accounted for under the general account basis only. Revisions also reference the YRT – Mortality Risk Only business noted in the bullet above. In Line 4 for the general account proof, the proceeds from financial instruments sold will include sales from debt securities (including non-bond debt securities). This will cross-check to the new disclosure in Note 5D(6) – Column 1 Total. The cost of investments acquired will only include bonds as previously drafted, which agrees with the cash flow statement Row 13.1.

(Note: The SSAP and Issue Paper tracked changes from the Summer National Meeting have been accepted in the attachments with only the newly proposed revisions shown as tracked changes.)

With this adoption, the "revisions to other SSAPs" will be incorporated into the Issue Paper as an exhibit for historical reference. There were no revisions proposed to these edits from the Summer National Meeting exposure.

With adoption, the revised SSAP No. 7 and issue paper will be posted publicly on the SAPWG webpage for reference prior to the effective date. This revised SSAP, issue paper and the corresponding edits to other SSAPs, will be captured in the "As of 2028" AP&P Manual. This will prevent confusion on the guidance that is applicable through year-end 2027. Notice will be detailed in SSAP No. 7 captured in the 2027 publication on the revised guidance and availability on the SAPWG webpage.

With adoption, NAIC staff recommend that the Working Group sponsor blanks proposals to incorporate corresponding reporting revisions. Illustrations of the proposed reporting revisions have not been included in the SAPWG materials; however, the broad concepts are consistent with the prior exposure. The blanks proposals, which consider the recent comments received from ACLI, will be presented for exposure at the Blanks (E) Working Group during their Dec. 3, 2026, interim meeting. Reporting revisions include the following:

- New balance sheet reporting lines for negative IMR and deferred derivative assets and liabilities.

- Revised exhibit of capital gains and losses, which includes amounts allocated to IMR and AVR.

- Revised IMR Form with expanded lines and instructions for clarity on adjustments in/out of IMR.

- Revised IMR Amortization schedule and instructions. Revisions eliminate guidance reflected within SSAP No. 7, update amortization timeframes, and eliminate hypothetical IMR example.

- Revised and new disclosures to reflect the guidance in SSAP No. 7. These include attestations on determining and recognizing known liquidity sales, note disclosure on admitted IMR to adjusted capital and surplus, new disclosures for the proof of reinvestment, remaining unamortized balances for gains and losses from non-accounting effective hedging derivatives previously reflected in IMR, and disclosure for the reconciliation of PRB and AAT along with indication on whether entities nonadmitted more net negative IMR due to year-end threshold limitations than what was reflected in the actuarial projections.

Note – The SSAP and issue paper included in the Hearing materials include reference pointers between the two documents. (For example, references link the SSAP paragraph to the corresponding issue paper paragraph. These references are for development purposes and paragraph verification only and will be removed once adopted and included in the publication materials.

Industry Compliance Proposal: As discussed at the Summer National Meeting, the revised SSAP No. 7 does not increase the admittance limit for net negative IMR. The admittance guidance mirrors the provisions in *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve*. Industry has developed a compliance verification proposal which was presented and exposed during the Working Group's Oct. 7 interim meeting.

Comments on Industry Compliance Proposal – Due November 6, 2026:

NAIC staff will review completed disclosures related to IMR and provide assessments to the Working Group. New agenda items are planned for subsequent discussions and are expected at future Summer National Meetings to detail findings from the prior year financial statements (received March 1 of each year). As discussed by the Working Group on Aug. 12 and Oct. 7, there are no automatic admittance increases planned. Working Group members will vote to incorporate revisions to SSAP No. 7 when increases to the admittance limit are considered.

Note – Revisions were considered to paragraph 97 of the issue paper to detail the industry compliance proposal. However, additional revisions were not considered necessary. Separate agenda items will be drafted to consider each IMR admittance increase, illustrating the proposed revisions to SSAP No. 7, when supported by the Working Group after compliance assessments are completed.

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Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-15 (Julie)	**Asset Liability Management Derivatives**	**7 - SSAP No. 109 8 - Issue Paper**	**Comments Received**	**Att. 21 ACLI – 10 IP – 16**

Summary:
On August 12, 2026, the Working Group exposed a revised *SSAP No. 109—Asset and Liability Management Derivatives* and corresponding issue paper with an updated January 1, 2028, effective date. With the exposure, the Working Group sent a referral to the Life Actuarial (A) Task Force to review and assess the guidance, and to consider facilitating a pilot review in early 2027. The pilot review is proposed to ensure regulatory life actuaries understand and are comfortable with the specific hedge effectiveness tests proposed to be used by industry and to consider any additional specifications that should be included in the SSAP around how effectiveness testing should be performed. Additionally, with the exposure, the Working Group directed a blanks proposal to incorporate new reporting lines for these derivatives.

ACLI Comments:
The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the Statutory Accounting Principles (E) Working Group (SAPWG) exposure draft, Ref #2024-15: Asset Liability Management (ALM) Derivatives, released for comment at the Summer National Meeting. We strongly support the proposed statutory accounting guidance for interest-rate hedging derivatives used for ALM.

We appreciate SAPWG's continued engagement with stakeholders and offer the following comments for consideration:

We support the revisions included in the latest exposure draft, including the treatment of deferred gains and losses upon derecognition of a hedged liability portfolio due to reinsurance, the inclusion of deferred gains and losses in principles-based reserving (PBR), aet adequacy testing (AAT), cash flow testing (CFT), and the elimination of accelerated amortization.

During prior discussions, regulators indicated that "Effective Duration" could serve as an appropriate effectiveness testing methodology. ACLI would support explicitly identifying Effective Duration in paragraph 13 as an acceptable method.

The mechanics included in the exposure draft are essential to ensuring SSAP No. 109 operates as intended and are consistent with the framework established under SSAP No. 86. Importantly, the exposure draft permits admission of deferred gains and losses associated with highly effective hedges recognized under the ALM derivative standard, thereby avoiding unintended disincentives to prudent risk management activities. This is consistent with the entire purpose of the hedge (i.e., shielding surplus from interest rate impacts).

1) Upon maturity or termination, admission of the deferred asset or liability results in an initially surplus-neutral outcome, as the deferred offsets the cash received or paid upon settlement. The deferred amount is subsequently amortized over the life of the hedged liabilities, causing the hedge's ultimate surplus impact to align with that of the hedged items. This treatment appropriately reflects the economics of a highly effective hedge because amortization of the

deferred derivative balance offsets changes in credited interest, product liabilities, and bond net investment income over time.

2) ALM derivatives are used as part of a prudent risk management framework and mitigate surplus volatility arising from asset-liability mismatches. These derivatives incorporate extensive safeguards in the form of effectiveness tests and other limitations on eligible derivative types. Failure to admit deferred gains and losses upon termination or maturity would create a timing mismatch between the hedge and the underlying risk exposure it is intended to offset. Such a result would undermine the purpose of the proposed accounting framework by disconnecting recognition of the hedge from recognition of the associated liability cash flows.

Admitting deferred gains and losses with qualifying ALM hedges promotes sound asset-liability management practices and helps ensure that statutory accounting appropriately reflects insurers' long-term risk management objectives rather than introducing artificial surplus volatility.

ACLI strongly supports the exposure draft and appreciates SAPWG's efforts to develop a practical and effective accounting framework for ALM derivatives. Thank you for the opportunity to provide comments on this important proposal.

Interested Parties' Comments:
Interested parties support the comment letter submitted by the ACLI on this exposure.

Recommendation:
NAIC staff recommend that the Working Group expose the proposed *SSAP No. 109—Asset and Liability Management Derivatives* and corresponding issue paper. This exposure is proposed as the Life Actuarial (A) Task Force is currently working with companies to conduct pilot projects to ensure life regulatory life actuaries understand and are comfortable with the specific hedge effectiveness tests to be used with industry. (The exposed documents will eliminate the tracked changes from the Summer National Meeting to show the current version of the SSAP and issue paper.)

Pursuant to the ACLI comments on considering the inclusion of an "Effective Duration" hedge effectiveness method, the ACLI has provided suggested language for consideration. The following proposed ACLI language has been included as a new paragraph 13d in the draft SSAP No. 109 (and in paragraph 19d of the issue paper) for review and comment during the exposure period:

13. The term "highly effective" describes a reduction of the duration difference between the asset and liability portfolios that is accomplished by the hedging derivatives with between an 80%-125% effective rate. One of the following methods shall be designated as the approach for each hedging program to determine whether the program is highly effective:

d. "Effective Duration" measures the effect that a 100-basis-point (1%) change in interest rates will have on the price of an instrument, where expected cashflows change as interest rates change when applicable (e.g., if an instrument has an effective duration of 5, a 1% change in interest rates would be expected to cause an approximately 5% change in the instrument's price in the opposite direction); so if an asset portfolio has an effective duration of 9 and a liability portfolio has an effective duration of 10, a highly effective derivative portfolio hedging this difference would place the effective duration of the assets with derivatives at between 9.8 and 10.25 (80%-125% of the effective duration difference). Alternatively, if asset portfolio duration is 9 and liability portfolio duration is 11, an entity

can elect to hedge only half the difference (between 9 and 11, i.e., 10), in which case a duration of the assets with derivatives of between 9.8 and 10.25 would be highly effective.

Pursuant to the prior direction by the Working Group, a blanks proposal is planned for exposure during the Blank's (E) Working Group Dec. 3 call to capture SSAP No. 109 reporting lines in Schedule DB along with new notes for the disclosures required in the proposed SSAP. These items will be exposed with a January 1, 2028, effective date. NAIC staff notes that the IMR reporting revisions already include new balance sheet reporting categories for deferred derivative assets and liabilities, also with a January 1, 2028, effective date.

The ACLI comments reiterate support for admittance of the deferred losses recognized under the proposed SSAP No. 109. These comments are spurred from an ongoing note in the proposed guidance to confirm admitted asset treatment with the Working Group, and whether there should be a broad assessment of individual or aggregate admittance limits. **NAIC staff request comments from regulators on whether the current "admitted asset" classification in SSAP No. 109 should be retained without limit, and whether a separate agenda item should be drafted to consider aggregate admittance limits. (Deferred derivative losses previously captured in IMR were nonadmitted before 2023 and limited as part of the IMR 10% of capital and surplus threshold under INT 23-01.) Rather than making this decision at the 2026 Fall National Meeting, if preferred, NAIC staff can provide a regulator-only report detailing admittance of these categories as of year-end 2026 for future assessment. (Such report would likely be presented mid-year 2027.) NAIC staff has removed the admitted asset question from the draft SSAP to not solicit future comments.**

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-06 (Julie)	**Fair Value Disclosures**	**9 – Agenda Item**	**Comments Received**	**Att. 21 IP – 18 Vulcan - 28**

Summary:

On August 12, 2026, the Working Group received a referral from the Investment Analysis (E) Working Group on the Note 20C fair value disclosure and re-exposed this agenda item with a specific request for industry to propose guidance and reporting categories that could be established to differentiate equity-method investments by "operating entities" and structures that hold investments ("holding entities").

This agenda item was originally exposed during the May 18 interim meeting with proposed revisions to eliminate the disclosure exclusion for "equity method investments" from the aggregate disclosure on financial instruments captured in *SSAP No. 100—Fair Value*. With this current scope exclusion, investments in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, and investments in scope of *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, which are reported under an equity method, are not being captured in the financial instrument disclosure (Note 20C). The comments received from interested parties during the Summer National Meeting noted concerns with reporting fair value for operating entities measured at the equity method.

Interested Parties' Comments:
Interested parties note that the term "operating entity" is currently used in SSAP No. 22, *Leases*, to distinguish entities in a service concession arrangement and in SSAP No. 26, *Bonds*, in the context of distinguishing entities that provide credit support. Additionally, investments in real estate are frequently structured as operating entities as described in the proposed wording below rather than just holding real estate for the purpose of generating investment income and/or capital appreciation. In order to avoid confusion with the use of the same term in SSAP No. 100, we recommend the following wording:

> For purposes of this SSAP, an operating entity is any business entity that conducts business operations other than holding investments for the purpose of generating investment income and/or capital appreciation. This is distinguished from a holding entity which is an entity that does not conduct business operations and holds investments for the purpose of generating investment income and/or capital appreciation.
>
> Insurers' investments in real estate are frequently structured as operating entities that acquire, develop, and/or manage the real estate.
>
> Operating entities include, but are not limited to, investments in scope of paragraphs 8.b.i, 8.b.ii and 8.b.iv. of SSAP No. 97 - *Investments in Subsidiary, Controlled and Affiliated Entities*. In addition, operating entities may include certain 8.b.iii. SCAs that conduct business operations other than holding investments for the purpose of generating investment income and or capital appreciation.
>
> Investments in scope of SSAP No. 93 – *Investments in Tax Credit Structures* are not considered investments for the purpose of generating investment income and or capital appreciation.

Jordan Davis, Vulcan Consulting Group Comments:
I write in response to the Working Group's August 12, 2026 re-exposure of Ref #2026-06, which requested that industry propose guidance and reporting categories to differentiate equity-method investments by operating entities and by structures that hold investments. I offer a single, narrow suggestion on the categorization question.

My background is in valuation of assets that lack observable market prices, including intellectual property and intangible assets — work performed at Aon on engagements up to $226.5 million in subject value. I have no client interest in the outcome of this exposure and represent no reporting entity.

The categorization problem
The difficulty the re-exposure identifies is real, and it is a valuation problem before it is a reporting problem. The two categories require different methodologies:

- **An investment-holding structure** is valued by reference to the assets it holds. Fair value is derived by look-through, and the hierarchy tier of the interest is largely a function of the tiers of the underlying holdings.

- **An operating entity** is valued as a going concern. Fair value derives from earnings capacity, market comparables, or discounted cash flows, and is a Level 3 measurement in substantially all cases.

A single classification cannot serve both. Requiring look-through of an operating business produces a meaningless number, and applying going-concern methodology to a holding vehicle obscures the underlying asset risk the disclosure exists to reveal.

Proposed test
I suggest the distinction be drawn from the composition of the investee's own balance sheet, rather than from its legal form, its name, or the reporting entity's stated intent. Specifically:

1. Classify an equity-method investee as an **investment-holding structure** where financial instruments held for investment return constitute a majority of its total assets, measured at the investee's most recent audited balance sheet date. Classify it as an **operating entity** otherwise.
2. Where the classification is not determinable from available financial statements, require the reporting entity to disclose the investee as an operating entity and to state that the classification could not be determined. Absence of information should default to the more conservative and less informative category, so that the reporting entity bears the cost of opacity rather than the user of the statement.
3. Require disclosure of which category was applied to each aggregated line, so a user can see how much of the reported fair value rests on look-through and how much on going-concern methodology.

I suggest a majority threshold rather than a higher one because a bright line is more auditable than a facts-and-circumstances judgment, and because a threshold near 50% is difficult to manipulate through incidental balance sheet composition. If the Working Group prefers to reduce reclassification between periods, a persistence condition — that the threshold be breached for two consecutive annual periods before the classification changes — would achieve that without reintroducing judgment.

Why this test is operable with information already collected
The principal practical objection to this exposure, raised in industry comment on the related Blanks proposal, is that significant issues must be resolved before the reporting change can be effective. I take that concern seriously. The test proposed above is intended to be answerable from documents reporting entities already obtain.

Under SSAP No. 97, an entity carrying a subsidiary, controlled or affiliated investment already obtains audited financial statements of the investee, or is subject to specific limitations where it does not. The asset composition test requires nothing beyond that same balance sheet. It introduces no new data collection, no new counterparty request, and no new audit procedure — only the reading of a statement the reporting entity already holds.

That property matters more than the precise threshold. A categorization rule that requires new information from general partners or portfolio companies will not be operable by the first reporting period, whatever its conceptual merits. A rule answerable from existing audited statements can be.

On measurements that are not practicable
For interests where fair value is genuinely not practicable to estimate, I suggest the Working Group consider permitting disclosure of a **range** with a stated basis, rather than requiring either a point estimate or the "not practicable" category alone. A defensible range accompanied by its methodology is more informative to a regulator than a point estimate carrying false precision, and more informative than a blank.

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I note this approach has precedent in the Working Group's adjacent work: in the collateral loan discussions supporting Proposal 2025-16-L, industry commenters suggested a range of valuations rather than a single figure. The same reasoning applies here, and consistency between the two disclosures would reduce implementation cost for entities subject to both.

A closing observation
Whatever categorization is adopted, the evidence supporting these measurements will sit in unstructured documents — audited investee financial statements, partnership capital account statements, operating agreements, and Schedule K-1s — rather than in a general ledger. The durable question is therefore not only how the categories are defined but how a reporting entity substantiates a figure to a specific source, and how an examiner or auditor later retraces it.

To the extent the Working Group finds it useful, requiring that reporting entities retain the document and page underlying each reported fair value — without prescribing a format — would materially improve examinability at very low incremental cost, because the documents are already in hand. I raise it only as a consideration for the instructions, not as a proposed amendment to this exposure.

Thank you for the opportunity to comment, and for the Working Group's decision to seek input on the categorization question before finalizing the reporting change. I am happy to expand on any of the above if it would be helpful.

Recommendation:
NAIC staff recommend that the Working Group consider an updated recommendation as detailed in the agenda item and summarized within, with consideration of the following two actions:

1) **Expose a revised agenda item with an updated recommendation for an improved disclosure of Note 20C (fair value of financial instruments) in response to the Investment Analysis (E) Working Group referral along with the proposed deletion of guidance and disclosure from paragraphs 56 and 58 of *SSAP No. 100—Fair Value* for when it is not practicable to estimate fair value. (This disclosure was originally incorporated to mirror U.S. GAAP but the U.S. GAAP disclosure was deleted in *ASU 2016-01: Recognition and Measurement of Financial Assets and Financial Liabilities*.) With exposure, it is recommended that the Working Group direct NAIC staff to sponsor a corresponding blanks proposal for exposure during the Blanks (E) Working Group's upcoming Dec 3, 2026, interim meeting. This blanks proposal will illustrate the prescribed format of Note 20C and delete Note 20D – Not Practicable to Estimate Fair Value.**

2) **Direct NAIC staff to consider distinctions of "operating entities" and "investment entities" (and the comments received) as part of the *SSAP No. 48—Joint Ventures, Partnerships and Limited Liabilities Companies* project. This project is ongoing and is expected to be presented to the Working Group in 2027.**

Updated Recommendation for the Note 20C Disclosure:
In response to the Investment Analysis (E) Working Group referral on the format and contents of Note 20C, and comments received on the deletion of the fair value financial instrument equity method investment exclusion, the recommendation has been revised to address the equity method exclusion within the SSAP No. 48 equity project and incorporate a prescribed format for Note 20C. Additionally, revisions have been proposed to paragraphs 56 and 58 of S*SAP No. 100—Fair Value* to remove guidance and disclosure for when it is not practicable to estimate fair value. This disclosure, reflected in Note

20D, was originally included to mirror U.S. GAAP, but it was deleted in *ASU 2016-01: Recognition and Measurement of Financial Assets and Financial Liabilities*.

As shown in the proposal for the prescribed Note 20C format, there are situations in which NAIC staff has proposed to consolidate investment schedule reported information, as well as situations in which the information is proposed to mirror the investment schedule reporting lines.

In addition to the proposed revisions related to the financial instrument fair value disclosure in Note 20C, the agenda item shows the current illustration for note 20D for when it is not practicable to obtain fair value with a proposal to delete the SSAP No. 100 reference, the note disclosure and the related column in Note 20C.

As shown in the agenda item, the updated recommendation includes a revised proposed illustration for Note 20C. This shows the proposed set illustration for which all companies will be required to follow to ensure consistent and comparable reporting. Notes are included with specific requests for comment. Tracked changes are not shown for the proposed blanks changes as the reporting lines have been completely revised.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-02 (Robin)	**Valuation of Funds Withheld**	**10 – Agenda Item**	**Comments Received**	**Att. 21 IP – 16**

Summary:
On August 12, 2026, the Working Group exposed modified revisions *to SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*, to clarify the reporting of the funds withheld liability under reinsurance contracts.

This agenda item was developed to address inconsistent guidance regarding the valuation of the liability for funds withheld in a life or health reinsurance agreement. The Reinsurance (E) Task Force was also notified of the exposures. 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.

Interested Parties' Comments:
The Working Group exposed modified guidance for SSAP No. 61, as illustrated in the exposure draft. 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 28th. Additional modifications to the blanks proposal will be developed after finalizing the SSAP No. 61 guidance.

Interested parties appreciate the NAIC's collaboration and consideration of our feedback throughout the development of the proposed amendments to SSAP No. 61R. Interested parties are supportive of the proposed amendments to SSAP No. 61R and the objectives of the exposure. We do, however, have two minor editorial suggestions that we believe would further improve the clarity of the guidance:

1. Minor grammatical edits to paragraph 22(f)(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 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.*

2. Paragraph 22(e)(ii) discusses reporting treatment where the funds withheld is underfunded (and a receivable is recorded) but is silent on the treatment where it is overfunded. As such, we are proposing a few edits to clarify how to report an overfunded arrangement where the overfunding is contractually due to the reinsurer:

   "*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*."

With respect to 2026-10BWG, there were significant changes proposed to the related SAPWG exposure, Ref #2026-02, during the Summer National Meeting that have not yet been reflected in 2026-10BWG. Interested parties recommend that the NAIC and regulators revisit the proposed changes in the blanks exposure after the SSAP No. 61 guidance has been finalized to ensure that the annual statement instructions are not in conflict with SSAP No. 61.

Recommendation:
NAIC staff recommend that the Working Group adopt the exposed SSAP No. 61 guidance with the minor revisions to paragraphs 22.e.ii and 22.f.ii. as suggested by interested parties (illustrated below). NAIC staff recommend that the SSAP No. 61 revisions be effective immediately upon adoption. However, annual statement revisions will not be in effect prior to year-end 2027 and therefore NAIC staff requests confirmation of the SSAP No. 61 effective date. If the SSAP No. 61 revisions are supported with an immediate effective date, NAIC staff will provide the Blanks (E) Working Group a memo detailing the reporting impact for posting on their webpage.

NAIC staff will submit a revised annual statement blanks proposal for exposure on the Dec. 3, 2026, Blanks (E) Working Group interim meeting.

The SSAP No. 61 revisions illustrated below are recommended for adoption. The gray shaded revisions reflect modification from the prior exposure to show the minor revisions suggested by interested parties.

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.

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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 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.

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

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter
2026-04 (Wil)	**ASU 2025-10, Accounting for Government Grants Received by Business Entities**	**11 – Agenda Item**	**Agreement**	**Att. 21 IP – 17**

Summary:
On August 12, 2026, this agenda item was exposed with additional proposed revisions to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items* to address comments from interested parties that gain contingency guidance did not adequately address the recognition of grant income conditioned on the acquisition or construction of an asset (grants related to assets). This agenda item was originally exposed at the May 18, 2026, interim meeting and was drafted to address *Accounting Standards Update (ASU) 2025-10, Accounting for Government Grants Received by Business Entities* which was issued by the Financial Accounting Standards Board (FASB) to establish a new topic to provide accounting for a government grant received by a business entity, including guidance for (1) a grant related to an asset and (2) a grant related to income. Under ASU 2025-10, a grant related to an asset is a government grant, or part of a government grant, which is conditioned on the purchase, construction, or acquisition of an asset (for example, a long-lived asset or inventory). A grant related to income is a government grant, or part of a government grant, other than a grant related to an asset (for example, a grant that reimburses a business entity for operating expenses).

Interested Parties' Comments:
Interested parties do not have any comments regarding the proposed conclusion to account for grants related to income as a gain contingency. However, we believe the guidance that accounts for a grant related to an asset (e.g., a data center) as a gain contingency only addresses the timing of recognition and is incomplete in contrast to ASU 2025-10. We recommend that the guidance for grants related to an asset be consistent with US GAAP, including the following requirements:

A grant related to an asset should be recognized on the balance sheet as a business entity incurs the related costs for which the grant is intended to compensate, either as:

1. Deferred income (the deferred income approach)

2. An adjustment to the cost basis in determining the carrying amount of the asset (the cost accumulation approach).

The resulting asset should be reported as either an admitted or nonadmitted asset based on the nature of the asset and the applicable SSAP.

Recommendation:

NAIC staff recommend that the Working Group adopt revisions, with modifications from the exposure as shown below, to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items* to reject *ASU 2025-10, Accounting for Government Grants Received by Business Entities* and revisions to *SSAP No. 67—Other Liabilities* to clarify the statutory treatment of *FASB Statement No. 116, Accounting for Contributions Received and Contributions Made*.

Recommended adoption includes the following additional revisions:

- Minor revisions to guidance to reflect recommendations made by interested parties during interim meetings.
- Revisions include changes to clearly reject FAS No. 116 and SOP No. 96-1 as the accounting guidance detailed in these statements were not adopted and incorporated into statutory accounting when originally addressed.
- Revisions do not incorporate interested parties' recommendations to allow insurers to use either the deferred income or cost accumulation approach.

The current exposure draft reflect additional changes made in response to interim discussions with interested parties; delete gain contingency reference language for grants to clarify the recognition criteria for grants related to assets, and that deferred grant income is intended to be amortized in a manner which matches the depreciation, gain or loss on sale, or impairment of the acquired asset. NAIC staff has not incorporated the interested parties' recommendation to allow insurers to use either the deferred income or cost accumulation approach. Whenever feasible, statutory accounting generally does not allow optionality in the application of accounting guidance. NAIC staff recommend the deferred income approach, which requires gross presentation, because it would more clearly present government grants balances and allow regulators to more easily easier identify and assess deferred assets related to grants. NAIC staff also noted that ASU 2025-10 intends the net effect of grant income recognition to be the same under either approach. As such, whether reported gross through deferred grant income or net as a reduction of the acquired asset, grant income should be recognized in earnings over the same periods in tandem with depreciation expense.

Separate from discussions with interested parties, NAIC staff have also proposed an additional clarification that the prior adoption by reference in *SSAP No. 67—Other Liabilities of FASB Statement (FAS) No. 116, Accounting for Contributions Received and Contributions Made* was only intended to establish that donations and grants made by the reporting entity were Other Liabilities within the scope of SSAP No. 67, and no other aspects of FAS No 116 were adopted by reference or incorporated for statutory accounting purposes. To avoid confusion, rejection of both FAS No 116 and SOP No. 96-1 is recommended as no aspect of the accounting guidance in either statement was intended to be incorporated into statutory accounting. The guidance already provided in SSAP No. 5 is sufficient for determination of whether a promise to give or environmental remediation meets the definition of a liability.

Recommended Revisions to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items*:

Drafting Note: Revisions added to the current exposure are shown tracked with grey fill.

Unusual/Infrequent Items

16. The nature, including a general description of the transactions, and financial effects of each unusual or infrequent event or transaction shall be disclosed in the notes to the financial statements. Gains or losses of a similar nature that are not individually material shall be aggregated. This disclosure shall include the line items which have been affected by the event or transaction considered to be unusual and/or infrequent. If the unusual or infrequent item is ~~as~~ the result of government ~~assistance~~grants, the disclosures shall ~~additionally~~ include the form in which the ~~assistance~~ grant has been received (for example, cash or other assets), and information regarding significant terms and conditions of the transaction, with items including, to the extent applicable, the duration or period of the agreement, and commitments made by the reporting entity, provisions for recapture, or other contingencies. Government grants are to be treated as gain contingencies and shall be recognized and disclosed in accordance with *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets*.

17. If a government grant, or any component of the grant, is conditioned on the purchase, construction, or acquisition of an asset ("grants related to an asset)," the reporting entity shall recognize grants receivable and deferred grant income as the related costs are incurred, provided ~~the grant has met the criteria for recognition as a gain contingency (~~the government grant has been awarded, it is probable that the reporting entity will comply with the conditions attached to the government grant, and the amount of the grant is determinable~~)~~. Deferred grant income shall be recognized as other income on a systematic and rational basis over the periods in which the entity recognizes as expenses the related costs for which the government grant is intended to compensate (e.g. depreciation, gain or loss on sale, or impairment of the acquired asset). If a government grant becomes repayable, the reporting entity shall immediately recognize a liability for the amount repayable; for grants related to assets the repayment liability shall represent the amount in excess of any unamortized deferred grant income. Any grant receivable that will be used to acquire a nonadmitted asset shall be nonadmitted. Subsequent to acquisition, the acquired asset shall follow the applicable statutory accounting guidance for measurement and admittance.

Relevant Literature

26. This statement rejects *ASU 2021-10, Government Assistance: Disclosure by Business Entities about Government Assistance*. However, it does incorporate general disclosures about government assistance for all reporting entity types. This statement also rejects *ASU 2025-10, Accounting for Government Grants Received by Business Entities*.

Recommended Revisions to SSAP No. 67—*Other Liabilities:*
Relevant Literature

~~13. This statement adopts FASB Statement No. 116, Accounting for Contributions Received and Contributions Made and AICPA Statement of Position 96-1, Environmental Remediation Liabilities. This statement is consistent with FASB Statement No. 5, Accounting for Contingencies as discussed in SSAP No. 5.~~

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-08 (Julie)	**Insurer Company Owned Life Insurance - ICOLI**	**12 – Agenda Item**	**Comments Received**	**Att. 19 ACLI –1 IP – 6 Nationwide –10 IIG – 14 Finseca – 31 Blocher – 37**

Summary:
On August 12, 2026, the Working Group exposed this as a concept agenda item with a request for comments on whether the amounts reported under *SSAP No. 21—Other Admitted Assets*, paragraph 9, should be captured on Schedule BA: Other Long-Term Invested Assets with a new reporting category for "Realizable Amounts Under ICOLI Policies," with reporting lines to capture the amount outside of an investment vehicle, and the amounts within an investment vehicle, divided by investment category. The exposure identified that consideration of comments will occur before formally moving this item to the Working Group's active agenda. The Working Group also directed a referral to the Capital Adequacy (E) Task Force to notify of this exposure and request initial feedback on the potential inclusion of these items as an invested asset, with assessment of RBC factors.

ACLI Comments:
The American Council of Life Insurers (ACLI) appreciates the opportunity to provide additional information about insurance company-owned life insurance (ICOLI). The discussion below provides further detail regarding ICOLI's business purposes, product structures, risk characteristics, existing safeguards, and potential approaches to enhanced regulatory transparency.

Executive Summary
Growth in reported ICOLI balances has increased regulatory interest in the transparency, concentration, oversight, and capital treatment of these life insurance purchases. As a threshold matter, ICOLI is an insurance product, not an investment. Its statutory reporting should reflect the nature of the insurance product and should not be classified as an invested asset on Schedule BA.

ICOLI is life insurance that is purchased by insurers to meet legitimate, long-term business needs, including offsetting the costs of employee-benefit obligations, key-person risk, and business continuity. The policyholder owns an insurance policy, not the assets supporting it. ICOLI's statutory and capital treatment should reflect the reporting insurer's actual exposure under the particular contract, including consideration of the relevant counterparty, investment, concentration, liquidity, and guarantee risks, rather than treating the policyholder as if it directly owned the underlying assets.

ACLI supports reporting that gives regulators the transparency needed to assess ICOLI's use, materiality, structure, risk mitigants, counterparty exposures, and governance and stands ready to work with regulators to provide the information needed. Any additional measures should avoid duplication, distinguish among product structures, and remain focused on the particular contract and the reporting entity's actual exposure.

ICOLI's Business Purpose and Governance
ICOLI helps companies offset the cost of long-term retirement and employee-benefit obligations, manage key-person risk, and support succession and business continuity. Policyholders pay premiums, including mortality and expense, and administrative charges, for this coverage.

ICOLI is intended to meet long-term insurance needs, often through coverage maintained for decades until benefits are paid. Although purchasers evaluate policy values and investment-related features, they acquire insurance to address identified business needs—not the underlying investments or short-term returns.

An ICOLI program is subject to pre-purchase analysis, management or board approval, and ongoing oversight. That review typically considers the program's purpose and size, expected benefit costs, capital, liquidity, policy performance, counterparty exposure, and the issuer's financial strength.

The Policyholder Owns the Policy, Not the Underlying Assets
The policy defines the policyholder's legal and economic rights. The issuing insurer owns the assets supporting the contract through its general or separate account. A policyholder may allocate values among available separate account investment options, but it does not own the underlying assets as a direct investor would.

Accordingly, ICOLI's investment-related features should be evaluated within the policy framework, including the issuer's obligations, insurance benefits and guarantees, contractual rights, and limits on policyholder authority.

Investor-control requirements imposed by federal court and IRS rulings reinforce this distinction: the issuer selects the available investment options, and the policyholder may allocate values only among those options—not select or control their individual assets.

Product Structures and Risk Characteristics
The chart below provides a simplified comparison of common ICOLI product structures and selected risk characteristics. ICOLI products may use a general account structure or a separate account structure, and some policies may permit allocation between general account and separate account options within a single contract. The specific features, risks, guarantees, and policyholder exposures associated with any particular policy will depend on the terms of the contract. No structure should be viewed as inherently preferable. Each presents different contract features and risk characteristics that should be understood on their own terms.

Feature	General Account Product	Separate Account Product
Policy structure	A fixed life insurance policy supported by the issuer's general account. Policy value is credited based on a declared rate or an index-related rate.	A variable life insurance policy using a separate account. The policy permits allocation among investment options available under the policy.

Feature	General Account Product	Separate Account Product
Nature of exposure	Benefits and policy values depend on the terms of the policy and the issuer's contractual performance and claims-paying ability.	Policy values respond to selected investment options. Any guarantees and insurance benefits are subject to the terms of the policy and the issuer's ability to perform.
Risk exposure	Exposure reflects contractual obligations and claims-paying ability including applicable guarantees, crediting provisions, and other policy terms.	Exposure reflects investment-option performance together with diversification and investor-control requirements, policy features, issuer obligations and the existence (if any) of a stable value wrap or other risk mitigants.
Ownership and control	The policyholder owns the insurance policy, not the assets in the issuer's general account.	The policyholder owns the policy, not the separate account assets, and has the allocation rights provided by the policy.
Death benefits	The issuer pays the death benefit according to the policy terms, including any applicable guarantees.	The issuer pays the death benefit according to the policy terms, including any applicable guarantees.
Guarantees and wraps	The issuer may provide minimum crediting, policy-value, or death-benefit guarantees under the policy.	If included, a stable value wrap may provide minimum crediting and amortize market-value fluctuations, subject to the wrap provider's financial strength.

The structures differ in how policy values are determined and the mix of issuer, investment-performance, guarantee, and other contractual risks they present. Some policies may permit allocations to both general account and separate account options, in which case the policyholder's exposure reflects the contractual features, guarantees, risk mitigants, and other terms applicable to each allocation. These features should be evaluated together under the terms of the particular contract rather than viewed in isolation. Across all structures, the policyholder owns an insurance policy rather than the underlying assets, and its exposure is governed by the terms of that policy and the issuing insurer's contractual obligations.

Existing Safeguards Inform the Regulatory Analysis

ICOLI operates within established legal, regulatory, and governance safeguards that shape how it is designed, acquired, maintained, and overseen. Issuers are regulated insurers subject to licensing, examination, reserve, and risk-based capital requirements. Federal tax rules, including the notice-and-consent requirements, state insurable-interest requirements, investment diversification and investor-control limits, and internal governance processes impose additional conditions on coverage and oversight.

Together, these safeguards tie coverage to an eligible insured population, constrain the amount and design of coverage, limit concentration and policyholder control over separate account investments, and support disciplined approval and monitoring.

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Building on these safeguards, ACLI supports additional disclosure or targeted governance measures where needed to address identified risks, provided that any response is informed by the existing framework and remains proportionate.

Understanding Growth and Materiality
Growth in ICOLI balances has increased interest in product use, policy-structure risks, and regulatory reporting. Balances may rise for a number of reasons including additional premiums, growth in existing policy values, or changes in the obligations the programs support.

ICOLI growth is subject to practical, legal, financial and governance constraints. Specifically, ICOLI programs are constrained by the underlying business need, the eligible insured population, state insurable-interest and federal notice-and-consent requirements, federal tax rules, issuer underwriting and product limits, and the purchaser's governance and risk-management processes. Program size is also considered in relation to the purchaser's capital, surplus, liquidity, expected obligations, risk appetite, and overall financial condition.

Capital Treatment Should Reflect the Risk Exposure
Any analysis of capital treatment should begin with the nature and location of risk under the particular ICOLI contract, including the extent to which existing reserves, capital, disclosure, governance, or other requirements already address the risk under consideration. Accounting presentation, disclosure, and capital treatment serve different purposes and should be considered separately, even when they are informed by the same facts. Separate account performance may affect policy values, but the policyholder's exposure is also shaped by the issuer's ability to pay death benefits according to the terms of the insurance contract, including limited allocation rights, issuer obligations and financial strength, guarantees, and the absence of direct ownership or control of the underlying assets.

A Proportionate Path Forward: Targeted Disclosure and Risk-Based Oversight
ACLI supports a proportionate, principle-based, and risk-focused approach that preserves ICOLI's treatment as a life insurance policy while giving regulators meaningful information about its use and risk characteristics.

Enhanced reporting could provide regulators with information about the amount and materiality of ICOLI held; the program's business purpose; the use of a general account or separate account structure, including policies that permit allocations between both; the general nature of the separate account investment options; relevant guarantees and risk mitigants; issuer and wrap-provider exposure; and the governance supporting approval and ongoing monitoring.

Any new reporting should be designed to improve regulatory risk assessment, avoid duplication, distinguish among product structures, and focus on the risks of the particular contract and the reporting entity's exposure.

Conclusion
ICOLI should be reported and evaluated as an insurance policy based on the terms of the particular contract, the reporting insurer's actual exposure, and the safeguards and oversight that apply. ACLI supports enhanced disclosure that results in a proportionate, risk-focused approach.

Thank you for considering our comments, ACLI looks forward to working collaboratively with regulators on this issue.

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Interested Parties' Comments:
Interested parties held several conference calls to discuss this item to ensure that we had input from all parties involved, including the life companies that issue ICOLI contracts, the organizations that market ICOLIs, and the insurers that purchase ICOLIs. From those discussions, we offer the following comments:

Overview
Insurance company-owned life insurance, or ICOLI, is an insurance product where an insurance company is the purchaser (and policyholder), beneficiary, and owner of life insurance policies placed on selected senior executives and other key officers or employees to offset the cost of long-term employee benefit and risk management objectives. Like other life insurance products, ICOLI contracts are acquired through the payment of premiums for insurance coverage, and the purchaser does not have direct ownership of investments. Instead, the policyholder's rights arise from the insurance contract itself, including cash surrender value, death benefits, guarantees, and other contractual features.

Qualifying ICOLI operates within a framework of federal tax requirements and state insurance laws and regulations, including IRC §7702 requirements, insurable-interest standards, employee notice and consent requirements, investor-control limitations, and diversification requirements. As part of the governance over the purchase of ICOLI, management provides an assertion that, at acquisition, the reported amount that could be realized from the life insurance policies did not exceed the present value of expected costs related to employee benefit obligations or the loss of key persons.

Included in the state insurance requirements is the accounting guidance contained in SSAP No. 21 – *Other Admitted Assets*, which measures qualifying ICOLI on the statutory balance sheet at the cash surrender value, i.e., the amount realizable under the insurance contract as of the reporting date.

Cash surrender value is an objective reporting measure but is not a representation of the contract's overall economic value that is paid at maturity, i.e., the amount of the death benefit. Because ICOLI is generally acquired to support long-term employee benefit and risk management objectives, the contracts are expected to be maintained through maturity rather than surrendered in the ordinary course of business.

ICOLI Contract Structures
ICOLI products span a range of structures that allocate investment risk differently between the issuing insurer and the policyholder. Some products place substantially all investment risk on the issuing insurer, while others provide the policyholder with exposure to the performance of particular asset classes based on the contractual features offered by the issuer and selected by the policyholder. Contractual guarantees, stable-value features, surrender provisions, and other policy terms can materially influence the economic relationship between the insurer and policyholder, and ultimately the amount paid at maturity.

As noted above, the cash surrender value of a policy does not necessarily reflect the policyholder's economic exposure over the expected duration of the contract.

The Purchasers' Financial Statement Disclosures
The life insurance companies that issue ICOLI already report the associated liability for the contracts on their balance sheet with the required disclosure in their notes to financial statements and have a prescribed risk charge in their risk-based capital (RBC) requirements. Accordingly, the risks to the issuing company are already reflected in their RBC calculation.

From the purchaser's perspective, enhanced disclosures in the notes to financial statements may provide regulators with greater transparency. Since the purchaser acquires an insurance contract and not the underlying reserve assets, we do not believe it would be appropriate for the cash surrender value of the insurance policy to be reported in the purchaser's Schedule BA.

We believe the following additional disclosures would be helpful in providing increased transparency into the risks associated with an insurer owning ICOLI, and would also support the consideration of appropriate risk-based capital charges:

- Risk characteristics of underlying investments, if applicable
- Affiliated investment manager relationships, if any
- Whether there are contract guarantees and/or stable-value features that materially reduce volatility

Risk-Based Capital Treatment

Although not explicitly requested in the exposure, interested parties understand that one of the regulators' key concerns relates to the risk-based capital treatment of ICOLI balances reported by insurers that own ICOLI. As noted above, the ICOLI assets are reported at cash surrender value by the purchaser with changes to the cash surrender value recognized in earnings (surplus). If the value of the underlying investments decreases, the cash surrender value, and therefore surplus will decrease. This is in contrast to many other assets on the statutory balance sheet which are carried at amortized cost.

As noted above, the risks to the issuing company are already reflected in their RBC calculation. From the purchaser's perspective, there is a wide range of contractual features that impact the economics and risks to the purchaser. As a result, interested parties considered a couple of approaches that could be used for incorporation of the risk into the purchaser's RBC.

The first approach would be to develop and implement a single RBC charge that would be applied to the owned ICOLI asset for contracts that expose the reporting entity to investment risk, regardless of the features included in the ICOLI insurance contract. Interested parties believe it would be difficult to identify a single charge that would encompass the range of features currently offered in ICOLI insurance contracts and believe this approach would not capture the diversity and complexity of risks present in the contracts.

The second approach would be to apply a range of RBC charges based on the risks associated with the range of features currently offered and that are calibrated to the associated risk. We believe this approach is more consistent with the risks resulting from the contracts but realize it would take additional work to identify the range of features and identify the appropriate RBC factors. Interested parties are willing to work with staff to develop a data-captured disclosure that would provide sufficient information about the risks in the contracts and, if desired, provide a basis for the development of appropriate RBC factors to be applied in the purchaser's RBC calculation. The data points described above would provide an appropriate starting point for this discussion.

Alternatively, if regulators prefer a different approach, we also offer to work with staff on the appropriate disclosure needed to capture the relevant information.

<u>Nationwide Comments:</u>

Nationwide is one of the largest insurance and financial services companies in the United States, operating both property and casualty and life insurance businesses. As both a policyholder and leading issuer of ICOLI, Nationwide values the opportunity to provide its perspective on the structure, purpose, and risk characteristics of these products.

Nationwide supports the American Council of Life Insurers' ("ACLI") proposal to preserve the accounting treatment of ICOLI as a life insurance contract rather than an investment. Nationwide also supports enhanced disclosures and targeted safeguards that provide regulators with greater transparency into ICOLI products and address the concerns identified by SAPWG. To the extent regulators ultimately determine that risk-based capital ("RBC") requirements are appropriate for certain ICOLI products, Nationwide believes any such RBC framework should be appropriately tailored to the risk profiles of different products.

Overview of ICOLI

ICOLI is a life insurance contract with rights and obligations governed by the terms of the insurance policy. Pursuant to SSAP No. 21 – *Other Admitted Assets*, ICOLI must satisfy the definition of life insurance under Internal Revenue Code ("IRC") §7702 and be acquired primarily in connection with employee benefit obligations or key person risks. As such, qualifying ICOLI operates within a framework of federal tax requirements and state insurance laws, including insurable-interest standards, employee notice and consent requirements, investor-control limitations, and diversification requirements. Collectively, these safeguards help ensure that ICOLI retains its character as a life insurance product and is used in a manner consistent with its intended insurance and business purposes.

A fundamental characteristic of ICOLI is that the policyholder owns a life insurance contract rather than interests in the underlying assets supporting the insurer's obligations under the contract. The policyholder's payment of premium secures its rights as defined by the insurance policy and its contractual provisions, including rights to cash surrender value, death benefits, guarantees, rights to allocate cash value among the separate account if applicable, and other policy benefits. Although the assets supporting the policy are invested by the issuing insurer and may influence policy performance, the policyholder does not possess the rights, control, or economic interests associated with direct ownership of those assets. Instead, the policyholder's relationship is with the insurer through the life insurance contract, and the insurer remains responsible for fulfilling its contractual obligations under that policy. The economic value associated with an ICOLI policy is not determined solely by the assets supporting the contract. Contractual features such as stable-value structures, contract guarantees, cash surrender and loan provisions, and other policy terms provide meaningful value by providing stability, liquidity, flexibility and other benefits to policyholders.

Consistent with this framework, SSAP No. 21 requires policyholders of qualifying ICOLI products to measure the asset based on the amount realizable under the insurance contract rather than the underlying assets themselves. The use of cash surrender value as the reported amount reflects a practical and objective measurement convention for financial reporting purposes, not a conclusion that cash surrender value represents the full economic value or risk profile of the contract. In practice, ICOLI is generally acquired to support long-term employee benefit and risk management objectives and is expected to be maintained through maturity rather than surrendered in the ordinary course of business. As a result, policyholders typically expect to realize value through the long-term operation of the contract and the associated death benefits, rather than through surrender of the policy for cash value.

Cash surrender value incorporates contractual provisions such as surrender charges and other adjustments that are relevant to determining a realizable amount for reporting purposes but do not fully reflect the broader economics of the insurance contract. Likewise, changes in the value of the underlying investments can affect reported cash surrender value while having a materially different effect on the overall economics of the policy due to contractual guarantees, stable-value features, and other contractual provisions. Accordingly, the reported amount under SSAP No. 21 should be understood as an

objective measure of the policy's realizable value rather than a proxy for direct ownership of the underlying investments.

ICOLI Contract Structures

ICOLI products span a range of structures, each of which allocates investment risk differently between the issuing insurer and the policyholder. At one end of the spectrum are general account products, in which the insurer bears substantially all investment risk and remains responsible for delivering the contractual benefits promised under the policy. At the other end are policyholder-directed or separate account arrangements, where the policyholder assumes the risk of exposure to investment performance. Many ICOLI products incorporate contractual guarantees, stable-value features, surrender provisions, and other terms that influence the economic relationship between the policyholder and insurer.

As a result, two ICOLI policies with identical reported cash surrender values may present materially different economic exposures depending on their contractual design and the degree of investment risk retained by the insurer. Any evaluation of an ICOLI arrangement requires consideration of the insurance contract as a whole, including the allocation of risk between the parties and the effect of contractual features that modify the economic outcomes of the policy.

Recommended Path Forward

Nationwide supports targeted enhancements to the existing disclosure framework to provide regulators with greater transparency regarding the nature of ICOLI products and the economic exposures associated with those products. Such disclosures could include information regarding the risk characteristics of underlying investments, material concentrations by underlying asset category, allocations to affiliated investments/investment managers, the extent to which contractual guarantees or stable-value features modify investment risk, and the relative significance of ICOLI holdings to the reporting entity's capital position. Enhanced disclosures would improve regulatory visibility while preserving the distinction between ownership of a life insurance contract and ownership of the assets supporting that contract. Nationwide also acknowledges that additional disclosure alone may not fully address the concerns identified by regulators. Accordingly, Nationwide supports targeted safeguards that directly address the specific concerns identified by regulators.

To the extent regulators are considering refining the RBC requirements applicable to certain ICOLI products, Nationwide believes any resulting RBC framework should be based on the economic exposure of the policyholder and the extent to which investment risk has been retained by the issuing insurer or assumed by the policyholder. This could be accomplished through a framework that distinguishes among product structures, such as general account products, in which the insurer retains substantially all investment risk and separate account structures where the policyholder bears the investment risk, while taking into consideration products that incorporate stable-value features, minimum death benefit protections, or other contractual provisions that serve to stabilize that risk. Furthermore, an aligned regulatory approach should contemplate the potential overlap of risk coverage between the issuing carrier's liability-side C-3 capital charges and the investing carrier's asset-side RBC treatment. Ultimately, Nationwide would support a RBC framework that results in a materially equivalent capital outcome for economically analogous risk exposures while recognizing the distinct contractual features and risk profiles of different ICOLI products.

Taken together, enhanced disclosures, targeted safeguards, and any appropriately tailored RBC requirements would directly address concerns regarding transparency, concentration risk, and the use of ICOLI structures without requiring the fundamental recharacterization of qualifying ICOLI as a direct

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investment. Accordingly, Nationwide does not believe reporting qualifying ICOLI on Schedule BA would be appropriate. Schedule BA is intended to capture invested assets, whereas ICOLI remains a life insurance contract governed by its contractual rights and obligations. This approach would acknowledge the differences among ICOLI product structures and allow regulators to focus on the economic characteristics of a particular arrangement rather than applying a single framework to all ICOLI products.

Conclusion

For these reasons, Nationwide recommends that the existing statutory accounting framework for qualifying ICOLI policies be maintained. Nationwide believes regulator concerns can be addressed through enhanced disclosures, targeted safeguards, and, if necessary, appropriately tailored RBC requirements without recharacterizing ICOLI as an invested asset.

Institutional Insurance Group Comments:

Institutional Insurance Group, LLC (IIG) appreciates the opportunity to comment on Agenda Item Ref #2026-08. IIG specializes in the design, implementation, and ongoing administration of corporate owned life insurance (COLI) programs for institutional purchasers, including insurance companies (ICOLI)[1]. IIG is a market leader in the ICOLI market, advising clients with more than $22 billion of existing ICOLI assets. That experience provides IIG with a practical perspective spanning these programs' purpose, product design, carrier and investment structure, implementation, governance, accounting, and long-term administration.

IIG supports the rational recommendations advanced by Interested Parties (IPs) led by Keith Bell and Rose Albrizio as well as the American Council of Life Insurers (ACLI): qualifying insurance company owned life insurance (ICOLI) should continue to be accounted for and reported separately as a life insurance policy under SSAP No. 21, rather than reported as an invested asset on Schedule BA.

Executive Summary

IIG recommends that qualifying policies under the current SSAP No. 21 remain classified and reported as a life insurance policy under SSAP No. 21 rather than as an invested asset on Schedule BA.

Accounting Classification and Reporting

- This treatment reflects the asset legally owned by the reporting entity (policyholder): an insurance policy providing death benefits, contractual guarantees, cash surrender value, mortality protection, and a claim against the issuing life insurer and not direct ownership or control of the assets supporting the policy.
- IIG proposes expanded Note 21 reporting that categorizes ICOLI by the degree of investment-performance exposure and contractual protection, with progressively higher capital factors for

[1] Corporate or company owned life insurance (COLI) that is owned by insurance companies is sometimes referred to as ICOLI (insurance company owned life insurance). ICOLI is primarily a marketing term used to distinguish insurance company owned programs from other forms of COLI. In addition to being subject to the legal, tax, and regulatory requirements applicable to all COLI arrangements, ICOLI programs must also address statutory accounting, regulatory, rating agency, and other considerations unique to insurance company operations. As a result, ICOLI programs typically require significant specialization and customization to meet the needs and requirements of insurance company owners. For clarity, the term ICOLI is used throughout this document to distinguish these arrangements from COLI generally and to align with the agenda item usage. **We believe that any accounting text should continue to refer to it as corporate or company owned life insurance, COLI, or as a life insurance asset**.

General Account, Declared Rate Separate Account, and Variable Separate Account policies. Non-qualifying policies would remain non-admitted.

Amendments to SSAP No. 21 to Add Additional Targeted Guardrails

- Require documentation supporting employee benefit or key-person purposes.
- Demonstrable ability and intent to hold policies to maturity.
- Restrictions addressing affiliated investment management.
- Periodic board or senior management review.
- Regulatory examination of program purpose, size, governance, and compliance.

Together, these measures would improve transparency and oversight while preserving the established distinction between a qualifying life insurance policy and a direct investment.

Accounting Classification and Reporting

By incorporating IRC §7702 within SSAP No. 21 in 2018, regulators created a clear, established bright line between a qualifying life insurance policy and an investment contract. IIG appreciates the Working Group's thoughtful resolution of this issue at that time and the durable framework it established.

COLI is a qualifying life insurance policy, not a direct investment in assets held and legally owned and controlled by the issuing carrier. The reporting entity owns contractual rights to death benefits, cash surrender value, and guarantees; it does not obtain the governance, voting, disposition, or portfolio management rights of a direct investor. Reporting ICOLI on Schedule BA would therefore focus on assets supporting the policy rather than the insurance asset actually owned. Reporting as a direct exposure would be inconsistent with the policy's mortality and insurance protections, and blur distinctions recognized in insurance, tax, and GAAP and statutory accounting frameworks. It would also conflict with the industry's longstanding prohibition against describing life insurance as an "investment" (e.g., NAIC Model Law 570).

ICOLI's treatment as an "other-than-invested" asset is substantive, not merely a reporting convention. IRC §7702 requires a meaningful quantitative relationship between cash value and death benefit, with death benefit exceeding current cash value. A policy that fails the two-prong test under IRC §7702 is not life insurance for federal tax purposes, and its cash value is taxed as an investment contract under §7702(g). Section 7702 thus provides an objective dividing line between qualifying life insurance and an investment account.

In addition, Schedule BA implies that the reporting entity (policyholder) directly bears the risks of the underlying investments. That framework would not fully recognize the substantial risk mitigation provided by:

- The death benefit, which always exceeds the cash value of the policy.
- General account obligations of the issuing insurance company.
- Contractual policy features that determine the cash surrender value.
- Other contractual protections embedded in the policy.
- Regulatory oversight of the issuing life insurer.
- The policyholder's creditor claims against a regulated life insurance company rather than direct ownership of investment assets.

We recognize the concerns prompting this agenda item: ICOLI balances have become more visible, product structures transfer differing degrees of performance exposure, and misconceptions about SSAP No. 21 that persist. Although qualifying ICOLI remains a limited exposure for most reporting entities, these concerns warrant enhanced transparency and disciplined oversight, not reclassification as an invested asset. Accounting classification, regulatory reporting, market conduct, and risk-based capital are related but distinct questions that should be addressed according to their specific objectives and risks. Enhanced reporting and principles-based guidance can provide visibility into program purpose, size, structure, contractual protections, and risk without treating the policyholder as the owner of assets legally owned and controlled by the issuer.

We recognize that the framework we recommend may impose additional reporting, governance, or compliance requirements. Nevertheless, these measures are appropriate to address legitimate regulatory concerns, preserve confidence in the ICOLI market, and ensure that qualifying ICOLI programs continue to serve their intended insurance and employee benefit purposes.

ICOLI Background

Employee Benefit Financing

Corporate-owned life insurance has existed for more than a century. For roughly the past six decades, corporations, banks, and insurance companies have used COLI as a long-term tool to finance or recover the cost of employee benefits and to address key-person risks. Its development reflects a U.S. system in which employers play a substantial role in providing employees with retirement, health, welfare, and other benefits in addition to their compensation.

COLI may support benefits directly, including non-qualified deferred compensation or split-dollar arrangements, or may be used on an aggregate basis to offset or recover employee benefit costs. In a cost recovery structure, expected death benefits are evaluated against long-duration benefit costs. In a cost offset structure, policy performance helps offset current or projected benefit expense. In either case, the economic logic is long-term alignment: long duration employee benefit-related obligations are paired with long duration life insurance cash flows.

Tax law has defined the guardrails that make COLI life insurance and not an investment. A life insurance policy must operate within a substantial legal and regulatory framework:

- IRC §7702 defines the federal tax requirements for a life insurance policy.
- IRC §7702A restricts early distributions from policies to ensure life insurance is used for long-term needs.
- IRC §817(h) imposes diversification requirements on variable policies.
- Treas. Reg. §1.817-5 establishes rules regarding “insurance dedicated funds”.
- IRC §101(j) establishes employer-owned life insurance notice, consent, insured status, and reporting requirements where applicable.
- IRC §264 restricts the deductibility of interest on funds that may be used to buy COLI.
- The Investor Control Doctrine restricts policyholder control of the strategies and investments underlying the policies to only the ability to make allocations among carrier provided options.

State law adds insurable interest, policy form, licensing, and employee protection requirements.

Given the tax and legal characteristics of COLI, the best economic outcome is derived from long-term ownership and receipt of death benefits, since non-death distributions may produce less favorable tax and economic results.

The Investor Control Doctrine reinforces this ownership distinction. A policyholder may allocate among carrier-provided options but may not contribute assets in kind, own supporting assets, direct strategy or security selection, require a particular manager or asset, or exercise direct or indirect control over portfolio management, including through affiliates. This substance-over-form doctrine cannot be avoided through creative structuring. The issuing insurer owns and controls the supporting assets and remains responsible for the policy's cash value, death benefits, guarantees, and other obligations; a violation of this tax doctrine can cause the policyholder to be treated as owning the underlying assets for federal tax purposes, undermining the intended tax treatment of the policy.

Policy Ownership
The accounting for COLI focuses on realizable policy surrender value. GAAP and statutory accounting both use the amount realizable under the insurance policy, while statutory guidance adds purpose and qualification conditions. This balance sheet accounting value for the policy relies on the consistent and conservative measure of the contractual net realizable cash surrender value. Although accounting measures the policy at its realizable cash surrender value, the policy's broader and more important economics include its expected death benefits.

Agenda Item 2018-08 confirmed qualifying ICOLI as an admitted asset subject to two guardrails: qualification as life insurance under federal tax law and acquisition primarily to finance employee benefit obligations or address key-person loss. It also contemplated documentation available to examiners and disclosure by broad investment category. This framework remains conceptually sound because it ties admission to insurance qualification, legitimate business purpose, and regulatory transparency.

At the same time, classification as an other-than-invested asset should not be used to avoid transparency. Regulators should be able to identify material ICOLI exposures, understand the program's purpose and structure, and distinguish among policies with different allocations of risk. IIG therefore recommends preserving SSAP No. 21 while materially improving the reporting framework around it.

ICOLI Products
Product Structures
COLI policies allocate performance risk differently. General Account policies generally place the risk with the issuer. Declared Rate Separate Account policies, including stable value and hybrid designs, combine separate account assets with contractual general account support and determine cash value through a crediting rate set by the issuing carrier. Variable Separate Account policies expose cash value more directly to market performance, subject to mortality benefits, guarantees, charges, and other terms. Across all structures, mortality remains an insurance function and portfolio management remains with the issuing carrier or its designated managers.

Fundamentally, a COLI policy provides a death benefit established at issuance that remains in force for the life of the policy. While the death benefit may increase over time, including as necessary to satisfy IRC §7702 corridor requirements, it is not generally reduced below the contractual minimum established at inception. Consequently, the insurer maintains a net amount at risk and remains obligated to pay a death benefit that, by definition, exceeds policy cash values. This ongoing mortality risk and death benefit obligation are fundamental elements of the policy's economic substance. The issuing carrier must have

ownership and control of the underlying invested assets to assure its ability to pay death benefits. The value provided to the policyholder is derived from an integrated insurance policy that combines both insurance protection and cash value accumulation.

The ICOLI market encompasses a remarkably diverse range of product structures. No two policies are necessarily alike even from the same issuer, especially considering an institutional context where some elements of the policy may be negotiated between issuing carrier and policyholder. Products carrying the same label may differ materially in their crediting mechanics, guarantees, death benefit design, surrender provisions, and charges.

Broad categories should therefore be practical risk groupings, not claims that every policy is identical, and should distinguish economically relevant features rather than rely on labels. Intended use may also come into play: an ICOLI policy matched to a non-qualified deferred-compensation liability may produce negligible net economic exposure because changes in policy performance are offset by changes in participant benefit liability obligations.

Stable Value Features
Stable value structures combine separate account assets with contractual guarantees or other general account support that limit the effects of the underlying assets on realizable policy value. Cash surrender value is determined by a crediting rate with a guaranteed minimum provided by the issuing carrier's general account. These protections reduce downside risk and provide a more predictable cash surrender value than an otherwise comparable variable life insurance policy without these features.

Stable value compresses the distribution of realizable returns around its mean, reducing volatility, downside dispersion, and the probability and severity of adverse tail events. This effect is particularly relevant to risk-based capital frameworks calibrated to market stress. Based on IIG's analysis, stable value structures typically reduce volatility by 50-80% or more and reduce the absolute magnitude of tail events by at least 15-20% (e.g., tail losses reduced from 20% to 0%), depending on product structure and the scenarios and periods tested.

The economic significance of this risk reduction depends on the source and substance of the stable value protection. Where an insurer contractually guarantees book value and is obligated to absorb book-to-market differences, the risk is not eliminated but transferred to the issuing insurance company. In such cases, the insurer providing the guarantee remains subject to statutory reserving requirements, risk-based capital requirements, and ongoing regulatory oversight.

The economic value of that protection therefore depends on the guarantor's ability to perform during periods of market stress. Accordingly, consideration of the guarantor's capital position and creditworthiness may be more relevant than a sole focus on the underlying assets. Where similar protections are provided by entities outside the NAIC regulatory framework, regulators may reasonably consider whether additional capital requirements are warranted to reflect the differing oversight, capital, and solvency regimes applicable to the guarantor. The extent of any capital recognition should depend on whether the protection is legally enforceable and transfers risk to a financially responsible guarantor.

Proposed Reporting and Potential Capital Framework
Note 21 Reporting
SAPWG should retain COLI as a Line 25 write-in and expand Note 21 data fields rather than move qualifying policies to Schedule BA. The note should reconcile to total COLI on Line 25 and classify amounts by product

type, investment performance exposure, contractual protection, and risks retained by the reporting entity. This would provide the requested visibility, address current reporting inconsistencies, and reflect that assets within a policy vehicle do not by themselves give the policyholder the risk or ownership of a direct investor.

Risk Categorization
The categories should function as a practical risk-clustering framework: use the fewest groups that capture meaningful differences in how investment performance affects realizable policy value and in the contractual protection provided by the insurer. Each category is intended to contain products that are more similar to one another than they are to products in the other categories. Some variation within each group is inevitable, but a small number of reasonably homogeneous categories supports simple, consistent, and administrable capital treatment without false precision.

Product Categories and RBC Treatment
All categories retain issuing carrier credit risk, which should be reflected in the applicable factors.

For IRC §7702 compliant COLI policies:

Category 1 — General Account COLI

- With a cash surrender value that is held entirely in the issuing insurer's general account and for which there cannot be policyholder-directed investment exposure.

The capital charges that could apply to Category 1 are very low. The nominal level of these factors may be different by filer type and should be calibrated to produce the desired results by filer type. The essential risk exposure to the reporting entity can be captured by basing the factor on the claims-paying ability of the issuing life insurance company and the priority that policyholder claims have over the issuing life insurance company's debt obligations.

Category 2 — Declared Rate Separate Account COLI
With a cash surrender value that is held in a separate account of the issuing carrier for which the reporting entity has reasonably determined that the volatility of the cash surrender value is not expected to be material for the following reasons:

1. the cash surrender value is contractually determined by a crediting rate with a guaranteed minimum provided by the issuing carrier's general account such that the policies do not directly bear the mark-to-market performance of the underlying separate account (including, for the avoidance of doubt, both stable value and hybrid products); or
2. used as a bona fide direct hedge for deferred compensation or similar plans if there is a matched liability that results in negligible net economic exposure to the reporting entity.

The capital charges that could apply to Category 2 are commensurate with the claims-paying ability of the issuing life insurance company. With these structures the volatility of the realizable value is expected to be immaterial and therefore the primary risk is credit risk to the issuer for the stream of future death benefits. There should be a very modest increase from the prior product category to reflect a small increase in uncertainty that (1) the economic value of that protection depends on the guarantor's ability to perform during periods of market stress, or (2) the direct hedge may not perfectly offset the matched benefit liability. The nominal level of these

factors may be different by filer type and should be calibrated to produce the desired results by filer type.

Category 3 — Variable Separate Account COLI

- With a cash surrender value that is directly exposed to the mark-to-market performance of the underlying separate accounts.

The capital charges that could apply to Category 3 are higher than the prior categories. The nominal level of these factors may be different by filer type and should be calibrated to produce the desired results by filer type. Alternatively, the policyholder could elect to look through to the underlying separate accounts for the purposes of RBC, at their discretion.

This fixed charge captures that there may be significant risk mitigants in most programs (such as minimum death benefits or specific, direct employee benefit funding obligations).

Non-Qualifying Policies

- COLI policies that do not comply with IRC §7702 will continue to be non-admitted under SSAP No. 21.

RBC Factors and Counterparty Risk

The capital framework should normalize comparable risks across life, P&C, and health insurers while reflecting each category's contractual protections. The product categories should reflect increasing policyholder exposure to investment performance, while every category continues to reflect carrier counterparty risk because death benefits, guarantees, and cash surrender value remain obligations of the issuing life insurer. Existing calibrated factors may be preferable to fixed charges that may affect filer types differently after covariance.

IIG is not wedded to these specific categories or factor levels. We offer them as a practical starting point and look forward to constructive dialogue regarding the framework's design and calibration.

Benefits of the Proposed Framework

This approach would:

- Preserve the distinction between a life insurance policy and a direct investment without implying ownership of underlying invested assets.
- Provide regulators with enhanced transparency regarding policy characteristics and the types of risks retained by the reporting entity.
- Allow the NAIC to consider appropriate RBC factors based on the risks retained by the policyholder, based on COLI product type.

A mockup of potential changes to Note 21 is attached as an exhibit for consideration. *(Staff Note: This exhibit is available in the comment letter packet.)*

Additional SSAP No. 21 Guardrails

IIG also recommends targeted enhancements to SSAP No. 21 to align ICOLI use with the spirit of the framework adopted in 2018.

Program Qualification and Governance
These guidelines should apply to all programs:

- The existing SSAP No. 21 employee benefit funding purpose must be demonstrated in an internal pre-purchase due diligence file at the time of purchase using the cost recovery method, the cost offset method, as a bona fide direct hedge for an employee benefit liability, or another commonly accepted practice. The provision of a supplemental death benefit to the COLI insureds does not, on its own, satisfy the funding of employee benefit obligations purpose.
- The reporting entity has the documented willingness and ability to hold the COLI policies for the full lifetime of all the insureds (hold-to-maturity). This will ensure that the company is holding the policies in order to receive a stream of future death benefits.
- Investment managers who are under common control (as broadly defined) with the reporting entity (policyholder) may not manage the investments (directly or indirectly) inside the separate account of a policyholder's COLI program. Noncompliance with this increases the risk of adverse tax outcomes which would increase the risk of surrender and lessen the likelihood of holding the COLI policies for its intended purpose.
- Periodic board or senior management review of existing or new COLI policies is required.

Program Size and Concentration
The employee benefit purpose requirement adopted in 2018 was intended, in part, to make program size self-limiting, but it may not constrain every case. The proposed guardrails regarding documentation, hold-to-maturity, affiliated managers, governance, examination, and appropriately calibrated capital requirements should better align program size with intended uses and reduce the potential for misuse.
Although some individual insurance entities report substantial ICOLI balances as a percentage of surplus or total adjusted capital, those concentrations may appear more proportionate when evaluated across the statutory balance sheets of the affiliated insurance group. ICOLI may be purchased by a particular legal entity for legitimate entity-specific purposes, including the location of employee benefit obligations, available capital, tax attributes, or administrative considerations. Where appropriate intercompany agreements exist, regulators should review both the exposure of the individual reporting entity and the aggregate exposure across affiliated statutory entities.

Examination and Compliance
Examiners should have clear authority to test the primary consideration analysis, sizing, governance, and compliance. A policy that fails IRC §7702 or was not acquired with the required employee benefit or key-person consideration should not receive qualifying ICOLI treatment. This targeted approach protects SSAP No. 21 without redefining compliant policies.

A mockup of potential changes to SSAP No. 21, paragraph 9, is attached as an exhibit for consideration. *(Staff Note: This exhibit is available in the comment letter packet.)*

Conclusion
ICOLI is a diverse product category with legitimate business purposes and varying degrees of policyholder performance exposure. Qualifying policies should remain within SSAP No. 21 and outside Schedule BA, paired with transparent Note 21 reporting, documented purpose, disciplined governance, stronger examination tools, appropriately calibrated capital treatment, and continued recognition of the policyholder's contractual insurance asset.

Thank you for considering our comments. IIG would welcome the opportunity to assist the Working Group in developing a practical reporting framework and principles-based guidance that provide regulators with meaningful visibility while preserving the established treatment of qualifying ICOLI as a life insurance policy.

Finseca's Comments:

On behalf of Finseca, we appreciate the opportunity to comment on Agenda Item Ref #2026-08, exposed by the Statutory Accounting Principles (E) Working Group ("the Working Group") for comment at its August 12, 2026 meeting. Finseca submits these comments in support of, and as a complement to, the comments submitted by the American Council of Life Insurers ("ACLI"), while offering the perspective of the brokerage and distribution community. The exposure asks whether amounts realizable under Insurance Company-Owned Life Insurance ("ICOLI") policies should be reclassified from an admitted other-than-invested asset under SSAP No. 21 to an invested asset reported on Schedule BA. Finseca represents the brokerage and distribution side of this market — the licensed insurance professionals who work directly with corporate clients to assess benefit-financing needs, design compliant insurance-based solutions with carriers, and place and administer those arrangements over time. That practical client-facing perspective informs our comments below.

Finseca, Financial Security for All, is a national trade association with nearly 15,000 members who serve hundreds of thousands of clients every day in communities across the country. Our membership includes licensed insurance agents and producers, agency leaders, and brokerage professionals, many of whom are also registered representatives of broker-dealers or representatives of registered investment advisers. A meaningful share of our institutional-markets membership consists of licensed insurance professionals who specialize in designing, placing, and administering insurance-based financing arrangements—including ICOLI—that help corporations manage the cost of employee-benefit, deferred-compensation, and key-person obligations. These members work with clients, life insurance carriers, and appropriate tax and legal advisers to ensure that an arrangement is appropriately designed, documented, marketed, and placed within the applicable insurance, tax, and state-law framework.

Executive Summary

Corporate clients engage our members because they need a way to cover the costs of financing current and future employee benefit obligations— and to protect against the financial disruption of losing a key executive. The client purchases life insurance with a regulated carrier, not an interest in the assets that carrier sets aside to back its life insurance obligations.

The insurance policy transaction structure is what should drive the Working Group's accounting analysis. Some policies our members place credit a declared or indexed rate out of the carrier's general account; others allocate premium among separate-account options with more variability in cash value. Either way, the client's legal position is the same: contractual rights against the carrier, not a claim on the underlying assets.

Placing an ICOLI policy means operating within a multi-layered compliance framework on every case. The policyholder's analysis and documentation must support the appropriate treatment under SSAP No. 21; the contract must qualify as life insurance for federal tax purposes under IRC §7702; if a separate account structure is used, it must comply with applicable diversification and investor-control principles; the policyowner must satisfy IRC §101(j)'s pre-issuance notice-and-consent requirements where applicable; the arrangement must satisfy state-law insurable-interest requirements; and the issuing carrier remains

subject to the prudential, contractual, and regulatory requirements applicable to its obligations under the policy.

While existing SSAP No. 21 guidance contemplates contemporaneous documentation of the analysis supporting an ICOLI purchase, including its relationship to key-person risk and employee-benefit obligations, it is not explicitly stated. To the extent regulators seek greater visibility into those judgments, Finseca supports appropriately tailored reporting or documentation that allows regulators to understand the program's business purpose, scale, and structure. Our membership strongly agrees that it is not appropriate to redefine, implicitly or explicitly, the policyholder's insurance contract as direct ownership of the assets supporting it.

Why Clients Buy ICOLI, and Where Our Members Fit In

Our members are engaged when a company has employee-benefit, deferred-compensation, or key-person-related obligations that create a continuing cost. They work directly with the client to understand those obligations, evaluate whether insurance-based financing is appropriate, and help design and place a compliant ICOLI arrangement with an issuing carrier. These are long-term policies by design and a core component of employee-benefit financing. Clients expect to hold them until all death benefits are paid—because the benefit liabilities they help offset are similarly long-lived. That is fundamentally different from acquiring an asset for short-term trading or liquidation. Our members design, place and administer these programs for as long as the policy remains in force.

Different Product Structures, One Underlying Placement

The policies our members place are not uniform. Some policies are backed by a carrier's general account and credit a declared or index-linked rate. Others use a separate account with negotiated guarantees or permit the client to allocate premiums across a menu of investment funds, and a single transaction will often blend more than one of these approaches. Our members' job is helping a client and carrier develop an appropriate structure for the client's objectives.

Policy size is not unlimited. The amount of coverage and premium must be grounded in the client's underlying benefit, compensation, retention, or other legitimate business obligations; the policy's insurance design; carrier underwriting and retention standards; and applicable tax and state-law requirements. Our members work with clients and carriers to calibrate the amount and design of each placement to those facts. The result is not an open-ended allocation to underlying investments, but an insurance arrangement sized and structured around identified obligations, the eligible insured population, carrier underwriting, and the client's broader governance and risk-management process.

Every transaction our members place still rests on the same foundation — a contract with the issuing carrier, not a claim on its underlying assets. The features that add market sensitivity typically come paired with an offsetting client benefit, or provide a stabilized crediting rate or a lower net cost of insurance, that a risk-only reading of the underlying assets would miss.

Compliance Work at Placement

For brokers and their institutional clients, ICOLI placement begins with a substantial compliance, diligence, and documentation process. Our members are licensed insurance professionals with experience designing and placing insurance-based financing arrangements. Working with the client, issuing carrier, and appropriate tax and legal advisers, they help determine whether the proposed arrangement serves a legitimate business purpose and can be structured within the applicable legal and regulatory framework.

Depending on the facts of the case, that process includes confirming that the proposed policy is structured to qualify as life insurance under IRC §7702; evaluating applicable investor-control and diversification limitations; satisfying relevant state insurance-law requirements; confirming that the employer has the necessary insurable interest; establishing an appropriate policy size in relation to the underlying obligations; and ensuring that covered employees receive required notice and provide appropriate consent before issuance.

Our members are essential to how our clients address these requirements, coordinate appropriate documentation, and explain the policy's intended role, material features, limitations, and risks. That includes helping clients assess whether the product design and available contract options are consistent with the stated benefit-financing purpose, risk tolerance, liquidity needs, and governance processes applicable to the program.

Finseca recognizes the Working Group's interest in ensuring that ICOLI is marketed, sold, and explained to institutional clients accurately and with appropriate attention to the product's long-term purpose, liquidity profile, guarantees, limitations, and risks. ICOLI transactions are specialized institutional arrangements that require product-specific expertise, careful due diligence, and clear communications regarding the nature of the insurance contract and the respective roles of the insurer, producer, policyholder, and other service providers.

To the extent the Working Group identifies concerns regarding sales practices, marketing materials, or communications by participants in the ICOLI marketplace, those concerns should be addressed directly through clear, appropriately tailored market-conduct, producer-licensing, and advertising expectations—not through an accounting change that neither regulates sales practices nor measures the risk of a particular contract. Finseca supports marketing that is accurate, complete, transparent, and appropriate to the client's circumstances; explains the policy's long-term purpose, relevant liquidity considerations, applicable guarantees, and material limitations; and makes clear that the client owns an insurance contract, not the underlying investment assets.

Brokers do not manage separate-account assets or direct the holdings of underlying investment funds, and neither does the policyholder. The carrier establishes the available contract options and engages the professionals responsible for managing those options. Accordingly, any regulatory response to identified conduct concerns should distinguish among the respective roles and responsibilities of the insurer, licensed producer, policyholder, investment manager, administrator, consultant, and other service providers.

Compliance and appropriate sales practices continue after placement. Changes in client circumstances, policy ownership, the insured population, applicable law, or the underlying obligations requires ongoing review and administration over the life of the arrangement. Finseca welcomes the opportunity to work with the Working Group, carriers, and other regulators on practical, market-informed guidance that advances these objectives without disturbing established accounting treatment.

Taken together, these compliance obligations, the client's limited rights with respect to underlying investments, and the broker's advisory role support treating ICOLI as an insurance contract for accounting purposes—not as direct ownership of investment assets.

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What's Actually Behind the Growth in ICOLI Balances

We understand why the size of ICOLI balances has drawn regulators' attention. A significant share of that growth is arithmetic rather than appetite: broad equity markets have more than doubled over the period regulators cite, and other assets held in ICOLI structures have appreciated substantially as well, increasing the resources available to support employee benefits broadly, including rising healthcare costs.[1] New sales and additional premium on existing policies account for some of the increase, but market appreciation on assets already inside existing policies is doing a lot of the work — meaning a larger balance does not mean the number of policies has grown by anywhere near the same amount. We think that distinction deserves to be in front of the Working Group as it weighs the materiality of the growth that prompted this exposure. None of this means larger balances are beside the point — it is reasonable for the Working Group to want better information. Disclosure can deliver that without collapsing the distinction between owning a life insurance contract and owning the assets behind it.

A Targeted Way Forward

Finseca would support a better disclosure-based approach that hands regulators real visibility into the actual risk to the policyholder without touching the underlying accounting treatment. That kind of transparency serves everyone's interest in a well-functioning market; treating the contract as though it belonged on Schedule BA does not. We would submit that an expansion and refinement of the disclosure currently required by SSAP No. 21 would provide more consistent reporting and better information regarding the risks to the policyholder.

If there is concern about how ICOLI gets marketed and sold, we would ask the Working Group to take that on directly rather than through an accounting change that does not actually reach sales practices. That is squarely our members' territory — they are the ones in the room with corporate clients placing these policies — and we would welcome the chance to help the Working Group and other regulators build practice-level guidance on producer conduct and marketing that addresses the underlying concern without disturbing how ICOLI is accounted for.

Where regulators identify a specific concern regarding ICOLI programs, Finseca supports addressing that concern through a targeted response tied to the relevant contract feature, program structure, or conduct at issue, rather than through a blanket reclassification that treats the policyholder as the owner of underlying assets. Schedule BA treatment is not a substitute for that analysis. Accounting presentation, disclosure, and capital treatment serve different purposes and should not be conflated, even where they are informed by common facts.

Conclusion

How an item is presented in the accounts, what gets disclosed about it, and how much capital it carries are three separate questions, and each deserves its own answer even when the same underlying facts inform all three.

ICOLI is a life insurance contract: the client owns the policy, not the assets that support the carrier's contractual obligations. Licensed insurance professionals and carriers design, market, and place these arrangements within an established framework of tax law, state insurance regulation, employee-protection requirements, carrier underwriting, and ongoing compliance obligations. We welcome continued discussion with the Working Group, carriers, and other regulators about disclosures—and, where genuinely helpful, producer-conduct and marketing guidance—that gives regulators confidence in this market without changing what the product is.

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John Blocher's Comments:

My focus is on the appropriate ICOLI RBC charge. The current ICOLI RBC charge is 0% for Life entities and that is not appropriate, neither is the 5% RBC charge used for Property & Casualty and Health entities. Both percentages appear to be arbitrary. It does not make sense to look through the ICOLI arrangement to underlying assets as there is a significant intermediary, the insurer offering and maintaining the ICOLI arrangement.

ICOLI balances are quite similar to many other types of noncontrolled or restricted assets in NAIC RBC. Some of the exposure draft language reads as if an ICOLI arrangement is simple to collapse (if it is that simple, no RBC charge is necessary). It is not simple to collapse for various reasons, not the least of which is that the arrangement itself is frequently a Modified Endowment Contract (MEC). Stil even though ICOLI is expected to be a long-term vehicle, it can be fully surrendered with a modest effort, if ever necessary.

As an asset ICOLI is similar to a restricted asset which also can be recovered back to the balance sheet with a little time and effort. Noncontrolled assets bearing some similarity to ICOLI:

1. Subject to repurchase, reverse repurchase, dollar repurchase, or reverse dollar repurchase agreements
2. Placed under option agreements
3. Pledged as collateral/encumbered FHLB assets for funding agreements
4. On deposit with states or other regulatory bodies

For noncontrolled or restricted assets, a company cannot immediately sell that direct asset because the assets are included another agreement, just like ICOLI balances are.

Suggested RBC Treatment:

1. ICOLI balances should receive the same RBC charge as the other restricted assets on NAIC RBC (LR017). This would be a 1.26% RBC charge currently and make this similarly a restricted asset consistently across Life, Property & Casualty, and Health.

2. For ICOLI policy loans, any assets purchased with policy loan proceeds from an ICOLI arrangement would receive the applicable RBC charge for those assets as they are outside of the ICOLI arrangement.

Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing (as a formal project), and direct NAIC staff to work with industry and the Capital Adequacy (E) Task Force on an expanded disclosure for year-end 2027.

Although the comments are detailed, they are essentially uniform in key themes:

- Commenters highlight that ICOLI products must comply with various federal and state provisions as a life insurance product, including insurable-interest, notice and consent requirements, investor-control limitations and diversification requirements.

- Commenters oppose including ICOLI assets as an investment on Schedule BA, highlighting that the assets are not held by the reporting entity owner/beneficiary, but are assets of the insurer product issuer.

- Commenters support enhanced disclosure of ICOLI reported as an other-then invested asset.

- Commenters identify that ICOLI products are specifically tailored for each reporting entity owner/beneficiary. Comments identify that ICOLI products are captured in the issuer's general account or separate account, and if a general account product, then the reporting entity owner/beneficiary is not subject to investment risk. ICOLI products captured in the issuer's separate account are subject to investment risk, but different structures may mitigate the investment risk.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-09 (Julie)	**SSAP No. 86 - RSATs**	**13 – Agenda Item**	**Comments Received**	**Att 21 ACLI - 12 IP - 21**

Summary:
On August 12, 2026, the Working Group exposed a concept agenda item to assess potential revisions to *SSAP No. 86—Derivatives* and the overall accounting and reporting guidance for RSATs. Comments were requested from industry and state regulators on whether further clarifications or limitations to RSAT transactions should be considered.

Proposed concept changes include the following summarized changes:

1. Inclusion in SSAP No. 86 of key definitions and the requirements for an RSAT to be effective.

2. New guidance that restricts cash components used in RSATs to high-quality securities reported as U.S. Government investments, municipals, or corporate bonds on Schedule D-1-1: Issuer Credit Obligations with an overall NAIC 1 or NAIC 2 designation.

3. New guidance that requires RSATs to replicate investment grade (NAIC 1-2) long-term Schedule D-1-1: Issuer Credit Obligation bonds as the "permissible investment."

4. Revisions to assess and potentially eliminate the accounting guidance from SSAP No. 86 for situations that result with the fair value measurement of the derivative. (This guidance will not be applicable with the proposed edits restricting the cash component and replicated asset.) The option to report the derivative at fair value will be retained.

5. Guidance to prescribe how the RSAT and RBC reporting schedule should be completed, particularly for situations in which the CUSIP for the RSAT has yet to be received and/or when a single derivative is used with a basket of cash components or that covers many RSAT credit profiles. These edits are proposed to include a referral to the Capital Adequacy (E) Task Force requesting this guidance inclusion and to prohibit net reduction of RBC from RSAT transactions. *(Meaning, the overall RBC impact from replicated assets and the cash component should be either a net increase to RBC or floored at zero.)* The intent of RSAT transactions is to provide reporting entities exposure to other investments with specific characteristics. The intent is not to enable a reduction of RBC by allocating higher-risk held assets as the cash component to an RSAT transaction.

ACLI Comments:

RSATs play an important role in life insurers derivative usage and portfolio construction processes. By pairing liquid derivative products with existing assets on a life insurer's balance sheet, insurers are better able to manage market risks including credit, interest rate, and foreign currency risk by matching replicated assets with their liabilities. RSATs help to bridge the gap between what types of assets are currently available in the market, versus those necessary to match a given liability profile. They can be part of a long-term asset allocation or as a tool to help facilitate portfolio transitions. Also, RSATs can give insurers additional flexibility to efficiently adjust portfolios rapidly to changing market conditions. The Safe Harbor for RSATs provides many examples of structures that are beneficial to life insurers including (but not limited to):

A Bond paired with a Fixed-Float Interest Rate Swap: A floating rate security can be paired with a receive fixed – pay floating rate swap to produce a synthetic fixed rate security. An example of this would be a floating rate AAA Collateralized Loan Obligation (CLO) paired with a swap. AAA CLOs are most commonly issued with floating rate coupons. This RSAT structure can potentially reduce a life insurer's interest rate exposure when this RSAT is matched against a long duration liability. It is an example of an RSAT that does not involve a change in credit profile.

A Bond paired with a Credit Default Swap (CDS): The Markit CDX North American Investment Grade Index ("CDX IG") and the Markit CDX North American High Yield Index ("CDX HY") are two of the most liquid products within the credit markets today. By pairing exposures in these indices with bonds, life insurers have the ability to rapidly shift credit exposures in their portfolios in a diversified way, with minimal transaction costs. Index CDS liquidity persists when cash credit markets gap or close, so insurers can continue to manage exposure in stressed conditions rather than being forced into distressed cash sales. They can play an important part of life insurers' overall credit portfolio strategy. This RSAT changes the credit profile of the cash component, and these risks must be appropriately captured within a company's risk based capital calculations.

A Bond paired with Foreign Currency Swap: U.S. Insurers can hold liabilities in currencies other than USD. To match those liabilities, an Insurer could purchase a USD-denominated asset and pair it with a foreign currency swap. This would exchange the USD cash flows of the asset with foreign-denominated flows. In this RSAT, the insurer takes advantage of the depth of U.S. capital markets to originate the underlying cash component, and the resulting synthetic asset can then be matched against foreign-currency liabilities. This RSAT does not result in a change of credit profile.

Ever since their inception in 2003, RSATs have been subject to a significant regulatory governance structure. This governance structure enhances the regulatory transparency around RSATs, and places important limits on the amount and types of permissible RSAT structures the life insurers can use. These include:

1. In some jurisdictions, a company's use of RSATs is addressed through a Derivative Use Plan or other filings with its domiciliary regulator.

2. Every RSAT must be reported to the Securities Valuation Office (SVO). Any changes to existing RSAT structures must be reported within 30 days, and any changes that break RSAT effectiveness terminates the RSAT immediately.

3. All RSATs are publicly reported on Schedule DB Part C.

4. Types of RSATs are generally confined to those defined in the Safe Harbor[1]. Each structure outside of the Safe Harbor is subject to review and approval by the SVO.

   FN1: Purposes and Procedures Manual of the NAIC Investment Analysis Office, Part Two, "Replication (Synthetic Asset) Transactions," ¶¶ 30–31, "Safe Harbor – Defined RSATs" and "Transactions Subject to RSAT Approval Review" (effective Dec. 31, 2025).

5. Every RSAT carries an NAIC Designation assigned by the SVO — that of the Cash Component, or of the Reference Security where the transaction changes the credit profile.

6. All RSATs must satisfy six separate effectiveness tests:

   a. The transaction is deemed to be an approved RSAT if it fits into a Safe Harbor Defined RSAT structures or has been reviewed and approved by the SVO pursuant to the "Transactions Subject to RSAT Approval Review" process.

   b. The Replicated (Synthetic Asset) must be an otherwise permissible investment.

   c. The insurer's maximum potential loss in the replicated asset cannot exceed the combined book/adjusted carrying value of the cash and derivative components.

   d. At no time is there derivative exposure without a corresponding Cash Component assigned exclusively to the replicated asset.

   e. The derivative maturity cannot be longer than the maturity of the cash component.

   f. At inception, the market value of the cash and derivative components must not be materially different from the market value ascribed to the RSAT.

7. In some jurisdictions, state law establishes limits or parameters governing RSAT usage relative to admitted assets.

ACLI supports the core objectives of the Exposure: ensuring that RSATs are used only to replicate otherwise permissible investments, taking into account applicable state investment limits, and that the risks embedded in RSATs are appropriately reflected in a company's Risk Based Capital (RBC) calculations. ACLI believes these objectives can be achieved through enhanced disclosures, clear reporting requirements, and a distinction between RSATs that change the credit profile of the cash component ("Credit RSATs") and those that do not ("Non-Credit RSATs"), without unnecessarily limiting the ALM benefits these transactions provide. Additionally, ACLI supports continuing to allow structured products and high yield assets in the allowable scope of the cash components of RSATs, as well as allowing them as the replicated assets in RSATs, including as illustrated in examples earlier in this letter.

As the NAIC continues to evaluate potential updates to the framework, ACLI believes continued engagement with industry would be beneficial in clarifying the eligibility of existing RSAT structures and addressing remaining ambiguities. We appreciate the opportunity to provide these comments and look forward to continued engagement, including through the planned public educational session.

Interested Parties' Comments:

Interested parties support the Working Group's efforts to review the statutory accounting and reporting framework governing replication synthetic asset transactions (RSATs) and, where warranted, pursue targeted modernization. RSATs are an important tool utilized by insurers to manage asset-liability matching, efficiently access desired investment characteristics, and respond to changing market

conditions in support of insurance obligations. When appropriately structured, RSATs provide insurers with flexibility to manage interest rate, credit, and currency exposures in a manner that can enhance risk management and align investment portfolios with underlying liabilities.

Interested parties note that RSATs are not a new or unregulated activity. Existing statutory accounting guidance, Securities Valuation Office oversight, public reporting, state investment law requirements, and RBC risk assessments collectively provide a substantial framework of regulatory safeguards governing their use. These provisions are intended to ensure that RSATs remain tied to otherwise permissible investment objectives and that the risks associated with such transactions are subject to regulatory review, transparency, and ongoing monitoring.

Interested parties support the objective of ensuring a clear and comprehensive understanding of the economic exposures created by RSATs and the way those exposures are reflected in statutory reporting and RBC. We look forward to collaborating with regulators and NAIC staff in assessing potential opportunities to refine the clarity, accessibility, and consistency of the guidance governing RSATs, as well as the transparency and usefulness of statutory reporting as a tool for evaluating activity and associated exposures. Interested parties encourage consideration of whether modest enhancements to existing disclosures could provide regulators with clearer visibility into the economic characteristics of a company's RSAT structures and facilitate efficient evaluation of distinct exposure cohorts, such as by distinguishing between RSATs that transform the credit profile of the cash component and those that do not. Consolidating core accounting concepts and effectiveness requirements into a common authoritative source, clarifying how separately reported investment and derivative components across statutory holdings schedules collectively establish traceability and provide regulators with an integrated and accessible view of the resulting synthetic exposure as reflected in Schedule DB Part C, and enhancing alignment across accounting, reporting, and RBC instructions may further strengthen regulators' ability to assess these transactions. Collectively, such enhancements could provide a more comprehensive and accessible framework for monitoring existing and emerging exposures while preserving the risk management and asset-liability management benefits of appropriately structured RSATs.

Accordingly, interested parties encourage continued collaboration among regulators, NAIC staff, and industry participants. Additional dialogue, educational sessions, and representative transaction walkthroughs may help identify targeted improvements that address regulatory concerns while preserving the legitimate benefits that RSATs provide to insurers. Interested parties stand ready to work with the Working Group and other interested regulators to support these efforts.

Recommendation:

NAIC staff recommend that the Working Group direct NAIC staff to proceed with drafting preliminary revisions to consolidate accounting RSAT guidance into *SSAP No. 86—Derivatives.* The current guidance is divided between SSAP No. 86 and the P*urposes and Procedures Manual of the NAIC Investment Analysis Office*, with reporting instructions in Schedule DB-C and the RBC Instructions.

NAIC staff also recommend that the Working Group direct NAIC staff to work with industry and regulators in the interim on the parameters for when RSATs should be permitted, and an overall disclosure that allows easy comparison to state investment limits from NAIC designations.

An educational session on RSATs has been scheduled for Dec. 1, 2026, at 11 Central / 12 Eastern. Notice of this meeting has been distributed and participation details are available on the SAPWG webpage.

NAIC staff has reviewed Schedule DB-C and the RBC formula for many companies, and there are significant inconsistencies in reporting. Below are noted situations that raise questions from a detailed review of reporting:

- Impact on RSAT reporting when they are not filed with the SVO. (Technically, all RSATs are to be filed, but this has not been fully observed.) Also, impact on RSAT reporting when an RSAT has been filed and an NAIC designation has not been received. This requests discussion when the RSAT filing occurred much later than the effective date of the RSAT.
- Impact on RSAT reporting when the investment schedule has not been properly completed. (For example, companies that fail to report the RSAT NAIC designation when one exists.
- Reporting entities that only report the NAIC designation (and not the modifier) for either the RSAT or the cash component. Pursuant to the SVO, all RSATs, even those filed prior to 2021 have a designation modifier. This is an impact on the RBC formula and whether the RBC impact is properly reflecting the actual NAIC designation.
- Use of cash components that are reported with "Z" designations or with an NAIC 6 (at or near default) to support the RSAT. This is also noted for other non-investment grade designations.
- Use of commercial real estate (or other forms of invested assets) as cash components.
- Potential disclosure of investments by designation, including RSATs, in assessing whether an RSAT (and all lower-quality investments) are within state investment law limits.
- Missing, incomplete or inaccurate reporting of the RBC replication schedule. Per initial review, companies with RSATs have reported "none" for this schedule, companies with replications have not completed the RBC impact, and companies have been identified as using the incorrect RBC factor to calculate the impact based on the reported NAIC designation.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-10 (Julie)	**SSAP No. 26 – Embedded ALM Risk**	**14 – Agenda Item**	**Comments Received**	**Att. 20 ACLI – 1 Athene – 3 LSTA & ACC - 6 Derchert – 11 SFA – 18**

Summary:
On August 12, 2026, the Working Group exposed revisions to *SSAP No. 26—Bond*s, to expand on the requirements for asset-backed securities to qualify for bond reporting. The revisions would incorporate two new components to the principles-based bond definition for financial asset-backed securities:

- All financial asset backed securities that are not self-liquidating would be required to overcome the rebuttable presumption for equity-backed securities in order for the security to meet the definition of a bond.

- Financial asset backed securities that are self-liquidating would be subject to assessment as to whether the debt security is subject to significant embedded asset-liability management (ALM) risk. Embedded ALM risk is considered to be significant if the ability to pay contractual cash flows of the debt security as scheduled could be impacted by changes in reinvestment interest rates or investment spreads. Securities that include significant embedded ALM risk would not meet the definition of a bond.

ACLI Comments:
ACLI supports the objective of ensuring that securities are appropriately classified when their ability to pay contractual principal and interest is materially dependent on the reinvestment of underlying asset cash flows.
Our primary comment is that paragraph 9.d. should more clearly define when embedded ALM risk is considered "significant." The operative text in the exposure "could be impacted" could be interpreted as having any non-zero, even if remote, possibility of impacting cash flows. As drafted, the guidance could capture ordinary changes in reinvestment interest rates or investment spreads, even when those changes would not significantly impair the security's ability to pay contractual cash flows. We discussed this concern with NAIC staff and regulators, and we support considering structural mitigants and applying a severe but precedented stress threshold. We also recommend removing "as scheduled" because the reference to contractual cash flows adequately captures the intended concept.

Accordingly, ACLI recommends revising paragraph 9.d. as follows:

9.d. If the financial assets are self-liquidating, they must produce cash flows that are sufficient to pay all contractual amounts due in order to be considered meaningful. To the extent that the contractual terms permit cash flows of the financial assets to be reinvested rather than used to repay the debt security, the reporting entity should evaluate whether the debt security is subject to significant embedded asset-liability management (ALM) risk. Embedded ALM risk is to be considered significant if, when factoring in any structural mitigants, the ability to pay contractual cash flows of the debt security ~~as scheduled~~ could be significantly impacted by severe but precedented changes in reinvestment interest rates or investment spreads. Securities that include significant embedded ALM risk do not meet the definition of a bond.

This revision would establish a clearer threshold for significant embedded ALM risk while recognizing structural features that mitigate that risk.

ACLI also recommends a minor clarification to paragraph 9.c. Consistently referring to the "financial assets" of the ABS issuer would eliminate potential ambiguity regarding the scope of the paragraph.
Accordingly, ACLI recommends revising paragraph 9.c. as follows:

9.c. Financial assets of an ABS issuer can either be self-liquidating or not. Self-liquidating means that the assets convert themselves to cash over a defined period in accordance with their contract terms, as is the case with most types of receivables. If the financial assets of the ABS issuer are not self-liquidating, the rebuttable presumption detailed in paragraphs 6.a.-6.d. must be overcome in order for the security to meet the definition of a bond.

Lastly, we understand that the intention of these provisions is generally not to apply to investments with relatively short reinvestment periods, including those present in commonly traded assets (e.g., CLOs), and we would recommend codifying this intention in the operative language.

Interested Parties' Comments:
Interested parties support the comment letter submitted by the ACLI on this exposure.

Athene Comments:
We recognize the need to examine statutory guidance as insurers invest in new asset classes, and we appreciate SAPWG's efforts to address embedded ALM risk. As currently drafted, however, we are concerned that proposed paragraphs 9.c. and 9.d. of the Principles-Based Bond Definition (PBBD) could be interpreted to disqualify a range of well-established asset classes based on structural mechanics that may create some reinvestment exposure, even when that exposure is not significant.

These proposed modifications include language to clarify how to assess whether reinvestment periods are exposed to significant embedded ALM risk. This language would exclude from this presumption ABS where (i) structural mitigants embedded within the debt security protect the ALM risk from becoming significant or (ii) the economic likelihood of creating ALM risk is insignificant.

I. Potential Issues with the Proposed Revisions
We understand that proposed paragraphs 9.c. and 9.d. are intended to identify debt securities with significant embedded ALM risk. We believe the proposal includes one significant ambiguity -- the use of the word "could" in proposed paragraph 9.d., "…Embedded ALM risk is to be considered significant if the ability to pay contractual cash flows of the debt security as scheduled could be impacted…", may be interpreted to establish a significance threshold so low that any structure permitting the reinvestment of collateral cash flows could be interpreted to fail to qualify for bond treatment. As a result, we believe the proposal, without further modifications or guidance, may affect assets commonly held by insurers and other institutional investors even when the embedded ALM risk is, in reality, limited.

Because holdings are spread across U.S. insurers, a significance threshold established with a non-zero probability (e.g., 'could') could create interpretive ambiguities across the industry.

II. Alternative Modifications to SSAP No. 26 and the Meaningful Level of Cash Flows Test
We believe that revisions to SSAP No. 26 would address SAPWG's concerns while also mitigating unintended consequences.

The preamble to agenda item Ref #2026-10 describes structures that NAIC staff presume to have significant embedded ALM risk and also refers to structures that are presumed not to have significant risk, including those with shorter reinvestment periods. We recommend incorporating the relevant limiting concepts directly into SSAP No. 26 (or other equivalent guidance) as follows:

a) Revise paragraph 9.d. so that significance depends on whether changes in reinvestment interest rates or investment spreads would materially impair the debt security's ability to pay scheduled contractual cash flows, rather than on whether those cash flows could be affected in any respect.

b) Specifically identify structural mitigants of embedded ALM risk in paragraph 9.d., including but not limited to:
    - Interest-rate or basis hedges;
    - Subordination and/or overcollateralization;
    - Diversification;
    - Structural protections, including weighted average spread test, weighted average ratings test;

- Ability to refinance liabilities;
- Ability to partially or fully prepay outstanding debt;
- Bounded reinvestment period with scheduled amortization or a step-up afterwards;
- Hard-wired spread-compression trigger that ends reinvestment if unable to find suitable assets;
- Documented access to eligible asset origination capacity at a set multiple of the vehicle's reinvestment needs, under a formal allocation policy; and/or
- Clear manager alignment of interest (e.g., fee subordination at certain spread compression levels).

c) Add factors to paragraph 9.a. that an insurer should consider when performing the meaningful level of cash flows test, including:
   - Fund-level governance and risk limits, including actions the asset manager must take in response to stress arising from reinvestment risk;
   - Stress testing that demonstrates the effectiveness of the structure and other mitigants for ALM and reinvestment risk;
   - The use of derivatives and other instruments to reduce ALM risk; and
   - Historical and forward-looking macroeconomic data and other factors that could affect reinvestment risk.

We expect these proposed revisions will greatly reduce the interpretive risk and scope of structured securities with significant embedded ALM risk to what we believe is the intended population as foreshadowed in the preamble to the exposure. To the extent that the Working Group prefers to simplify the language within an Issue Paper Q&A, then we respectfully request that the Working Group addressing the salient points from the preamble into other authoritative regulatory guidance. The aim of doing so would be to preserve the durability of the accounting guidance for use years and decades in the future.
Additionally, we are supportive of the ACC/LSTA letter. The criteria they recommend to limit the range of assets subject to additional testing and regulatory review, including based on length of reinvestment period and alignment of the ABS issuer's effective maturity with the weighted-average life of the underlying assets, would provide a means to avoid disruption or interpretive confusion to any well-established asset classes

III. Conclusion
We appreciate the Working Group's attention to embedded ALM risk and share the objective of ensuring that insurers hold assets that reliably support policyholder obligations.
The PBBD represents a thorough, principles-based standard developed through substantial consideration and engagement, and updates to this standard should also be thoroughly considered. We would welcome the opportunity to work with the Working Group, NAIC staff, and other interested parties on this project, and we would be pleased to provide additional data or analysis. Please do not hesitate to contact us with any questions.

LSTA Inc & Alternative Credit Council (ACC) Comments:
LSTA, Inc. ("LSTA") and the Alternative Credit Council ("ACC") respectfully submit these comments on Agenda Item 2026-10, which the Statutory Accounting Principles (E) Working Group ("SAPWG" or the "Working Group") exposed for comment at the 2026 Summer National Meeting. Both organizations members include, and act as counterparties to, many of the life insurers subject to the Statement of Statutory Accounting Principles ("SSAP") framework, and both organizations have a strong interest in

ensuring that the principles-based bond definition ("PBBD") continues to function predictably for the structured credit markets our members build, manage, and invest in.

We understand the regulatory objective underlying Agenda Item 2026-10: SAPWG and state insurance regulators should have the analytical tools and transparency needed to monitor asset-liability management ("ALM") risk. We offer the recommendations below to help the Working Group achieve its stated objective with precision.

I. Background on insurance investments in structured credit and impact of capital charges

Life insurers are among the largest institutional holders of structured credit vehicles that finance non-investment-grade businesses. As of year-end 2024, U.S. insurers held approximately $276.8 billion in CLOs - more than double their 2018 exposure - with life insurers accounting for 82% of that total (approximately $226.5 billion).[2] CLO holdings represented roughly 5.1% of total insurer bond holdings and 3.1% of total cash and invested assets industry-wide, with exposure concentrated among the largest institutions.[3] The treatment of these instruments under the PBBD therefore has an outsized effect both on insurers' investment portfolios and on the cost and availability of credit to the borrowers who depend on this financing.

Most of this exposure is high-quality credit and has performed accordingly. Approximately 90% of insurers' CLO holdings carry investment-grade ratings (39% AAA, 22% AA, 15% A, and 12% BBB), with only about 2% rated below investment grade.[4] This is not simply a product of a benign credit cycle: S&P Global Ratings' 30-year tranche default study found that investment-grade-rated CLO tranches experienced a cumulative default rate of only 0.3% from 1994 through the first quarter of 2024, with those defaults concentrated almost entirely in pre-financial-crisis vintages issued under structural protections weaker than those standard in CLOs today, and confirmed that no CLO tranche rated AAA or AA has ever defaulted.[5] This performance record reflects the structural protections - subordination, overcollateralization and interest-coverage triggers, and typically five-year-or-shorter reinvestment periods - built into conventional, single-collateral-type CLOs, which are not the structures Agenda Item 2026-10 is aimed at.

The stakes of the bond/non-bond determination under Paragraph 9 are unusually high because the accounting classification drives the risk-based capital ("RBC") charge mechanically, with no gradation in between. Life RBC bond factors currently range from roughly 0.4% for the highest-quality designation (NAIC 1) up to 30% for the lowest bond designation (NAIC 6); a security that instead fails the PBBD and is reported on Schedule BA generally defaults to the same approximately 30% factor applied to unaffiliated common stock, unless the insurer subsequently submits the failed bond to the SVO and receives a designation based on their analysis of the credit risk. In addition, the NAIC has separately developed a dedicated 45% pretax factor for CLO residual/equity tranches.[6][7] In practical terms, a well-subordinated, investment-grade-rated debt tranche carrying a 0.4% RBC factor today could see its capital charge increase 75x to well over 100x if it is found to contain "significant" embedded ALM risk and loses bond

[2]NAIC Capital Markets Bureau, U.S. Insurers' CLO Exposure at Year-End 2024 (2025).
[3]NAIC, Private Credit Issue Brief.
[4]NAIC Capital Markets Bureau, U.S. Insurers' CLO Exposure at Year-End 2024 (2025).
[5]S&P Global Ratings, CLO Spotlight: Thirty Years Strong - U.S. CLO Tranche Defaults From 1994 Through First-Quarter 2024 (2024).
[6]NAIC Life Risk-Based Capital Instructions, Investment Risk-Based Capital Factors.
[7]NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Agenda and Materials (June 23, 2026).

treatment - a consequence entirely disconnected from any change in the security's actual credit quality or collateral performance.

Because SSAP classification drives RBC charges mechanically, an ambiguous standard is not merely an accounting problem - it is a capital problem. Absent workable, administrable criteria, economically similar structures will be classified inconsistently across filers, producing divergent RBC charges for identical risk and undermining the cross-industry comparability RBC is designed to ensure. That uncertainty carries real consequences: it risks forcing sales of legacy holdings into an illiquid secondary market precisely when conditions are already stressed, and it injects unnecessary uncertainty into new-issuance and portfolio-construction decisions for a market on which insurers, CLO managers, and private credit fund managers depend for stable, long-term financing.

II. Recommendations

Determining whether a structured security with a fixed-duration, self-terminating reinvestment period results in significant ALM risk requires significant judgment and analysis. We recommend that SAPWG establish a two-stage process to determine what constitutes significant embedded ALM risk. The first stage would be to establish a rebuttable presumption of significant ALM risk. If a structure meets the criteria for the practical expedient described below, then that structure would not be deemed to pose significant embedded ALM risk and would continue to qualify as a bond. If it does not meet either criterion, the structure would need to be analyzed under the criteria in the second recommendation, which adds relevant factors to subparagraph 9.d to determine whether the rebuttable presumption can be rebutted.

Recommendation 1 – Establish a Rebuttable Presumption Regarding Significant Embedded ALM Risk

As a practical expedient, any structure that meets either of the following criteria would not be considered to create significant embedded ALM risk:

(i) the reinvestment period, measured from the closing date of the transaction, does not exceed seven years; or

(ii) the weighted average life (WAL) of the underlying assets exceeds 30-50%[8] of the vehicle's effective maturity.

Seven years reflects the staff memorandum's own reference to reinvestment periods of five years or less as "not uncommon" for conventional structured credit.[9] A seven-year threshold would de-scope well-established structures with reinvestment periods of five years or less, including most CLOs, while accommodating structures that fall modestly above the five-year mark and ensuring that testing and the associated regulatory review are applied only to true outliers. This threshold reduces regulatory burden for insurers and state regulators, and gives insurers the predictability necessary to avoid disruption to conventional asset classes they already hold. By contrast, the appropriate WAL threshold requires further empirical analysis. We propose 30–50% as a starting range to be calibrated through a data-driven process. These two tests are designed to be both workable in practice and consistent with how the PBBD already approaches structural protection. These two tests give preparers, auditors, and regulators a predictable, administrable path to resolve the overwhelming majority of conventional securitizations - including CLOs, which, as noted above, make up a large, high-credit-quality, and historically well-performing share of

[8]. Exact percentage to be determined by empirical analysis.

[9]NAIC Statutory Accounting Principles (E) Working Group, Agenda Item 2026-10, SSAP No. 26 - Embedded ALM Risk, Staff Memorandum, content.naic.org/sites/default/files/inline-files/26-10-ssap-no-26-embedded-alm-risk.docx.

insurers' structured credit portfolios - without requiring a full facts-and-circumstances review of each transaction, while preserving full scrutiny for the structures the project targets.

Recommendation 2 - Require Structural Mitigants to Be Included When Determining What Constitutes "Significant" ALM Risk

As drafted, the "could be impacted by changes in reinvestment interest rates or investment spreads" test is so broad and undefined that it could be read to compel a "significant" finding based on a wide variety of theoretical concerns, such as the existence of reinvestment-rate sensitivity, without regard to whether the transaction's own structure has already priced in, hedged, or subordinated that risk. We recommend that subparagraph 9.d. require that, before a reporting entity or examiner concludes that embedded ALM risk is "significant," the analysis consider what structural mitigants are present in the transaction, including but not limited to:

(i) the reinvestment period is fixed at issuance and cannot be unilaterally extended by the manager, sponsor, or servicer;

(ii) the reinvestment period is followed by mandatory - not merely permitted - amortization of the debt tranches;

(iii) the transaction includes overcollateralization and/or interest-coverage triggers that force early amortization upon collateral deterioration during the reinvestment period;

(iv) interest-rate or basis hedges executed at the transaction level;

(v) subordination sized with reference to, and sufficient to absorb, reasonably foreseeable reinvestment-rate or spread-related shortfalls - not merely credit losses; and

(vi) active portfolio and ALM governance, including manager modeling and stress-testing of reinvestment risk.

We recommend that SAPWG follow the same principles-based approach that is used elsewhere in the PBBD, in that the examples above of structural mitigants should not be considered an exhaustive list. A strength of the principles-based approach is that it allows for consideration of what structural mitigant is appropriate and needed for each specific type of underlying asset. For instance, overcollateralization may be sufficient for some types of underlying collateral, whereas subordination and/or hedging might be more appropriate for other types of assets.

Incorporating appropriate ALM mitigants aligns with how the PBBD already treats credit risk elsewhere and avoids the perverse incentives an indiscriminate test would create. The PBBD's existing "substantive credit enhancement" concept in Paragraph 10 already asks whether subordination, overcollateralization, or guarantees put the bondholder "in a different economic position" than a direct holder of the collateral would be. The same principles-based, facts-and-circumstances methodology should apply to embedded ALM risk. A structure with a long legal final maturity but hard triggers that force rapid amortization well before any meaningful reinvestment-rate exposure could materialize presents a fundamentally different risk profile than a similarly-tenored structure with no such protections, and the rule should not treat the two identically.

A mitigant-blind rule creates perverse incentives on both sides of the transaction. Sponsors and managers have less reason to build in costly protections that the test will not recognize. And insurers have correspondingly less reason to select for, or pay up for, better-protected structures, since a hedged, over-collateralized, actively managed deal receives the same Schedule BA treatment as one with none of those

features - pushing capital toward whatever structure technically avoids triggering the standard's literal wording, rather than toward the structure with the best actual risk profile.

This recommendation is complementary to Recommendation 1 and does not depend on its outcome. Duration-mismatched structures should evaluate mitigants before concluding that risk is "significant," because two structures with the same nominal duration gap can present very different practical ALM risk depending on their protective features.

III. Conclusion
We appreciate SAPWG's willingness to engage with industry on these complex structural questions, and we share the Working Group's interest in ensuring that insurers hold appropriate capital against genuine embedded ALM risk. We believe the recommendations above would allow the Working Group to achieve that objective precisely, while avoiding unintended consequences for the broader and largely unrelated market for conventional structured credit on which insurers, and the companies that depend on this financing, rely. We would welcome the opportunity to discuss these comments further as this project moves forward.

Dechert LLP:
Dechert LLP submits these comments on Agenda Item 2026-10, exposed by the Statutory Accounting Principles (E) Working Group ("SAPWG") on August 12, 2026. This agenda item proposes revisions to Statement of Statutory Accounting Principles ("SSAP") No. 26, Bonds, that would introduce two new tests under the Principles-Based Bond Definition ("PBBD"): (1) a self-liquidation test for underlying financial assets under proposed Paragraph 9.c, and (2) an embedded Asset-Liability Management ("ALM") risk test under proposed Paragraph 9.d. We submit these comments in our own capacity (having served as counsel to a variety of participants in the structured credit markets), and to better understand how the proposed revisions would affect our ability to advise our clients involved with such structures. As a firm, we have always tried to be constructively engaged in the ongoing dialogue around new regulatory initiatives and in no small part we believe our reputation in the structured credit markets reflects this engagement. As the markets and their investors continue to interconnect, we will increasingly endeavor to provide practical feedback to SAPWG on questions of importance to it.

As an initial matter, we note that we support and appreciate the objectives underlying the proposals and the NAIC's role in bringing to the fore the application of those objectives with respect to multi-collateral structured credit investments. As we consider the concerns identified, they appear to us to be first and foremost disclosure and aggregation questions. In that regard, we would hope there are tools that already exist (or could be enhanced and improved) to adequately address them, including investment characteristic codes and look-through reporting of the kind used for rated note feeders. By corollary, we would respectfully submit that a security-level bond-classification test does not seem to be the right place to address these considerations.

For the reasons explained in more detail below, we would recommend that SAPWG not adopt proposed Paragraphs 9.c and 9.d in their current form. As currently drafted, the proposal does not distinguish structures that genuinely lack cash flow durability and structural protection, which is the risk the agenda item identifies, from established structured finance transactions whose reinvestment, refinancing, and revolving features are already bounded by proven structural safeguards. To assist your further consideration of this topic, we have attempted to lay out in more detail our thoughts with respect to the current proposal.

I. The Self-Liquidating Test (Proposed Paragraph 9.c)

Proposed Paragraph 9.c appears to create a binary test which classifies underlying financial assets as either strictly self-liquidating or not. If an asset does not convert entirely into cash over a defined period under its contractual terms, the reporting entity must overcome the rebuttable presumption framework in Paragraph 6 of SSAP No. 26. In our experience, this approach does not reflect the range of repayment structures routinely found in fixed-income and securitization markets. For example, a wide range of traditional, highly performing debt instruments are not fully self-liquidating; they routinely feature balloon payments, bullet maturities, refinancing features, revolving draws, or other repayment mechanics without calling into question their fundamental character as debt.

Transactions that could be captured by the proposed language include, but are not limited to, credit card ABS, floorplan facilities, CRE structures, CLOs, CFOs, rated feeder notes, structured settlements, whole business securitizations, data center and fiber ABS, equipment and fleet lease, timeshare, solar and residential PACE, and CRE CLOs. These products existed at the time the PBBD was originally developed, and it does not appear to be intended that they would be subject to the rebuttable presumption of Paragraphs 6.a through 6.d of SSAP No. 26 simply because their underlying assets were not, in the strictest sense, fully self-liquidating.

We would also submit that the rating agencies have developed an intricate set of criteria for this same inquiry. Their starting premise for asset-backed securities and closed-end fund debt is that there is no market value in the structure: no asset sales are assumed to repay the debt, and under stress cases the collateral must generate sufficient proceeds to repay the rated notes by legal final maturity. That is the same meaningful cash flows inquiry that the first sentence of proposed Paragraph 9.d already asks, and it is an inquiry that credit rating providers already perform, publish, and monitor on an ongoing basis. Where multi-collateral credit vehicles are rated under established closed-end fund or ABS methodologies, rating agencies have already confirmed the presence of material structural mitigants to ALM risk and reinvestment mismatch, and at investment-grade ratings these residual risks are established as minimal.

The breadth of the proposed test can be illustrated with a government-guaranteed example and a private-market one. Ginnie Mae MBS carry the full faith and credit of the United States Treasury. When a loan in a Ginnie Mae pool becomes delinquent, the servicer may institute a partial claim principal deferral, structured as a zero-coupon balloon payment due on sale or maturity, to make the monthly payment more affordable for the borrower. A performing Ginnie Mae bond containing a single loan that received such a deferral would not be fully self-liquidating, and would therefore be presumptively not a bond under proposed Paragraph 9.c, even though that presumption would likely be overcome on the facts. The same dynamic is not unique to government-guaranteed collateral: a conventional commercial real estate mortgage loan with a balloon payment at maturity, or a credit card master trust that continuously revolves and replenishes its receivables pool, would also fail a strict self-liquidation test despite decades of performance history and no government backstop. Together, these examples suggest that the proposed test's breadth is not confined to any one asset class or guarantee structure, but rather reflects a structural limitation in the test's design that should be further considered.

Notwithstanding the various ways in which a self-liquidating asset may not fully convert to cash, the broader structured finance market and federal regulatory authorities have not taken such a strict view when determining what constitutes an "asset-backed security" for purposes of the Securities Exchange Act of 1934. In fact, taking such a strict view would theoretically open up loopholes that Congress and regulators did not intend.

To the extent duration is relevant to this analysis, we believe the proposal's focus on stated legal final maturity is the wrong metric. Stated maturity is an outer limit on repayment, not an expected payoff date. The expected weighted average life of a debt tranche, which reflects prepayment assumptions, reinvestment dynamics, and structural amortization mechanics, is typically considerably shorter, and senior investment-grade tranches often have weighted average lives that are half the length of their legal final maturity. A test anchored to stated maturity will systematically overstate the duration exposure these instruments actually present. Market precedent bears this out: whole business securitizations and data center and fiber ABS routinely carry legal final maturities of 25 to 30 years against Anticipated Repayment Dates ("ARDs") of only 5 to 7 years, coupled with post-ARD excess cash flow sweeps and coupon step-ups, and have been bond-eligible throughout. Music and other royalty-based ABS carry effectively perpetual underlying cash flows and legal maturities of 40 to 50 years, yet equally short ARDs, typically 3 to 10 years, with most of the market set at 5 years. A long legal final paired with an ARD sweep is established transaction architecture, tested through many market cycles.

II. The Significant Embedded ALM Risk Test (Proposed Paragraph 9.d)

Proposed Paragraph 9.d disqualifies an asset from bond treatment if it contains significant embedded ALM risk. This is defined as any situation where scheduled contractual debt service could be impacted by future reinvestment interest rates or investment credit spreads. As drafted, there is no materiality qualifier, no probability or likelihood standard, and no safe harbor. Under that framing, we are concerned that virtually any structured instrument with a reinvestment feature could qualify, because the cash flow profile of any reinvesting structure is, in some theoretical sense, sensitive to reinvestment rates and spreads. We respectfully submit that this likely was not the intended scope of the provision, and that, if read literally, it would unintentionally affect the treatment of a large volume of outstanding structured products.

The proposal also treats embedded ALM risk as a single, undifferentiated concept. We think ALM risk is more usefully broken down into three distinct components: (i) interest rate and basis risk, (ii) reinvestment spread risk and (iii) extension risk. The reason we say that is because each is mitigated differently, and to a different degree, by structural features (in our experience) already present in the market. Floating-rate or hedged structures, for example, carry little to no meaningful rate risk, which narrows the relevant inquiry to spread and extension risk, precisely where collateral quality and eligibility covenants are strongest.

The first sentence of proposed Paragraph 9.d, which requires that cash flows be sufficient to pay all contractual amounts due, is a separate test from the embedded ALM risk sentence that follows it, and the two should not be conflated. That threshold cash flow adequacy inquiry is exactly the stressed cash flow sufficiency analysis that credit rating providers already run as part of their surveillance and initial rating processes, and satisfaction of that stressed cash flow test, whether through the safe harbor described in Part III below or through comparable quantitative modeling, should be recognized as the route by which a reporting entity demonstrates compliance.

In our experience, rated revolving structures always contain a number of structural features (and back-ups) that mitigate potential asset-liability mismatch. Short-tenor assets may turn over continuously at high velocity, such as dealer floorplan lines that repay every 30 to 90 days or monthly credit card receivables balances, replenishing the trust with newly originated, market-priced assets. This dynamic reinvestment is generally subject to legally enforceable eligibility criteria and collateral quality covenants, such as minimum portfolio spread floors, weighted average life limits, and ongoing overcollateralization

tests, which constrain the collateral that may enter the pool and help protect against deterioration in collateral economics or credit quality. If eligible replacement collateral becomes unavailable, if performance deteriorates, or if reinvestment or performance triggers are breached, contractually mandated early amortization triggers may end the revolving period and redirect cash flows to amortize the senior notes. SAPWG itself recognizes that structured-credit reinvestment periods are commonly of limited duration and subject to early termination provisions. These protections demonstrate why the mere existence of reinvestment exposure should not determine whether ALM risk is significant. We believe SAPWG should consider whether an objective anchor for that term can be crafted. For example, embedded ALM risk should be considered significant only where it produces a projected shortfall to a rated class under the stress assumptions applied by an NAIC credit rating provider, not merely a theoretical sensitivity to future rates or spreads.

The agenda item's implicit premise appears to be that substantive credit enhancement was designed to absorb credit losses and never contemplated ALM risk. We respectfully submit that this premise warrants further scrutiny. Rating agency cash flow models run stressed interest rate vectors, spread compression, and default timing together, and subordination levels are sized to the combination of those stresses, not to credit risk alone. Embedded ALM risk should be assessed with this existing, integrated stress framework in mind.

III. Some Additional Observations

We would add several further observations drawn from our experience across the structured credit markets.

Complexity is not a perfect proxy for credit risk. The agenda item's concerns about complexity, transparency, and interconnectedness stem from the diversity of collateral within multi-collateral structures, which can make it harder to track an insurer's aggregate economic exposure. But the agenda item itself acknowledges that the credit quality and diversity of the collateral, together with the vehicle's capital structure, often supports a view that credit risk is comparable to, or lower than, equivalently rated single-collateral structures. A structure diversified across many obligors and asset classes is more complex to describe than a single bilateral loan, but that complexity is also what allows idiosyncratic underperformance to be absorbed across a pool and by subordination, rather than concentrated in one credit.

Performance history shows the utility of reinvesting structures. CLOs, the most rigorously tested managed reinvestment vehicle in global credit markets, have reinvested continuously into leveraged loans across multiple credit cycles, including the 2008 to 2009 financial crisis and the March 2020 dislocation, and AAA and AA CLO tranches have suffered no material principal losses across more than two decades of market cycles. That track record reflects the benefit of structured reinvestment managed by experienced investment managers. We believe this is a significant benefit over static structures that should be carefully considered as part of the proposals.

The proposal is, at this stage, premature. Multi-collateral structured credit investments are a relatively new addition to the structured credit landscape, and there is not yet a meaningful body of data documenting defaults, losses, or reinvestment-related underperformance in these structures. We respectfully submit that stripping bond eligibility from a class of instruments before there is data establishing that the targeted risk has actually materialized would be premature.

IV. Recommendation

We strongly believe the best approach to address the concerns motivating the proposals is a collaborative, data-driven approach. In that vein, we would suggest the following for consideration.

a. *Enhanced reporting and disclosure*. Instead of excluding these structures from Schedule D-1, to the extent there are shortcomings in the information available to the investors, the NAIC might consider requiring enhanced reporting disclosures, such as specialized reporting codes or supplemental schedules, that give regulators greater look-through visibility into underlying collateral concentrations, duration profiles, and structural mitigants. This might resolve regulatory concerns about opacity, concentration risk, and circularity.

b. *Objective criteria*. If the NAIC develops ALM guidelines in the future, we believe those criteria it be objective, methodology-anchored criteria. For all involved, it would be best for any such criteria to (i) recognize effective risk mitigants, including appropriate credit support relative to underlying asset credit quality, subordination, active hedging programs, and mandatory contractual cash sweeps, and (ii) provide a path for demonstrating through the meaningful cash flow test or quantitative modeling that ALM risk has been mitigated. SAPWG might also want to consider a safe harbor under which a security rated by an NAIC credit rating provider whose published methodology meets certain standards is deemed not to carry significant embedded ALM risk. This anchors the test in existing public rating criteria and avoids a duplicative insurer-level model for every CUSIP.

c. *Prospective application and grandfathering*. The exposure draft is silent on effective date and transition. SAPWG should state at the outset that any final revisions will apply only prospectively to new issuances and will grandfather securities already held by insurers, consistent with the treatment insurers relied on when the PBBD was originally adopted.

d. *Clarify interaction with SSAP No. 43R*. Because the proposal operates through the existing rebuttable presumption framework under SSAP No. 26, SAPWG should clarify how the new tests are intended to interact with SSAP No. 43R and the rebuttable presumption more generally, so the two frameworks are not applied inconsistently to the same instrument.

Conclusion: Agenda Item 2026-10 raises valid considerations that, in our view, are not yet supported by empirical data and do not fully account for existing structural mitigants and rating agency methodologies already used in this market. We respectfully urge SAPWG to defer adoption of Agenda Item 2026-10 and to work with market participants on enhanced reporting, objective criteria, and further data collection before proceeding.

Structured Finance Association Comments:

SFA supports the NAIC's statutory accounting objectives of preserving solvency, safeguarding policyholder reserves, and ensuring that regulatory reporting accurately reflects underlying economic risk. We recognize that state insurance regulators are seeking to appropriately understand, monitor, and regulate multi-collateral structured credit investments and whether substantial mismatch between the duration of underlying assets and debt tranches create embedded ALM risk that is not adequately reflected in bond classification. Regulators also have legitimate supervisory interests in transparency, portfolio interconnectedness, and potential circularity. SFA agrees that unhedged, speculative reinvestment risk should be appropriately differentiated from fixed-income bond cash flows. At the same time, the mere

presence of reinvestment risk features or a degree of mismatch does not, by itself, mean that a debt security lacks the economic substance of a bond.

However, SFA urges SAPWG not to adopt the proposed additions of Paragraphs 9.c and 9.d to SSAP No. 26 as drafted. The proposal in its current form does not adequately distinguish the kind of ALM risk identified in the agenda item, particularly, the risk attributed to multi-decade asset-liability duration mismatch observed in certain multi-collateral structures from more typical reinvestment, refinancing, and revolving features found in established structured finance transactions. SFA's primary objections center on two fundamental flaws:

1. *The Proposed Changes Are Excessively Broad in Scope***:** As drafted, the proposed tests extend far beyond the multi-collateral structures with substantial, long-dated duration mismatches that prompted regulatory concern, threatening to disqualify wide swaths of traditional, well-established structured finance asset classes from Schedule D-1 bond classification.

2. *The Proposal Fails to Account for the Use of Structural Mitigants***:** The proposal does not distinguish ordinary reinvestment exposure from material dependence on future reinvestment conditions. In particular, the proposed revision does not factor in how structural mitigants are used today in revolving ABS structures to neutralize ALM mismatch risk.

Rather than adopting blunt, disqualifying accounting exclusions that penalize prudent portfolio diversification and more typical reinvestment structures and disrupt the secondary market, SFA advocates for enhanced transparency, robust reporting schedules, and ongoing education.

I. Analysis of the Two Proposed Tests

a. *The "Self-Liquidating" Test (Proposed Paragraph 9.c): Binary Approach & Allocation of Burden*

Proposed Paragraph 9.c creates an overly rigid gating test: underlying financial assets are either strictly "self-liquidating" or they are not. Under the proposal, if an asset does not convert entirely into cash over a defined period in accordance with its contractual terms, the reporting entity must overcome the intensive rebuttable presumption framework in Paragraph 6 of SSAP No.26.

That approach does not adequately reflect the range of repayment structures routinely found in fixed-income and securitization markets. A wide range of traditional, highly performing debt instruments are not fully self-liquidating; they routinely feature balloon payments, bullet maturities, refinancing features, revolving draws, or other repayment mechanics without calling into question their fundamental character as debt. Established structured finance transactions may likewise incorporate revolving or controlled reinvestment periods before entering amortization. As a result, transactions that could be captured by the proposed language include, but are not limited to, credit-card ABS, floorplan facilities, CRE structures, CLOs, and rated feeder notes. Structured products with these features existed at the time the PBBD was initially developed, yet at no point was it contemplated by the industry that such instruments would be subject to the rebuttable presumption of paragraphs 6.a-6.d of SSAP No.26 simply because their underlying assets were not—in the strictest sense—fully self-liquidating.

The potential breadth of the proposed test can also be illustrated by considering its application to Ginnie Mae MBS, which carry the full faith and credit of the United States Treasury. When a loan in a Ginnie Mae pool goes delinquent, the servicer will work with the borrower to institute a partial claim principal deferral

so that the monthly payment is more affordable for the borrower. This partial claim amount is attached to the first lien but structured as a zero-coupon balloon payment that is due on sale or maturity. The presence of this balloon payment would mean that a performing Ginnie Mae bond containing a single loan that received a partial claim deferral is not fully self-liquidating, and therefore presumptively *not* a bond under paragraph 9.c of the PBBD. While it is true that this presumption is likely to be overcome in this fact pattern, the fact that Ginnie Mae MBS can be presumed to not be a bond demonstrates that the revised text of Paragraph 9.c may result in the rebuttable presumption scoping in more securities than intended.

Treating self-liquidation as a rigid either/or test ignores established market mechanics and forces routine debt instruments into an onerous rebuttable presumption regime that was originally designed for equity-collateralized structures.

b. The "Significant Embedded ALM Risk" Test (Proposed Paragraph 9.d): Ambiguity and Scope Creep for Revolving ABS Structures

Proposed Paragraph 9.d categorically disqualifies an asset from bond treatment if it contains "significant embedded ALM risk," defined broadly as any situation where scheduled contractual debt service could be impacted by future reinvestment interest rates or investment credit spreads. The proposal fails to define what level of interest rate sensitivity constitutes "significant" embedded ALM risk and could even be read as saying that any impact at all on the ability to pay contractual cash flows is deemed “significant.” Without objective metrics or quantitative thresholds, this test creates immense regulatory uncertainty, leaving reporting entities unable to assess whether standard reinvestment flexibilities will disqualify their holdings from Schedule D-1. In particular, this proposal risks scoping in existing revolving ABS structures even when reinvestment risk is controlled, bounded, and substantially mitigated by structural protections.

Under proposed Paragraph 9.d, any vehicle that redeploys principal collections during a reinvestment or revolving period could be subject to significant embedded ALM risk analysis if its cash flows could be affected by future interest rates or spreads. In practice, the revolving mechanic contains a number of features to mitigate potential asset-liability mismatch. In these structures, short-tenor assets may turn over continuously at high velocity (such as dealer floorplan lines that repay every 30 to 90 days or monthly credit card receivables balances), replenishing the trust with newly originated, market-priced debt assets. Crucially, this dynamic reinvestment is generally subject to legally enforceable eligibility criteria and collateral quality covenants—such as minimum portfolio spread floors, weighted-average life limits, and ongoing overcollateralization tests. These covenants constrain the collateral that may enter the pool and help protect against deterioration in collateral economics or credit quality that could impair debt service.

There are additional protections in place if eligible replacement collateral is unavailable, if transaction performance deteriorates, or applicable reinvestment or performance triggers are breached. In these cases, contractually mandated early amortization triggers may conclude the revolving period and redirect cashflows to amortize the senior notes. The overall dynamic between collateral velocity, binding eligibility criteria, credit enhancement, and turbo-amortization triggers can materially mitigate ALM risk associated with revolving structures. Indeed, SAPWG itself recognizes that other structured-credit investments commonly contain reinvestment periods of more limited duration and provisions that can terminate reinvestment early if specified triggers are breached. In short, these protections demonstrate why the existence of reinvestment exposure alone should not determine whether ALM risk is “significant”. The relevant inquiry should consider the magnitude and duration of the ALM mismatch, the extent to which

repayment depends on future investment conditions and the structural protections available to limit exposure.

II. Recognizing Structural Mitigants and the Value of Multi-Collateral Credit

Insurers—particularly life insurers with long-tail liabilities—must hold long-dated, high-quality fixed-income assets to match obligations. Prudently engineered multi-collateral credit structures could help reduce idiosyncratic credit risk across uncorrelated asset classes. Importantly, well-structured transactions do not expose senior noteholders directly to unhedged reinvestment risk. They incorporate structural mitigants like substantive credit enhancements & first-loss tranches, contractual reinvestment covenants, dynamic hedging & liquidity facilities, and mandatory amortization of senior notes. As discussed above, embedded ALM risk should be assessed after taking these contractual protections into account, rather than based solely on the existence of a reinvestment period or duration mismatch within the structure.

The PBBD was established to determine whether an instrument represents a bona fide creditor relationship supported by substantive credit enhancement. A debt security that uses overcollateralization, subordination, and hedging to protect scheduled payments functions as a true bond in economic substance. Pushing these investments onto Schedule BA could impose disproportionate, equity-like RBC charges that directly penalize prudent portfolio diversification.

III. SFA Recommendations: Transparency, Objectivity, and Education

Rather than enacting punitive accounting disqualifications that are overly broad in scope and not based on observed empirical findings, the NAIC should pursue a collaborative, data-driven approach to first help inform whether and to what degree amendments to the PBBD may be appropriate. Along these lines, SFA suggests the following for consideration:

a. *Enhanced Reporting and Disclosures*: Instead of excluding these structures from Schedule D-1, the NAIC should implement enhanced reporting disclosures—such as specialized reporting codes or supplemental schedules—that provide regulators with look-through visibility into underlying collateral concentrations, duration profiles, and structural mitigants. This would resolve regulatory concerns regarding opacity, concentration risk, and circularity without destabilizing bond accounting.

b. *Objective Use of Structural Mitigants:* If the NAIC develops ALM guidelines in the future, it must establish explicit bright-line guardrails that: (1) recognize effective risk mitigants, such as appropriate credit support relative to underlying asset credit quality, subordination, active hedging programs, and mandatory contractual cash sweeps; and (2) provide a path for demonstrating through the meaningful cash-flow test or quantitative modeling that ALM risk has been mitigated. This is especially important for existing ABS using revolving structures coupled with proven structural ALM mitigation features.

c. *Industry Education and Collaborative Data Gathering:* SFA is actively working across the structured finance ecosystem—including life insurers, asset managers, rating agencies, and accounting firms—to foster a comprehensive understanding of emerging products with novel structural features. We would be happy to continue our work with the NAIC to bring together market participants and policymakers to discuss the path forward.

Conclusion: The Structured Finance Association shares the NAIC's commitment to solvent, transparent insurance markets. However, Agenda Item 2026-10 introduces a self-liquidation test and an undefined ALM threshold that would both benefit from further refinement.

We urge the SAPWG to defer adoption of Agenda Item 2026-10 and partner with market participants on enhanced reporting and data collection.

Recommendation:

NAIC staff recommend that the Working Group expose updated revisions to SSAP No. 26, paragraphs 9.c. and 9.d. mostly consistent with the suggestions from the ACLI. These proposed revisions clarify the scope of paragraph 9.c. to financial assets of the ABS issuer and incorporate the concept of structural provisions in assessing significant ALM risk within paragraph 9.d. Additionally, a new paragraph 49 of SSAP No. 26 is proposed to clarify the application guidance upon adoption.

Note: Both paragraphs 9.c. and 9.d. are new paragraphs to SSAP No. 26. However, only modifications from the prior exposure are shown as tracked changes for ease of reading:

9.c. Financial assets of an ABS issuer can either be self-liquidating or not. Self-liquidating means that the assets convert themselves to cash over a defined period in accordance with their contract terms, as is the case with most types of receivables. If the financial assets of the ABS issuer are not self-liquidating, the rebuttable presumption detailed in paragraphs 6.a.-6.d. must be overcome in order for the security to meet the definition of a bond.

9.d. If the financial assets are self-liquidating, they must produce cash flows that are sufficient to pay all contractual amounts due in order to be considered meaningful. To the extent that the contractual terms permit cash flows of the financial assets to be reinvested rather than used to repay the debt security, the reporting entity should evaluate whether the debt security is subject to significant embedded asset-liability management (ALM) risk. Embedded ALM risk is to be considered significant if, when factoring in any structural mitigants, the ability to pay contractual cash flows of the debt security ~~as scheduled~~ could be impacted by severe but precedented changes in reinvestment interest rates or investment spreads. Securities that include significant embedded ALM risk do not meet the definition of a bond.

49. Revisions to SSAP No. 26, adopted (month/year) to incorporate paragraphs 9.c. and 9.d. and expand the requirements asset-backed securities are required to meet to qualify for bond reporting are applicable to all financial asset-backed securities held as of December 31, 2027, and for all subsequent acquisitions. Debt securities previously reported as bonds that do not qualify under the new provisions shall be reclassified to non-bond debt securities reported on Schedule BA: Other Long-Term Assets using the transition guidance for the principles-based bond definition captured in paragraph 46. Reporting entities may use a practical expedient in assessing debt securities captured under paragraph 9.d. and exclude currently held financial asset-backed securities for which the reinvestment periods have ended. Only financial asset-backed securities where the reinvestment period is still open are required to be assessed for significant embedded ALM risk.

The following addresses comments not reflected in the above proposal:

- The word "significantly" as included in the ACLI edits (…could be "significantly" impacted by severe…) was not included in the revisions. For reinvestment risk to cause a debt tranche of an asset-backed security to have any amount not be repaid under the proposed wording, that means that inclusive of any structural mitigants, in rate and spread environments that have occurred before, reinvestment rates are so insufficient so as to wipe out the entire amount of substantive subordination. This would be a clear demonstration that embedded ALM risk is significant. Even without inclusion of "significantly", there remains concern that the update language may not be sufficient to address the structures that have been highlighted to be of concern as a structure could be left with little or no remaining credit enhancement to absorb actual credit losses following a period of severely declining reinvestment yields. Additional feedback is requested on any further refinements needed to address this concern.

- Comments from Derchert proposing a safe harbor for securities rated by an NAIC credit rating provider have not been incorporated, as the establishment of the PBBD was clear that the structural assessment of a debt security determines bond reporting. An NAIC designation or credit rating does not determine whether a debt security qualifies as a bond.

- Reference was included in the Derchert comment letter that the PBBD was applied prospectively. This is incorrect. There was no grandfathering permitted with the implementation of the PBBD and all debt securities were required to be assessed for compliance under the PBBD. Debt securities that did not qualify as bonds were required to be reclassified to Schedule BA as non-bond debt securities.

- Revisions were not incorporated to address comments from Dechert and Structured Finance Association pertaining to Paragraph 9c as they appear to reflect a misunderstanding of the term "self-liquidating" which is defined in 9c as assets that "convert themselves to cash over a defined period in accordance with their contract terms, as is the case with most types of receivables." For example, the comments seem to consider balloon or bullet maturities as causing an asset to not be self-liquidating. However, a balloon payment is a contractually required payment that converts remaining principal to cash at maturity, which is a self-liquidating feature. Many other examples were noted that span self-liquidating (e.g. CLOs), non-self-liquidating (e.g. CFOs) and non-financial (e.g. fleet leasing). Paragraph 9c only applies to non-self-liquidating financial assets. In most cases, this would be equity-back structures, but in the rare event that there are other non-self-liquidating financial assets, it is intended to include those as well to ensure that the rebuttable presumption is met given the lack of contractual cash flows.

- Comments from Derchert suggesting clarification on how the guidance interacts within SSAP No. 43 were not incorporated. Determination of whether a debt security qualifies as a bond is captured in scope of SSAP No. 26. Debt securities that qualify as bonds under those provisions and are considered to be asset-backed securities (not issuer credit obligations) then move to SSAP No. 43 for specific accounting guidance.

- Although consideration occurred on incorporating specific structural mitigants as suggested by commenters, with the focus on a principles-based standard, a generic reference on structural mitigants was found to be less limiting and would work with future innovation of structural designs and better align with a principles-based definition. If desired by the Working Group, consideration could be given to adding a Q&A to INT 24-01 to address various comments made around providing more defined parameters.

- Revisions have not been proposed to incorporate thresholds suggested by many commenters based on the length of the reinvestment period or in accordance with the weighted average life to the effective maturity of the debt security. Debt securities that incorporate significant embedded ALM risk, after factoring structural mitigants, shall not be classified as bonds.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-11 (Wil)	**Residential Mortgage Loan Definition**	**15 – Agenda Item**	**Comments Received**	**Att. 21: IP – 23 ACC – 35 Athene – 43**

Summary:
On August 12, 2026, the Working Group exposed this concept agenda item with a specific request for comments from regulators and industry on a number of topics including drafting a residential mortgage loan definition for *SSAP No. 37—Mortgage Loans*, whether certain types of loans should be classified as residential or not, separate or grouped reporting Schedule B, and, if supported, the types of components which should be added to Schedule B reporting of mortgage loans to assess risk.

This agenda item was drafted in response to a referral received from the Investment Analysis (E) Working Group on inconsistent reporting of residential mortgage loans (RMLs) on Schedule B and the homogenous risk treatment of all mortgages reported as RMLs. As noted in the referral, no formal definition of residential mortgage loans exists in the AP&P Manual and residential mortgage loans are assigned a 68-basis points capital charge for life insurers without risk sensitivity to any underlying factors.

Interested Parties Comments:
The Working Group received a referral from the Investment Analysis (E) Working Group and exposed this as a concept agenda item. This is considered an SAP clarification as the intent to incorporate a definition into the SSAPs that is consistent with the existing definition in other statutory guidance of "one-to-four family properties" as the definition for residential mortgage loans and to assess different characteristics and risk components of properties that meet that definition for more granular reporting and/or accounting guidance. Comments are specifically requested on the items noted above.

After discussions with several insurers that invest in residential mortgage loans, interested parties offer the following responses to the items requested for comment in this exposure:

1. We agree the Federal definition (12 CFR § 1266.1) should be adopted for one-to-four family property and multifamily properties. This would provide consistency with the definition used by other financial institutions such as banks.

2. Possible modifications to the 12 CFR § 1266.1 definitions:
    a. For mixed use real estate, i.e., retail and residential use in the same building, should be classified as residential if use is more than 50% residential based on square footage or LTV.

The entire mortgage balance should be reported as either one-to-four family or multifamily property. No allocation should be made between the residential and commercial portions.

b. A multifamily property with 1-4 units should be classified as residential; 5 or more units should be classified as commercial.

c. A mortgage loan, including a construction loan, secured by a project involving multiple one-to-four properties should not be reported as a single residential loan when the collateral is the project or the development as a whole. Such loans should be reported as commercial. We agree that each individual one-to-four family property, including condominium dwelling units within the scope of one-to-four family property definition, may qualify for residential mortgage loan reporting if each property is reported individually and the mortgage is legally separate and divisible from other properties in the project, development, or condominium.

d. Loan-to-value limits should be set by the lending insurance company based on the insurer's risk tolerance.

e. Accessory dwelling units (ADUs), including units known as a "mother in law" involves one or more buildings on the same land as the primary residence and is part of the title to the same land. We consider this to be a residential mortgage loan. For non-owner occupied one-to-four family properties, we consider this to be a residential mortgage loan, no different from an owner-occupied property. For residential construction loans, we believe the classification is the same as (c) above, a commercial loan. For fix and flip loans, we view these as commercial loans as these are loans made with the intent to "fix" the property and sell it in a short period (loans generally six months to two years) for profit. These properties are not occupied, similar to a construction loan. For lines of credit, the classification should be the same as home equity loans; home equity loans can be first or second liens, closed or open ended, but a lien on the property paid by the occupant would be considered residential loan. Loans on transitional properties are a form of the fix and flip category (see above), which is a form of commercial loan.

3. This question is not related to the accounting for mortgage loans and is more closely aligned with differentiating risk for purposes of assigning an appropriate risk charge in the RBC calculation. We recommend this question be referred to the Capital Adequacy Task Force.

4. This question is not related to the accounting for mortgage loans, and the suggested level of granularity would likely be needed for RBC, not accounting. We recommend this question be referred to the Capital Adequacy Task Force.

We note that the data necessary to evaluate and properly classify mortgage loans is available at origination and is not updated as long as the loan is outstanding.

Alternative Credit Council Comments:

The Alternative Credit Council,[10] the private credit affiliate of the Alternative Investment Management Association Ltd (AIMA), appreciates the opportunity to comment on agenda item 2026-11, Residential Mortgage Loan Definition, which the Statutory Accounting Principles (E) Working Group (Working Group) exposed as a concept agenda item on August 12, 2026. The agenda item responds to the May 26, 2026 referral from the Investment Analysis (E) Working Group and asks whether SSAP No. 37, Mortgage Loans, should define residential mortgage loans, how certain loan and property types should be classified, and whether Schedule B reporting should capture additional loan risk characteristics.

I. Introduction and summary

ACC members include private credit managers that originate, acquire and manage residential mortgage loans on behalf of US insurers, through separately managed accounts, funds and trusts. Insurers are important long-term investors in this market, and private credit managers have provided financing in segments where banks have reduced their participation, including construction lending to small homebuilders. Our members therefore have a direct interest in a classification framework that is clear, consistent across reporting entities and aligned with the credit risk of the loans insurers hold.

We support the Working Group's objective. A Level 1 definition of residential mortgage loan in SSAP No. 37, anchored in the one-to-four family property definition in 12 CFR § 1266.1, will resolve the reporting inconsistency the referral identifies and align SSAP No. 37 with Model Law 280, SSAP No. 58 and the Annual Statement Instructions. We also agree that current Schedule B reporting does not give regulators the loan characteristics they need to assess a growing asset class.

Our comments focus on two principles that should govern the next stage of this project:

- Identification of key risk attributes should be the basis for any updated categorization. Lien position, loan-to-value (LTV) ratio, borrower credit score, occupancy, loan purpose and documentation drive the credit performance of residential mortgage loans. The Working Group should capture these attributes in Schedule B reporting and use them to differentiate loans within the one-to-four family definition, rather than excluding categories of loans on the basis of product labels or loan balance.

- Pools of residential mortgage loans should be in scope of residential mortgage loan reporting to the extent that the collateral of each underlying loan meets the one-to-four family property definition and each parcel can be sold separately. This would apply whether the insurer holds a pool of individual loans, a single loan cross-collateralized by multiple such properties, or a loan to a borrower that owns many such properties. These loans carry credit risk tied to the value of

[10] The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over US$2 trillion of private credit assets. The ACC is an affiliate of AIMA and is governed by its own board, which ultimately reports to the AIMA Council. ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure, and the trade and receivables business. The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research to strengthen the sector's sustainability and wider economic and financial benefits. Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. The ACC seeks to explain the value of private credit by highlighting the sector's wider economic and financial stability benefits.

individual homes, which is the risk that the residential mortgage loan category is designed to capture.

II. Identification of key risk attributes should be the basis for any updated categorization

The referral and the exposure identify the same set of risk factors: lien position, LTV, borrower credit quality measured by FICO score, owner-occupied versus investment use, and loan type, including construction loans, bridge loans and home equity lines of credit. We agree that these are the attributes that matter. The question for the Working Group is how to use them.

Industry experience and regulatory practice confirm that a small number of loan-level attributes explain most of the variation in residential mortgage credit risk. In its March 24, 2026 presentation to the Invested Assets (E) Task Force, Neuberger Berman explained that borrower credit score and LTV together account for the majority of the predictive power in the internal models insurers use to estimate default probability and loss severity, with debt-to-income ratio, property cash flow coverage and loan seasoning as secondary drivers. The presentation also noted that prime loans originated between 2001 and 2005 experienced principal losses of approximately 60 basis points through the global financial crisis, and that the ability-to-repay requirements adopted under the Dodd-Frank Act have since strengthened underwriting across the market. Nationally recognized statistical rating organizations calibrate residential mortgage credit models on the same loan-level attributes, and the Basel Committee's standardized approach differentiates residential real estate exposures by LTV and by whether repayment depends materially on cash flows generated by the property, rather than by product label.

Categorization by attribute is more precise than categorization by product label. A label such as non-owner occupied, accessory dwelling unit or fix-and-flip describes the use of a property, not the credit risk of the loan. A stabilized single-family rental loan at a 60 percent LTV, underwritten to property cash flow with personal recourse to the borrower, may present lower expected loss than an owner-occupied second-lien loan at a 90 percent combined LTV. Excluding the first loan from the residential category while retaining the second would move classification further from the underlying economic risk, which is the outcome the referral seeks to avoid.

The same reasoning applies to loan value limits. Loan balance is a relevant reporting field and a relevant input to concentration analysis, but it is not a reliable proxy for credit risk. A jumbo loan to a borrower with a high credit score and a 50 percent LTV is not riskier than a conforming loan with weaker attributes because of its size. The referral itself notes that some of the high balances observed in Schedule B reflect aggregated reporting driven by the 99,995 row limit rather than individual loans. A balance cap applied as a definitional test would reclassify loans on the basis of a reporting artifact.

Attribute-based categorization also addresses the Working Group's concern about development-stage and transitional collateral more precisely than exclusion. Loan purpose and property status, whether purchase, refinance, construction, renovation or bridge, and whether the property is stabilized, are themselves attributes. Identifying them on Schedule B would allow regulators to isolate loans whose repayment depends on a future business plan, while retaining in the residential category loans secured by individually divisible one-to-four family homes under construction or renovation.

Recommendation. Retain the one-to-four family property definition as the scope of the residential mortgage loan category, and base any subcategories, disclosures or future RBC differentiation on a

defined set of loan-level attributes reported on Schedule B. At a minimum, those attributes should include:

- Lien position, distinguishing first-lien loans from second-lien loans and home equity lines of credit.
- LTV at origination, combined LTV where a subordinate lien is present, and an optional current LTV based on an automated valuation model or other updated valuation.
- Borrower credit score at origination, measured on a consistent basis across reporting entities.
- Occupancy, distinguishing owner-occupied primary residences, second homes and investor properties.
- Loan purpose and property status, identifying purchase, refinance, construction, renovation and bridge loans and whether the property is stabilized.
- Documentation type and, for investor loans, the debt service coverage ratio at origination.
- Property state, which should replace the "various" and "multiple" location entries the referral identifies.

We encourage the Working Group to define each attribute precisely in the Annual Statement Instructions, including the measurement date and valuation method, so that reported data are comparable across reporting entities. Consistent attribute data would also give the Life Risk-Based Capital (E) Working Group the basis it currently lacks to calibrate a risk-sensitive charge. The referral notes that the current 68 basis point charge was anchored to pre-CM framework commercial mortgage factors without calibration to residential mortgage data. Loan-level attributes are the predicate for replacing that factor with one that reflects the risk of the loans insurers actually hold.

III. Pools of residential mortgage loans secured by individually divisible one-to-four family properties should be in scope

Insurers commonly acquire residential mortgage loans as pools, through bulk purchases or flow arrangements with originators, and often through an investment manager. Insurers also lend against portfolios of one-to-four family properties, including single-family rental portfolios, through a single loan cross-collateralized by the individual homes. In both cases the collateral is a set of individual one-to-four family properties, each on its own legal parcel and each capable of being sold separately. The Neuberger Berman presentation described typical portfolios as containing hundreds or thousands of individual exposures diversified across loan types, borrowers and geographies. Recovery on these exposures depends on the value of individual homes that can be sold one at a time into the broad residential resale market. Borrower-level factors, including credit score and debt service coverage, are captured through the risk attributes previously outlined in Section II. Together with the value of each individual home, borrower-level factors make up the risk profile the residential mortgage loan category is intended to capture.

The manner of acquisition, holding or reporting should not change that classification. The Working Group recognized this principle in agenda item 2025-13, which expanded the scope of SSAP No. 37 to permit

residential mortgage loans held in qualifying statutory trusts to be reported individually on Schedule B as if held directly. The Life Risk-Based Capital (E) Working Group applied the same look-through logic in Proposal 2026-02-L, which aligns with the treatment of residential mortgage loans held through unaffiliated Schedule BA structures with direct ownership. SSAP No. 37 should state expressly that a loan, or a pool of loans, remains within the residential mortgage loan definition where the collateral consists of individually divisible one-to-four family properties, regardless of the number of borrowers, loans or properties involved.

The same principle should govern the staff's proposed clarification in question 2c, which we ask the Working Group to revise. As drafted, the clarification would bar a loan secured by a project involving multiple one-to-four family properties from residential mortgage loan reporting whenever the collateral is the project or development as a whole. That test looks at the form of the lending relationship rather than the substance of the collateral. Where a project has been divided into individual one-to-four family parcels and a single loan is secured by a mortgage on each of them, the insurer's recovery depends on the value of those individual dwellings, each of which can be released and sold on its own. That is residential mortgage credit risk. The loan should remain a residential mortgage loan, reported with the Section II attributes measured across the underlying properties.

Staff's concern is properly directed at collateral that cannot be divided into individually saleable homes, such as a horizontal multifamily community on a single parcel. Homes operated as one rental property on a single parcel, and not separately conveyable without subdivision or condominium conversion, reflect collateral that is commercial. Where the collateral does consist of individually divisible and saleable homes, the loan purpose and property status attributes in Section II identify development and business-plan risk more precisely than classification would.

This clarification would not extend residential mortgage loan treatment to securitized exposures. Residential mortgage-backed securities remain within SSAP No. 43, Asset-Backed Securities, and the principles-based bond definition. The clarification applies only to whole loans in which the insurer holds, directly or on a look-through basis, the note and a mortgage lien on each underlying property.

Pool reporting also offers a practical answer to the Working Group's concern about the length of Schedule B. We support permitting reporting entities to report pools of residential mortgage loans, and loans secured by multiple individually divisible and saleable one-to-four family properties, in aggregated lines, provided each aggregated line discloses the key attributes described in Section II as distributions rather than single values. An aggregated line could report the number of loans, total balance, weighted average and stratified LTV and credit score, the share of loans by lien position, occupancy and loan purpose, and the largest state concentrations, with loan-level data available to the domiciliary regulator on request. Therefore, insurers should maintain loan-level and property-level data for every aggregated line and make it available to the domiciliary regulator and examiners in a consistent format. This approach preserves the analytical value of Schedule B and ensures that regulators do not mistake an aggregated line for a single high-balance loan.

Recommendation. Add to SSAP No. 37 a statement that (1) a loan is within the residential mortgage loan definition where its collateral consists of individually divisible one-to-four family properties, whether held as a pool of individual loans or as a single loan secured by multiple properties, and regardless of the number of borrowers; (2) a loan secured by a horizontal multifamily community is a commercial mortgage loan where the individual homes cannot be conveyed separately; and (3) qualifying residential mortgage

loans are permitted aggregated Schedule B reporting of such loans subject to attribute-level disclosure and availability of loan-level and property-level data to regulators and examiners upon request.

IV. Responses to specific questions

Question 1, other definitions. We support 12 CFR §1266.1 as the starting point. It is consistent with the one-to-four family references in Model Law 280, SSAP No. 58 and the Annual Statement Instructions, and adopting it at Level 1 of the statutory hierarchy achieves the staff's objective without redefining the category.

Question 2a, mixed-use properties. We support a primarily residential test consistent with the federal definition, measured by the residential share of appraised value or property income. Where a property meets the test, the full balance should be reported in the residential category with a mixed-use flag. Allocating a single loan between categories would add complexity without improving risk information.

Question 2b, multifamily properties. The existing residential and commercial mortgage loan classifications can accommodate multifamily loans without a new reporting category. Consistent with 12 CFR § 1266.1, multifamily loans secured by residential real property would be reported as residential mortgage loans, with the proposed Schedule B attribute disclosure identifying dwelling units, property type, and related loan characteristics. This approach gives regulators visibility into multifamily exposures while keeping reporting aligned with the current Schedule B structure.

Question 2c, project-level collateral. We do not support the clarification as drafted. A loan secured by a whole project should remain a residential mortgage loan where the collateral consists of individually divisible and saleable one-to-four family properties, for the reasons in Section III. Collateral that cannot be conveyed separately, such as a horizontal multifamily community on a single parcel, would be a commercial mortgage loan.

Question 2d, loan value limits. We oppose loan value limits as a test for classification, for the reasons in Section II. Loan balance should be a reported attribute and an input to concentration analysis.

Question 2e, specific loan types. Loans secured by accessory dwelling units or non-owner-occupied properties, residential construction loans, fix-and-flip loans, lines of credit, home equity loans and loans on transitional properties should be identified through the lien position, occupancy and loan purpose attributes described in Section II, rather than excluded from the category by label.

Question 3, risk factors in Schedule B. Yes. The attributes listed in Section II should be incorporated into Schedule B through new columns or reporting codes, defined consistently in the Annual Statement Instructions.

Question 4, aggregated reporting. Yes, for pools of loans and loans secured by multiple individually divisible and saleable one-to-four family properties, subject to the attribute-level disclosure described in Section III.

V. Conclusion

The ACC supports the Working Group's objective of a clear, Level 1 definition of residential mortgage loans and more informative Schedule B reporting. We respectfully request that the Working Group:

- Adopt the one-to-four family property definition in 12 CFR § 1266.1 as the scope of the residential mortgage loan category in SSAP No. 37.

- Base any updated categorization, disclosure or referral for RBC differentiation on identified key risk attributes, including lien position, LTV, borrower credit score, occupancy, loan purpose and documentation, rather than on product labels or loan value limits.

- Clarify that a loan is within scope where its collateral consists of individually divisible and saleable one-to-four family properties, regardless of the number of borrowers, loans or properties, whether held directly, through a qualifying statutory trust or through a look-through structure.

- Revise the proposed clarification in question 2c so that classification turns on whether the project collateral consists of individually divisible and saleable one-to-four family properties.

- Permit aggregated Schedule B reporting of such pools, subject to attribute-level disclosure and availability of loan-level and property-level data to the domiciliary regulator and examiners upon request.

- Expose proposed SSAP No. 37 language together with the corresponding Blanks (E) Working Group proposal, so that the definition and the reporting fields can be evaluated as a package before adoption.

Athene's Comments:

Athene Holding Ltd. (Athene) appreciates the opportunity to comment on agenda item 2026-11, *Residential Mortgage Loan Definition*, which the Statutory Accounting Principles (E) Working Group (Working Group) exposed on August 12, 2026, in response to the May 26, 2026 referral from the Investment Analysis (E) Working Group. Our comments distinguish the definition of an RML from the measurement of risk within that category.

The capital issue should remain central. The current 0.68% Life Risk-Based Capital (RBC) factor is flat and was not calibrated to residential mortgage loss data. It is appropriate that SAPWG revisits definition of the category and add Schedule B fields for the attributes that distinguish risk. The Life Risk-Based Capital (E) Working Group (Life RBC WG) should then use those data fields to develop risk-sensitive charges. Reclassification is not a substitute for that work.

Classification should follow the collateral. A loan secured by one-to-four-family properties should remain an RML when each property is separately saleable, regardless of occupancy, borrower purpose, construction or renovation status, intent to resell, loan size, or whether several properties secure one loan. Those features affect risk and should be reported as part of enhanced disclosures in Schedule B, but they do not change the nature of the collateral.

Accordingly, Athene recommends the following of the Working Group, with the collateral test applied to illustrative loan types in **Appendix A** and responses to the exposure's questions in **Appendix B**:

1. Adopt a Level 1 definition based on the federal one-to-four family property framework, including the related terms needed to address construction-stage, multifamily, mixed-use, and nonresidential property consistently.

2. Confirm that pools and cross-collateralized loans qualify when the underlying one-to-four family properties are individually divisible and saleable.

3. Add defined risk attributes to Schedule B, permit aggregated reporting with attribute distributions and loan-level support, and reject loan balance or product labels as classification tests.

4. Expose the SSAP No. 37 definition with the related Blanks proposal, then refer RBC differentiation to the Life RBC WG for calibration using the reported attributes.

Athene's growing allocation to residential mortgage loans is deliberate. As of December 31, 2025, Athene's U.S. statutory entities reported $86.8 billion of mortgage loans on Schedule B, including $52.1 billion of residential mortgage loans, of which 98.9% was in good standing.

That allocation reflects the characteristics of the underlying assets. Athene's residential mortgage loans are secured by individually saleable one-to-four-family homes, amortize on contractual schedules, and have historically shown limited correlation to corporate credit. This includes single-family rental portfolios, construction loans on individual lots, and renovation and bridge loans, all of which are secured by homes that can be sold individually into the residential resale market. These characteristics align well with the duration and cash-flow profile of our annuity liabilities and help us provide guaranteed lifetime income to American savers.

I. Classification should follow the nature of the collateral

12 CFR 1266.1 provides the operative federal anchor. It defines property by its physical character and residential use, expressly includes land to be improved or being improved by the construction of dwelling units, and distinguishes one-to-four family, multifamily, mixed-use, and nonresidential property. Bringing that framework into Level 1 guidance would resolve inconsistent Schedule B classification without creating a new asset taxonomy.

For a loan secured by several one-to-four family properties, the relevant question is whether each home is a separate legal parcel that can be conveyed and released from the lien independently. If so, the insurer's recovery is tied to homes that can be sold individually into the residential market. The loan should remain residential whether it is a pool of separate notes, a cross-collateralized loan, or a loan to a borrower that owns multiple properties.

The same test applies to non-owner-occupied homes, one-to-four family debt-service-coverage loans, residential construction and renovation loans, bridge loans, and fix-and-flip loans. Occupancy, borrower credit, property cash flow, completion status, and holding period may change expected loss. They should therefore be visible in reporting and underwriting, not used to convert residential collateral into commercial collateral.

A single Schedule B line should not determine classification. Conversely, a loan against one undivided project does not qualify for one-to-four family treatment if the homes cannot be conveyed separately without subdivision or condominium conversion. The distinction is the collateral available for recovery, not the number of borrowers, properties, or reporting rows.

II. Enhanced Schedule B reporting to capture risk attributes

Athene supports new Schedule B reporting codes for risk attributes that include lien position, loan-to-value (LTV) ratio at origination and combined LTV ratio for subordinate liens, borrower credit quality at origination measured by FICO, occupancy, loan purpose, construction status, documentation type, debt-service-coverage ratio (DSCR) for investor loans, dwelling-unit count and property type, and property state. The Annual Statement Instructions should define each field and its measurement date so that the data are comparable across insurers.

Pools and loans secured by multiple qualifying properties should remain on Schedule B and may be reported in aggregated lines. Each line should show the number of loans and properties, total balance, LTV and credit-score distributions, shares by lien position, occupancy and purpose, and material geographic concentrations. Insurers should retain the underlying loan-level and property-level data and provide it to regulators and examiners on request.

Loan balance should be reported and used for concentration analysis rather than as a boundary between residential and commercial mortgage loans. A large Schedule B line may represent many separately saleable homes rather than one large exposure. A reporting balance cap would therefore confuse reporting form with substantive collateral risk.

Additionally, because the new fields will require system and vendor changes, we ask that the effective date allow at least one full annual reporting cycle after the related Blanks proposal is adopted for reporting entities and vendors to build the new fields.

III. Conclusion

In summary, we recommend that SAPWG define RMLs by the nature and separate saleability of the collateral, including pools and cross-collateralized loans, and add Schedule B risk attributes without treating loan balance or product labels as classification tests. The SSAP No. 37 and subsequent Blanks changes should be exposed together, with RBC differentiation referred to the Life RBC WG once consistent data is available.

Athene appreciates the opportunity to comment and stands ready to provide loan-level data for the collateral types illustrated in Appendix A to inform further discussion and the Life RBC WG's calibration work.

Recommendation:
NAIC staff recommend that the Working Group hear comments and direct NAIC staff on drafting revisions, with an exposure seeking additional information on certain items as specified below.

Comments received on the exposed questions were aligned on most points as detailed below. NAIC staff seeks input from the Working Group on whether to proceed with drafting revisions in line with these comments, or if there are any where a different direction is preferred:

1. Are there other industry definitions other than 12 CFR § 1266.1 for one-to-four family property and multifamily property which should be considered?

    - All commenters supported utilizing CFR definitions. NAIC Staff recommend utilizing the CFR definitions to the extent possible in line with comments received.

2. The following are possible modifications to the 12 CFR § 1266.1 definitions:

    - Establish a threshold for determining when a mixed-use property with both residential and commercial units can be considered either a one-to-four family or multifamily property. (e.g., 70% residential to commercial square footage or some other appropriate measure.) Additionally, how should mixed use properties be reported: as a separate category, by allocating and reporting the residential and commercial portions separately, or by reporting the entire mortgage balance as either one-to-four family or multifamily property?

        - All commenters opposed bifurcating loans secured by mixed-use properties and recommended basing the classification of the loan based on the predominant use (e.g. >50%). There was variation in whether this should be based on LTV, income production, or square footage. Some commenters also suggested the use of an identifier on Schedule B for mixed-use properties. NAIC Staff recommend using a 50% threshold metric for classification of the entirety of the loan consistent with comments, and to seek further input on which metric to use for this determination. Staff also recommend the suggested multi-use flag.

    - Should one-to-four family properties and multifamily properties both be classified as residential mortgage loans with separate reporting, or should multifamily properties be included as a component of commercial mortgage reporting?

        - Commenters were largely aligned that one-to-four family properties should be considered residential and multi-family (5+) properties should be considered commercial. The ACC comment letter appeared to agree with this in one portion of their letter and not in another. As this is the existing annual statement distinction and largely supported to be retained, NAIC Staff recommend retaining this distinction.

    - Clarify that a mortgage loan, including a construction loan, secured by a project involving multiple one-to-four family properties cannot be reported as a single residential loan when the collateral is the project or development as a whole. Each individual one-to-four family property, including condominium dwelling units within the scope of one-to-four family property definition, may qualify for residential mortgage loan reporting if each property is reported individually and the mortgage is legally separate and divisible from other properties in the project, development, or condominium.

        - The wording of this question was a bit unclear and generated a lot of commentary. However, that commentary was generally aligned and responsive to the intent of the question. Commenters were aligned that a single mortgage loan secured by multiple residential properties that are themselves legally separate properties that are individually saleable, should be classified as a residential mortgage loan. Commenters were also in agreement that a loan secured by multiple residential properties that are not individually saleable, should be classified as a commercial mortgage loan, which is what the question was referring to. NAIC Staff recommend incorporating this distinction in the drafting.

- Consider whether there should be loan value limits on individual residential mortgage loans.

    - All commenters opposed using loan size as a determining factor for classification. NAIC Staff recommend excluding loan size as a determining factor.

- Provide specific guidance on residential mortgage loans secured by ADUs or non-owner occupied one-to-four family properties, residential construction loans, fix and flip loans, lines of credit, home equity loans, and transitional properties.

    - There was some variation in response on this item. Commenters all agreed that ADUs, non-owner occupied one-to-four family properties, home equity loans and lines of credit all should be classified as residential. Interested parties noted that construction loans, fix and flip loans and transitional properties should be commercial, while the ACC and Athene noted these to be residential. NAIC Staff recommend seeking additional input on those where the feedback was mixed.

3. Should residential loan risk factors be incorporated into Schedule B reporting, whether through new columns, reporting codes, or separate loan reporting per those risk factors? Are there any other risk characteristics that should be considered for reporting purposes in addition to those already mentioned previously? (lien position and LTV ratio)

    - Commenters largely supported including key mortgage loan risk factors in Schedule B reporting. In addition to lien position and LTV ratio, many others including credit score, owner occupancy, debt service coverage ratios and others were listed as factors to be considered. NAIC Staff recommends working with key stakeholders to determine which of the identified characteristics are most important and work towards including as many of the most relevant factors as is reasonably feasible.

4. Should an alternative reporting approach be considered for residential mortgage loans, in which they are carved out from the traditional Schedule B reporting and instead reported in predefined aggregated categories?

    - While continued reporting on Schedule B was supported, some commenters supported an allowance for aggregated reporting in some instances, including for pools of loans. While this was commented on rather extensively, it is unclear what the reference to pools of loans means**.** Bulk purchases of many individual loans is allowed and currently treated as the purchase of each individual loan. SSAP 37 does not allow acquisition of a "bundle of mortgages" in which the insurer does not have a separable ownership in each individual loan. It is not clear if a "pool of loans" is a bulk purchase, a bundle or something else. NAIC Staff recommend seeking additional information from stakeholders.

Questions for Exposure

1. For multi-use properties, what metric should be used to determine the predominant usage? Options raised by commenters included: LTV, income production and square footage.

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2. There was mixed feedback on the inclusion of construction loans, fix and flip loans and transitional properties as residential RMLs. As all of these types represent transitional types of loans that are likely distinct in their nature from loans on stabilized properties, should they be reported as their own distinct classification?

3. Please provide more detailed information around the pooled loans referenced in comment letters, whether they represent bulk purchases, bundled loans, or something else. If there are multiple types, please include detailed descriptions of each.

As a reminder, the Investment Analysis (E) Working Group referral identified the following areas for consideration:

- Clarification of the characteristics that distinguish residential mortgage loans from commercial-like or other mortgage loan types, including consideration of property type, scale, and risk attributes.

- Consideration of whether certain large multi-unit, development-stage, or transitional properties should be subject to different classification or disclosure considerations.

- Evaluation of whether enhancements to reporting guidance or disclosures to identify more granular individual loan characteristics within Schedule B may improve transparency, comparability across reporting entities, and individual loan risk-assessment usability by state insurance regulators and users of statutory financial statements.

- Evaluation of whether aggregation of individual loans could be appropriate for reporting purposes, including guidance on which loans can be aggregated to retain benefits of disclosure of key risk characteristics

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-12 (Robin)	**Retroactive Reinsurance Exception**	**16– Agenda Item**	**Comments Received**	**Att. 21 IP – 24 RAA – 31 NC DOI – 51**

Summary:
On August 12, 2026, the Working Group exposed a new disclosure for when the exception retroactive accounting is applied to allow prospective accounting for intercompany reinsurance as described *SSAP No. 62—Property and Casualty Reinsurance* paragraph 36.d. The exposure requested comments regarding whether the existing exception to retroactive accounting in SSAP No. 62, paragraph 36.d, should remain unchanged, be considered for elimination, or be narrowed. The exposure also noted that if the exception is eliminated or revised, corresponding disclosure revisions will be considered.

Regulators requested this agenda item to consider potential concerns with the exception to retroactive reinsurance accounting in SSAP No. 62, paragraph 36.d. This exception allows retroactive reinsurance contracts between insurers 100% owned by a common parent or ultimate controlling person, to be treated

as prospective reinsurance, provided there is no gain in surplus as a result of the transaction. If there is a gain to the ceding entity because of the transaction, SSAP No. 62, paragraph 37 requires a punitive method of accounting, which is similar to deposit accounting, with the addition of requiring the deposit to be nonadmitted.

Existing SSAP No. 62 paragraph 36.d.:

> 36. The accounting principles for retroactive reinsurance agreements in paragraph 34 shall not apply to the following types of agreements (which shall be accounted for as prospective reinsurance agreements unless otherwise provided in this statement):
>
> d. Intercompany reinsurance agreements, and any amendments thereto, among companies 100% owned by a common parent or ultimate controlling person provided there is no gain in surplus as a result of the transaction; or

SSAP No. 62 exposed new disclosures:

> 126. Disclose each contract that was entered into during the reporting period that applied the exception to retroactive reinsurance accounting for intercompany reinsurance contracts meeting the requirements of paragraph 36.d., which allows such contracts to be reported as prospective reinsurance. Describe the parties and general terms of the contract including the amount of reserves reinsured, the aggregate consideration paid, the amount of ceded premiums recorded by line of business, the amount of any gain or loss in surplus from the transaction and if the contract received domiciliary approval.

SSAP No. 62—Property and Casualty Reinsurance provides different accounting treatment for prospective and retroactive reinsurance contracts. The distinction depends on whether the agreement covers insured events occurring after the agreement's effective date (prospective) or events that occurred before the effective date (retroactive).

Prospective reinsurance contracts that transfer risk and meet other contractual requirements apply prospective reinsurance accounting. Retroactive reinsurance contracts covering risks that occurred prior to the effective date that also transfer risk are subject to retroactive reinsurance accounting. Under retroactive reinsurance accounting, all reserves remain on the ceding company's balance sheet and in annual statement Schedule P with a write-in contra-liability established for the retroactive reinsurance. The consideration paid is not recognized as ceded premiums, and therefore net premiums written is also not reduced.

History - The intercompany reinsurance exception detailed in SSAP No. 62, paragraph 36.d. existed prior to statutory codification, in the *Property and Casualty Accounting Practices and Procedures Manual*, Chapter 22, Reinsurance. The guidance for retroactive reinsurance contracts was adopted by the Property Casualty Reinsurance Study Group on December 13, 1995. The exception guidance in SSAP No. 62, paragraph 36.d. was adopted by the membership of the NAIC at the March 1996 Plenary Session. This same wording was incorporated into SSAP No. 62 with initial statutory codification The wording has consistently required 100% common ownership since adoption.

The exception permits prospective accounting for certain transactions that shift prior-year business within an insurance group under 100% common control. It is commonly applied to amendments to intercompany pooling agreements, including the addition of new pool participants, and to reallocations of prior-year

reserves and premiums among affiliated entities. These intercompany reinsurance agreements are subject to regulatory review under the *Insurance Holding Company System Regulatory Act* (Model #440). In addition, if the transaction produces a gain to the ceding entity, SSAP No. 62, paragraph 37, requires a more conservative accounting methodology.

Risk Transfer Logic
Retroactive reinsurance agreements must transfer risk to qualify for retroactive accounting. Risk transfer requires both compliance with the applicable contractual requirements and a reasonable possibility that the reinsurer will incur a loss.

Implications of the Current Paragraph 36.d. Exception
Focusing solely on whether a surplus gain is recognized at inception emphasizes the timing of gain recognition rather than the transaction's ultimate economic effect. This approach may place form over substance.

It is unclear how a ceding company can assert both that a retroactive reinsurance agreement transfers risk and that the agreement will not produce a surplus gain for purposes of the paragraph 36.d. exception. A reasonable possibility of loss to the reinsurer generally implies a corresponding possibility of gain to the ceding company. Accordingly, these positions appear inconsistent.

Applying prospective accounting to intercompany reinsurance transactions may also affect the operational and risk-based capital (RBC) ratios of entities within an insurance group. If affiliated loss portfolio transfers and other retroactive agreements qualify for the paragraph 36.d. exception, significant premiums and reserves could be removed immediately from the ceding entity's statutory financial statements. This reduction in reported reserves could substantially and immediately lower the ceding entity's total RBC requirement.

Interested Parties Comments:
As noted in the related Form A, the intercompany reinsurance exception detailed in SSAP No. 62, paragraph 36.d. existed prior to statutory codification, in the *Property and Casualty Accounting Practices and Procedures Manual*, Chapter 22, Reinsurance. The guidance for retroactive reinsurance contracts was adopted by the Property Casualty Reinsurance Study Group on December 13, 1995. Most of the reinsurance guidance in SSAP No. 62 was adopted as part of the review of *FASB Statement No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* (FAS 113) and a related *Emerging Issues Task Force Issue No. 93-6, Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises* (EITF 93-6).

Prior to the adoption of FAS 113, reinsurance agreements covering events that occurred prior to the effective date of the reinsurance agreement generally resulted in an underwriting gain to the ceding insurer. FAS 113 changed reinsurance accounting to require gains from retroactive reinsurance to be deferred and recognized over the claims-paying period. When the guidance from FAS 113 was evaluated by the Property Casualty Reinsurance Study Group, the Study Group adopted most of the provisions of FAS 113 for statutory accounting, including the accounting for retroactive reinsurance between ceding insurers and unaffiliated reinsurers.

However, for retroactive reinsurance among companies 100% owned by a common parent or ultimate controlling person, the affiliated insurers were exempt from retroactive reinsurance accounting as long as there was no gain in surplus from the transaction. This exception was adopted so that new

intercompany reinsurance agreements and amendments to existing intercompany reinsurance agreements would continue to be accounted for as prospective reinsurance and continue to be reported in loss reserves and captured in the loss development reported in Schedule P.

The exception guidance in SSAP No. 62, paragraph 36.d. was adopted by the membership of the NAIC at the March 1996 Plenary Session. This same wording was incorporated into SSAP No. 62 with initial statutory codification (Issue Paper No. 75). The wording has consistently noted 100% common ownership since adoption.

For these reasons, interested parties do not recommend the elimination of paragraph 36.d. We recommend retaining the exception, clarifying its interaction with risk transfer and paragraph 37, and offer to work with NAIC staff on targeted disclosures.

Reinsurance Association of America (RAA) Comments:

Purpose of Our Comments

RAA appreciates the opportunity to comment on Ref. 2026-12. The exposure proposes disclosures identifying use of paragraph 36.d and requests comments on whether the exception should be retained, narrowed or eliminated. We oppose rescinding the exception and recommend retaining it, clarifying its application and improving transparency through targeted disclosures.

Paragraph 36.d permits prospective accounting for qualifying reinsurance agreements and amendments among companies 100% owned by a common parent or ultimate controlling person, provided there is no gain in surplus from the transaction. The exception was adopted in March 1996 and carried into initial codification.[1] In its subsequent historical explanation, INT 03-02 described the intent as accommodating amendments to wholly owned intercompany reinsurance agreements without surplus gains.[2] This accounting accommodation supports group risk and capital management today, but does not replace risk-transfer requirements, credit-for-reinsurance requirements or applicable holding company review.

Transactions Affected by the Exception

Intercompany Pooling

Intercompany pooling is a reinsurance arrangement through which affiliated insurers combine their business and allocate premiums, losses and expenses among participating companies according to agreed percentages. SSAP No. 63, paragraph 8, addresses modifications to pooling arrangements, and paragraph 14 incorporates the retroactive reinsurance provisions of SSAP No. 62, including paragraph 36.d. Changes in participation, acquisitions, dispositions and reorganizations typically require amendments to or replacement of the pooling agreement. The exception allows each participant to continue prospective accounting for its revised share of the pooled business.

Without paragraph 36.d or a replacement exception, a pooling modification covering past insured events would generally be subject to retroactive reinsurance accounting under paragraph 34. The ceding participant would report the affected reserves in its regular loss reserve accounts and schedules, with the reinsurance offset reported separately as a contra-liability. The assuming participant would likewise report the assumed retroactive reserves separately. This presentation could cause the reserves reported in each participant's regular schedules to differ from its revised share of the pool. Because property and casualty risk-based capital (RBC) uses Schedule P net reserves and loss development data, the change could also affect reserve-risk inputs and RBC ratios, subject to applicable adjustments. RAA recommends coordinating any change with the Casualty Actuarial Task Force and the Property and Casualty Risk-Based Capital Working Group.

Loss Portfolio Transfers and Adverse Development Covers
An affiliated loss portfolio transfer (LPT) reinsures specified liabilities for losses from past insured events within the same group. An affiliated adverse development cover (ADC) protects against further development of those losses above an agreed attachment point, subject to contractual limits. These agreements can support reorganizations or the management of non-core or run-off business by aligning prior-year liabilities with capital, diversification and claims expertise. Amendments may serve the same purpose. Each agreement should be evaluated on its terms; An affiliated LPT or ADC should be evaluated separately from the cedent's pooling arrangement unless it changes that arrangement. Participation in a pool alone does not make the transaction a pooling modification.

Separately managing these portfolios can give regulators and rating agencies a clearer view of continuing operations. Under indemnity reinsurance, the issuing insurer remains liable to policyholders and retains counterparty and liquidity risks. Review should assess the assuming affiliate's ability to perform as claims develop and are paid, considering its capital, liquidity, retrocessional protection and other financial support. The enforceability, duration and release or termination conditions of that support are relevant to its continued availability.

RAA Position and Recommendations

Retain the Exception and Preserve Regulatory Review
Paragraph 36.d is an important tool for managing a group's risk and capital profile. Applicable state holding company laws establish transaction standards and approval or prior-notice and non-disapproval requirements. Review should address business purpose, fair consideration and projected financial and capital effects on each insurer. For material affiliated LPTs and ADCs, it should also consider adverse loss development, related reinsurance and provisions governing distributions, collateral releases or termination. Group-level capital neutrality does not establish fair consideration or policyholder protection. Regulatory approval does not independently establish eligibility for the exception.

Legal restrictions, collateral obligations and liquidity needs limit the movement of capital within international groups. The assessment must therefore consider each insurer's financial capacity rather than rely solely on the group's financial position. To inform consideration of any change to the exception, we would welcome further discussion of the specific accounting or supervisory concerns the Working Group seeks to address and whether targeted clarification or disclosure could resolve them.

A reduction in the cedent's required RBC should not be confused with a gain in statutory surplus. A qualifying transaction may leave surplus unchanged while reducing reserve-risk exposure and required capital, subject to applicable charges and adjustments. The no-surplus-gain condition does not, by itself, establish the adequacy or continuing availability of resources supporting the assumed liabilities. The capital effects should be assessed together with the assuming affiliate's financial capacity and the risks retained by the cedent. An improved RBC ratio alone does not establish that policyholder protection has weakened.

Clarify Risk Transfer and the No Surplus Gain Condition
We agree that agreements using paragraph 36.d must satisfy applicable risk-transfer requirements. Paragraph 36.d does not specify whether its no-surplus-gain condition applies to the cedent or both parties; paragraph 37 expressly addresses gains to the ceding entity. We recommend clarifying that the condition applies to the cedent at inception. Subsequent recoveries or development under the original terms should not, by themselves, cause a qualifying agreement to lose the exception. Material

amendments should be evaluated for their incremental effect, including any gain to the cedent when entered into. Paragraph 37 should be conformed as necessary.

A reasonable possibility of loss to the reinsurer does not necessarily produce a net surplus gain to the cedent. For example, an increase in gross loss liabilities may be offset by an increase in reinsurance recoverables. Risk transfer and eligibility require consideration of the complete arrangement, including limits, adjustable features, timing provisions and related agreements. The requested clarification should distinguish the inception test from subsequent accounting for recoveries and loss development. The clarification should address an assuming insurer's gain without creating a separate basis for gain recognition. Affiliated reinsurance remains subject to SSAP No. 25, including applicable economic-substance requirements and demonstrable support for any arm's-length representation. Paragraph 4 directs accounting and valuation of pooling modifications to SSAP No. 63.[3] For other affiliated transfers, consideration above carried reserves should be supported by the coverage and obligations assumed; the difference alone does not establish either overpayment or fair pricing. The clarification should preserve applicable recognition, measurement and holding company requirements and should not permit unsupported transfers of value between affiliates.

Enhance Transparency Through Targeted Disclosure

We understand the Working Group's concern that use of the exception is not readily identifiable in the annual statement. Targeted disclosure is a reasonable way to address that concern. Ref. 2026-12 proposes adding paragraph 126 to SSAP No. 62 to require disclosure of contracts entered into during the reporting period that use the paragraph 36.d exception. We recommend distinguishing pooling modifications from other affiliated transactions so the disclosures reflect their different purposes and reporting requirements.

For pooling, we recommend addressing identified gaps through SSAP No. 63 and Note 26 without overlapping requirements. For other new or materially amended agreements, disclosure should identify the counterparties and domiciles, common-ownership basis, business purpose, principal coverage terms, reserves reinsured, aggregate consideration, inception surplus effect for each party and required approval or non-disapproval status. For affiliated LPTs and ADCs, initial disclosure should also describe material financial support, including relevant retrocessional or other capital arrangements. Cross-references should be permitted where existing filings provide the information. Amendment disclosures should explain what changed and the incremental financial effect.

The new transaction disclosure should be required only for the reporting year in which the agreement is entered into or materially amended, with prior-year information retained in the following year only to the extent needed for comparative presentation. Remaining recoverables, continued coverage or routine loss development should not require repetition of the historical transaction disclosure in later years. Existing reporting obligations would continue. Any new ongoing disclosure of changes in financial support should address an identified information gap and be separately exposed with materiality and implementation criteria. Before requiring ceded premiums by line, the Working Group should assess whether existing allocations and reconciliations meet the supervisory need.

Conclusion

For these reasons, RAA opposes eliminating paragraph 36.d. We recommend retaining the exception, clarifying that the no-surplus-gain condition applies to the cedent at inception and limiting new transaction disclosures as described above. Any change to eligibility, recognition or measurement should be separately exposed as a substantive accounting change, with coordinated Schedule P and RBC analysis

and transition provisions for existing agreements. We appreciate the Working Group's consideration and would welcome further discussion.

North Carolina Department of Insurance Comments:
We support retaining the exception to retroactive reinsurance accounting in paragraph 36.d. for certain affiliated transactions when prospective accounting is less disruptive and provides more useful and comparable information, but do not believe that it should be the default treatment for all reinsurance agreements among affiliates. As discussed in more detail below, we believe certain affiliated reinsurance agreements should be scoped out of the exception and instead follow the specific accounting guidance tailored to retroactive reinsurance in paragraphs 34 and 35 of SSAP 62 and be included in the related disclosure requirements.

Transactions that should Remain in Scope of the Exception
We believe the guidance in paragraph 36.d. is appropriate for intercompany pooling agreements, as well as for modifications to existing intercompany pooling agreements, regardless of whether they impact only future policy years or also impact prior policy years, and should be retained for those purposes. We also support the exception being retained for amendments or modifications to other (non-pooling) intercompany reinsurance agreements that originally incepted on a prospective basis, as long as there is no surplus gain consistent with paragraph 36d. Without the exception permitting prospective accounting for these transactions, retroactive accounting would produce unusual fluctuations and financial statements that are opaque and inconsistent. It would also make it practically impossible to implement changes to intercompany pooling agreements over time. We believe the exception was originally only intended for these types of transactions.

Transactions that should be Scoped Out of the Exception
For reinsurance agreements between affiliates that incept on a retroactive basis, like loss portfolio transfers (LPT) and adverse development covers (ADC), we believe retroactive accounting should be required. This is more consistent with the intent of retroactive reinsurance accounting in paragraph 33 of SSAP 62, namely to prevent "potential abuses involving the creation of surplus to policyholders and the distortion of underwriting results…" Allowing the exception to extend to these affiliated transactions, which are inherently more susceptible to abuse and can provide significant and immediate RBC relief, seems contrary to the stated purpose of the guidance. In other words, we see no clear rationale for why an LPT with an affiliate should receive the accounting and reporting benefits of prospective reinsurance accounting while an arm's length LPT with an unaffiliated reinsurer is subject to the more stringent limitations of retroactive reinsurance accounting and reporting. We have also recently seen in practice affiliated LPTs that were structured with deferred premiums or other mechanisms that obscure a gain in surplus to qualify for prospective accounting under the paragraph 36.d. exception and avoid the more punitive accounting in paragraph 37. Often times the reinsurer in these cases is a U.S. or offshore captive affiliate, which is concerning.

For these reasons, we believe that reinsurance agreements between affiliates that incept on a retroactive basis should be scoped out of the paragraph 36.d. exception and be subject to the guidance in paragraphs 34 and 35 of SSAP 62. If prospective accounting treatment is ever appropriate for such a transaction, we believe it should be approved on a case-by-case basis as a permitted practice, after appropriate regulatory review and related notice requirements, and not by default.

Recommendations
The nature of the risks assumed by a reinsurer under a retroactive agreement when an insured event has already occurred is fundamentally different than under a prospective agreement, and we believe the

accounting should follow the nature of the transaction (prospective or retroactive) and not who the counterparty is (affiliated or unaffiliated). We therefore recommend retaining the exception in paragraph 36.d. for new and amended intercompany pooling agreements and for amendments to other intercompany reinsurance agreements that incepted on a prospective basis, but revising the exception to exclude affiliated reinsurance agreements that incept on a retroactive basis. We believe this puts true retroactive reinsurance agreements with affiliates and non-affiliates on equal footing and provides for more consistent financial statement presentation and disclosures.

If this approach is followed, those transactions scoped out of paragraph 36.d. should likely also be considered for scoping out of the requirements of paragraph 37 to prevent creative contract structuring designed to avoid a gain in surplus. Given the time value of money is a core economic driver behind true LPTs and discounting is a key input in their pricing, they often result in an initial gain, which paragraph 34 of SSAP 62 recognizes and prescribes very specific recognition, measurement and disclosure guidelines for. The exposed disclosure may also need to be amended to only address amendments or modifications to other (non-pooling) intercompany reinsurance agreements that originally incepted on a prospective basis, since disclosure of affiliated reinsurance agreements accounted for as retroactive would be captured in Note 23F and intercompany pooling agreements should continue to be disclosed in Note 26.

Recommendation:

Based on a review of comments from interested parties, RAA and North Carolina, NAIC staff recommend that the Working Group direct NAIC staff to prepare a draft for subsequent Working Group consideration. Working Group direction is specifically requested for items 1 and 2 below.

1. **Working Group direction is requested on whether to maintain or narrow the SSAP No. 62, paragraph 36.d. exception**
    - Interested parties and the RAA support maintaining the exception.
    - North Carolina recommends narrowing the exception to only apply to amendments to pooling agreements and amendments to existing intercompany agreements that were originally prospective.
    - North Carolina recommends requiring other initially retroactive intercompany agreements such as adverse development cover (ADC) and loss portfolio transfers (LPTs), to be accounted for as retroactive reinsurance or receive a case specific permitted accounting practice from its domiciliary state to apply prospective accounting. North Carolina noted that intercompany agreements are subject to abuse, and should not default to prospective treatment. North Carolina recommends revisions so the state can require retroactive treatment or provide a permitted practice to allow prospective treatment for contracts that initiate as retroactive. North Carolina is concerned with allowing a broad exception based on counterparty affiliation instead of having the accounting reflect the retroactive nature of the contract.
2. **Working Group direction is requested regarding how paragraph 36.d. requirement that the contract "has no gain in surplus" is measured.** The paragraph is not explicit, however, it is often interpreted to mean that it is measured based on the gain in surplus to the ceding entities, because the wording in paragraph 37 requires a more conservative methodology if there is a gain to the ceding entity.

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- North Carolina states that they have seen some concerning contracts with deferred premium and made comments regarding the time value of money noting concerns with focusing on gain at inception.
- Both RAA and the interested parties noted that the interaction of paragraphs 36.d. and 37 should be clarified. The RAA also recommended that material contract amendments should be evaluated based on incremental effects.

3. Interested parties suggest that additional language may be needed to clarify how the paragraph 36.d. exception interacts with risk-transfer requirements.
4. Depending upon whether the Working Group chooses to maintain or narrow the paragraph 36.d. exception, conforming revisions may be needed to paragraph 37.
5. **Disclosures**
   - **Direct NAIC staff to work with industry and regulators to revise the previously exposed disclosure to identify contracts which use the paragraph 36.d. exception.**
   - **NAIC staff support the RAA recommendation that the** new transaction disclosure should be required only for the reporting year in which the agreement is entered into or materially amended, with prior-year information retained in the following year only to the extent needed for comparative presentation.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-13 (Robin)	**Medicaid Updates**	**17 – Agenda Item**	**Comments Received**	**Att. 21 IP – 25 AHIP – 48**

Summary:
On August 12, 2026, the Working Group exposed revisions to *SSAP No. 47—Uninsured Plans* and *SSAP No. 54—Individual and Group Accident and Health Contracts*, to add a principles-based statement that Medicaid contracts payments classified as capitated payments are included in insured plans. The Working Group sent a referral to Health Risk-Based Capital (E) Working Group so that group can determine if revisions to risk charges are warranted, as these amounts were previously classified as pass throughs and received a lower risk charge.

This agenda item was drafted to address questions received from industry and regulators regarding statutory accounting for state directed payments (SDP) in Medicaid managed care and for separate payment terms. The primary question is regarding whether the statutory reporting guidance classifies such payments as "at risk" under *SSAP No. 54—Individual and Group Accident and Health Contracts*.
Key points are described below:

State directed payments – are based on the utilization and delivery of services and are further detailed in in 42 Code of Federal Regulations (CFR) § 438.6(c). These payments are also tied to quality goals and are paid on a per members per month basis.

Separate Payment Terms – are a mechanism used by states to send supplemental funding to providers through managed care organizations (MCO) for state directed payments that were

separate from the per member per month payments. A 2024 final rule for Medicaid MCO contracts, prohibits the use of separate payment terms on or after July 9, 2027, per CMS-2439-F regulation. It requires that all state directed payments be included in actuarially sound capitation rates. It requires SDP separate payment terms (SPTs) must be moved into the base capitation rates paid to plans.

State directed payments are not pass throughs – 42 CFR 438.6(a) defines a pass-through payment as an amount required by the state to be added to contracted payment rates and considered in the actuarially sound capitation rate, that is not tied to a specific service or benefit, and not a permitted 438.6(c) payment methodology (i.e., SDP). CMS treats 438.6(c) SDPs as distinct from 438.6(d) pass-throughs: SDPs are service-specific and tied to utilization.

State directed payments are "at risk" – As provided for in the 2024 Medicaid and CHIP Managed Care Final Rule, CMS amended 438.8 (Medicaid MLRs) to clarify that SDPs and SDP SPTs are to be included in both the medical loss ratio (MLR) numerator and denominator. The inclusion of SDPs and SDP SPTs in both the MLR numerator and denominator indicates that CMS views these dollars as "at risk" to the MCO despite being embedded in the capitation rate with state direction on where the money flows.

Some MCOs view some state directed payments and state directed payments from separate payment terms as low- to near-zero-risk because the state directs the payment to specified providers, and historically some MCOs exclude state directed payments from MLR reporting on a pass-through analogy. This near zero risk may be relevant for the future Health RBC classification of such payments. The HRBC formula removes pass through payments from the underwriting risk charges and assigns a lower charge that is more akin to an administrative services contract to pass through payments.

SSAP No. 47—Uninsured Plans and *SSAP No. 54—Individual and Group Accident and Health Contracts* address uninsured plans, insured plans and partially insured plans. If a reporting entity is not at risk and is only acting as an administrator for a third party that is not at risk, then the plan is uninsured. The guidance in SSAP No. 47 provides that arrangements where the reporting entity receives a capitated payment for providing medical services to a third party do not qualify the arrangement as an uninsured plan. The exposed revisions added the following sentence to both SSAPs: "*Medicaid contract payments classified as capitated payments are included in insured plans.*"

Interested Parties
Interested parties have no comments on this item.

America's Health Insurance Plans - AHIP
The Exposure proposes to revise *SSAP No. 47—Uninsured Plans* and *SSAP No. 54—Individual and Group Accident and Health Contracts* to add a so-called "principles-based" statement that Medicaid contracts payments classified as capitated payments are included in insured plans. While the Exposure does not address whether any corresponding changes should be made to the health risk-based capital formula or its risk charges, it does note that a referral is being made to the Health Risk-Based Capital (E) Working Group for its consideration as to whether Medicaid state directed payment and separate payment terms should receive a risk similar to Medicaid pass through payments. The Exposure notes that the Health Risk-Based Capital (E) Working Group has previously determined that the risk associated with pass through payments is more administrative in nature and similar to uninsured plans.

The Exposure's proposal to include Medicaid contracts payments classified as capitated payments in insured plans seems intended to align with federal rules pertaining to Medicaid Managed Care Organization (MCO) contracts. In this letter and relative to the Exposure, AHIP does not dispute the federal Medicaid rules for the purposes to which they apply, but believes it is important to understand that they do not directly apply to statutory accounting principles (SAP) utilized by state-regulated insurers pursuant to state solvency regulation. Rather, SAP is driven by its own principles and must be evaluated in that light.[11ii]

A key aspect of SAP is the recognition of the substance of a transaction over its form. While federal Medicaid rules may prescribe that all Medicaid contracts be treated as underwritten for federal purposes (such as Minimum Loss Ratio reporting to CMS), the terms of Medicaid contracts vary by insurer, as well as by state, and may include terms including exceptions and grandfathering provisions that, in substance, alleviate most if not all potential risk to the insurer for some of its Medicaid business payments in a particular state. Indeed, the Exposure itself, while first observing that the federal rules include provisions such as treating all state-directed payments "at risk", then also observes that "some MCOs view some state directed payments and state directed payments from separate payment terms as low- to near-zero-risk because the state directs the payment to specified providers, and historically some MCOs exclude state directed payments from MLR reporting on a pass-through analogy."

Ideally, there would be symmetry between SAP and RBC, such that insurance contracts that present very little risk would be reported for SAP as non-underwritten and receive a correspondingly low RBC charge, whereas other contracts that present higher degrees of risk would be reported for SAP as underwritten and receive a correspondingly higher RBC charge. For Medicaid contracts, the determination of the degree of risk presented differs by insurer and state and can only be made on a case-by-case basis based on the terms of the Medicaid contracts that pertain specifically to it in a specific state.

Whether all of an insurer's Medicaid payments are to be reported for SAP as insured as currently proposed in the Exposure or split between underwritten and non-underwritten as determined by the insurer based on the substance of the terms of its Medicaid contracts, the impacts on SAP earnings and surplus should be the same. The difference would be one of presentation, i.e., whether premiums and claims are reported at gross amounts or netted out in the income statement.

The Exposure characterizes its proposal to include all Medicaid contracts payments classified as capitated payments in insured plans as principle-based. AHIP respectfully views the proposal differently. As drafted, the approach appears more prescriptive than principle-based because it would require "at risk", or underwritten, SAP reporting treatment regardless of the underlying contractual terms and risk exposure. As presented, the proposed revisions may be better understood as a practical expedient rather than a principles-based approach. Framing the Exposure's proposal as a practical expedient would appear to be

[11] Differences between the application of federal rules and SAP have been previously recognized e.g., INT 24-02: Medicare Part D Prescription Payment Plan, paragraph 23: "Note that the statutory reporting of the written off (impaired) recoverable from MPPP participants in Medicare prescription claims is different from CMS treatment of such amounts in the MLR. The CMS requires Part D plan sponsors to report losses from impairment write-offs of uncollectible recoverables from MPPP participants as administrative amounts and, thus, such losses are excluded from the numerator in the CMS MLR. For loss ratios determined under statutory accounting, and pursuant to the guidance in this INT 24-02, such amounts are reported as claims expense and included in the numerator of the loss ratio."

more consistent with our understanding of NAIC staff's objectives of developing revisions to SSAPs 47 and 54 that avoid unnecessary complexity.

While the impact on SAP income and surplus would be the same whether or not Medicaid contracts payments classified as capitated payments are included in insured plans, the RBC impact would not necessarily be the same. If all such Medicaid payments of an insurer are treated as underwritten when, in substance, some are not, the resulting risk charges could be materially overstated relative to the actual underlying risk exposure. Thus, a practical expedient that says all Medicaid contracts are underwritten/ at risk for SAP purposes should not be relied on by the Health Risk-Based Capital (E) Working Group to determine the degree of risk in the establishment of risk factors.

While RBC provisions will be addressed later by the Health RBC (E) Working Group, AHIP believes it is important that any future RBC framework appropriately differentiate between Medicaid contracts and payment arrangements that transfer minimal risk and those that expose insurers to meaningful underwriting risk. Such differentiation would better align RBC requirements with the underlying economic substance of these arrangements, recognizing that the RBC framework will likely be more granular than SAP in order to distinguish not just between underwritten and non-underwritten, but also between relative degrees of underwriting risk.

AHIP is concerned that changes to SSAPs 47 and 54 could be interpreted to imply a level of underwriting risk that may later be relied upon by the Health RBC (E) Working Group's consideration of related RBC charges. To avoid that unintended result, AHIP respectfully recommends a principle-based SAP approach under which insurers would classify Medicaid payments as underwritten or non-underwritten based on the substance of the applicable contract terms and actual risk exposure.

Recommendation:

NAIC staff's recommendation is to expose additional revisions illustrated below to *SSAP No. 47—Uninsured Plans* and *SSAP No. 54—Individual and Group Accident and Health Contracts* to refine the prior exposure language which indicated that Medicaid contracts payments classified as capitated payments are included in insured plans. The intent of the August exposure was to address the Medicaid revisions regarding state directed payments and separate payment terms without becoming too detailed regarding federal program terminology. However, after reviewing the AHIP comments, NAIC staff has proposed additional revisions to ensure that capitated state directed payments and state directed payments with separate payment terms with utilization risk are included in premium as insured amounts. Note that the majority of the federal revisions become effective in July 2027 and it would be preferrable to have guidance considered for adoption by early 2027.

AHIP comments were primarily focused on risk classification, which is a topic that will ultimately be addressed by the Health Risk-based Capital (E) Working Group. AHIP also made comments which recommended allowing insurers to classify Medicaid payments as underwritten or non-underwritten based on the contract terms and actual risk exposure under SAP principles. Three states and an actuarial firm identified the need for clarifications and reporting consistency.

NAIC staff agree with the AHIP comments that SAP reporting has different reporting requirements than the federal Medicaid requirements. However, NAIC staff is concerned that the AHIP recommendation would result in inconsistent reporting of similar/identical contracts. Capitated payments will be in both the numerator and the denominator of the federal medical loss ratio calculation, so allowing the amounts to be classified as uninsured seems counterintuitive. This is why deferring to federal program

classifications may not be typical for statutory purposes, however, it seemed appropriate in this case. Note that discussions with actuaries noted that state directed payments are usually paid on a per-member per-month basis and have utilization risk. However, state directed payments with separate payment terms need to be separately evaluated for whether there is utilization risk because they may be paid on a different basis than per member per month. NAIC staff understanding is also that separate payment terms may be phased out in the future.

The following revisions are proposed for exposure. The gray shaded revisions reflect revisions to the 2026 Summer National Meeting exposure.

***SSAP No. 47—Uninsured Plans**:*

3. Uninsured accident and health plans also include Federal, state or other government department funded programs such as Medicare cost contracts where there is no underwriting risk to the reporting entity. Under Medicare cost contracts, service provided to recipients includes the direct delivery of health care for which the reporting entity is reimbursed based on costs incurred as provided for in regulations governing the administration of such contracts. Other such programs may include some Medicaid contracts for which administration or other non-underwriting services are provided.

4. Partially insured or combination plans exist, under which the reporting entity issues an insurance policy for some of the risks related to the claims (e.g., minimum premium and stop loss coverage), but acts as an administrator for some, or all, of the claims paid by the plan. Such plans shall be treated as two plans: an insured plan (the part for which the reporting entity has issued a policy) and an uninsured plan (the part that meets the definition in paragraph 2 of this statement). The components related to uninsured plans shall be accounted for using the accounting principles established in this statement; the components related to insured plans shall be accounted for as insurance. Medicaid state directed ~~contract~~ payments (including those with separate payment terms that have utilization risk), which are classified as capitated payments, are included in insured plans. Medicaid state directed payments with separate payment terms with no utilization risk are excluded from insured plans.

SSAP No. 54—Individual and Group Accident and Health Contracts:

Premium Income Recognition

2. Premiums shall be recognized as income on the gross basis (amount charged to the policyholder or subscriber exclusive of copayments or other charges related to the receipt of health care services) when due from policyholders or subscribers, but no earlier than the effective date of coverage, under the terms of the contract. Due and uncollected premiums shall follow the guidance in *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers*, to determine the admissibility of premiums and related receivables. Premiums waived by the reporting entity under disability provisions contained in its policies and contracts, and reported in operations as a disability benefit, are included in premium income.

As discussed in *SSAP No. 47—Uninsured Plans*, amounts received on behalf of uninsured plans or the uninsured portion of partially insured plans shall not be reported as premium income. Administrative fees for servicing the uninsured plans shall be deducted from general expenses. Conversely, income relating to the insured portion of any plan shall be reported as premium income. Medicaid state directed ~~contract~~ payments (including those with separate payment terms that have utilization risk), which are classified as capitated payments, are included in insured plans. Medicaid state directed payments with separate payment terms with no utilization risk are excluded from insured plans.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-15 (Julie)	**SSAP No. 23 – Canadian Translations**	**18 – Agenda Item**	**Comments Received**	**Att. 21 IP – 26**

Summary:

On August 12, 2026, the Working Group exposed revisions to S*SAP No. 23—Foreign Currency Transactions and Translations* to remove the Canadian exception for foreign currency translations. With this change, all foreign currency operations will be required to be translated to U.S. dollars within each financial statement reporting line. The Working Group also requested comments from regulators and industry regarding the impact of this change, whether the Canadian exception should be retained, and (if applicable) rationale supporting retention of the exception approach.

Interested Parties' Comments:

Insurance operations in a Canadian branch of a U.S. domiciled insurance entity are conducted in Canadian dollars. As a result, the assets, liabilities, and results of operations are all reported in the functional currency (Canadian dollars). This reporting convention aligns with the manner in which the operations are reported to the Canadian regulator (the Office of the Superintendent of Financial Institutions, or OSFI). The net risk exposure to the U.S. entity that owns the branch is the net equity of the branch translated to U.S. dollars, consistent with the current accounting requirements in SSAP No. 23.

As noted in the Form A for this proposal, Canadian insurance operations resulting in less than 10% of a reporting entity's admitted assets, less than 10% of the reporting entity's liabilities and less than 10% of the reporting entity's net premium, can be translated to U.S. dollars by making an adjustment to the net assets of the foreign operation. (This is not a translation to each financial statement line item.) In accordance with SSAP No. 23 paragraph 5a., the adjustment is calculated by summarizing the assets and liabilities in the foreign currency and in U.S. dollars. The net value is then converted to U.S. dollars at the current rate of exchange and compared with the net value in U.S. dollars recorded by the reporting entity. Any difference in the net value to current exchange rates is recorded as a separate asset or liability and the change in the foreign exchange adjustment is recorded as an unrealized capital gain or loss.

If current guidance were changed, there would also be significant complexities with implementing such changes to Schedule P. If all the financial statement lines were converted to Canadian dollars for statutory reporting, one of the biggest impacts would be on Schedule P. The changes in foreign currency exchange rates would become inseparable from changes in loss development and would make any analysis of loss development difficult, if not impossible.

As noted above, the net value of the branch represents the net risk exposure to the entity that owns the branch and was the rationale for the current guidance when it was put into place. Accordingly, interested parties recommend that the current guidance remain in place as it provides a reasonable threshold for when full translation of foreign exchange for each financial statement line item is required while still reporting the amount of net risk to the U.S. domiciled entity to the state of domicile.

Recommendation:
NAIC staff recommend that the Working Group re-expose this item without revisions, which proposes to remove the Canadian foreign currency exception from S*SAP No. 23—Foreign Currency Transactions*, and direct NAIC staff to work with industry in developing transition guidance to implement the change, particularly addressing whether there is a requirement to restate prior balances and to incorporate guidance on rolling forward balances in schedules and notes.

From the 2025 year-end reporting, only 45 companies utilized the Canadian exception. Of those, only 27 companies reflect P/C companies that would complete Schedule P.

Many of the reported impacts from the Canadian exception (reflected in the balance sheet as a separate line) are minimal amounts. For those that are substantial, they are reported by large companies that presumably have other operations involving foreign currency, not just situations that qualify under the Canadian exception. Under the current guidance in SSAP No. 23, there is no restriction that precludes companies from following the Canadian exception for qualifying Canadian operations, while also following the standard approach for other foreign currency translations. If both approaches are being followed, then companies with foreign currency impacts are following different approaches for the accounting of foreign currency impacts within their own financial statements.

With the limited number of companies following the exception, and the broad SAP concept for consistency in accounting and reporting, **NAIC staff recommends that the Working Group direct staff to proceed with the removal of the Canadian exception. An email from a company that recently eliminated use of the Canadian exception suggested transition provisions, and NAIC staff agrees that these would be helpful components. NAIC staff proposes an effective date of Jan. 1, 2028, providing time for companies to revise their operations. After further consideration at the 2027 Spring National Meeting, NAIC staff will suggest a blanks proposal to eliminate the dedicated reporting line from the balance sheet capturing the separate asset and liability specific to this Canadian exception.**

Comment Letters:

- **The comment letters for this hearing agenda are included in three separate packets:**
  - **ICOLI (#2026-08) – Attachment 19**
  - **Embedded ALM (#2026-10) – Attachment 20**
  - **All Other Comments – Attachment 21**

Draft Pending Adoption

Draft: 8/21/26

Statutory Accounting Principles (E) Working Group
Columbus, Ohio
August 12, 2026

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met in Columbus, OH, Aug. 12, 2026. The following Working Group members participated: Kevin Clark, Chair (IA); Dale Bruggeman, Vice Chair (OH); Richard (Hamp) Russell (AL); Kim Hudson (CA); William Arfanis (CT); Rylynn Brown (DE); Cindy Andersen and Matt Cheung (IL); Shantell Taylor and Tom Travis (LA); Steve Mayhew and Kristin Hynes (MI); Ned Cataldo (NH); Bob Kasinow and William B. Carmello (NY); Diana L. Sherman (PA); Jamie Walker (TX); Doug Stolte and Jennifer Blizzard (VA); and Amy Malm and Levi Olson (WI).

1. Adopted its May 18, April 22, and Spring National Meeting Minutes

The Working Group met Aug. 4 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) and paragraph 6 (consultations with NAIC committee support related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings, to discuss its Summer National Meeting agenda. No action was taken at the meeting.

The Working Group met June 25 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) and paragraph 6 (consultations with NAIC committee support related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings, to receive information from data assessments completed from the year-end 2025 statutory financial statements. No action was taken at the meeting.

The Working Group met May 18. During this meeting, the Working Group took the following actions:

A. Adopted an issue paper detailing, for historical purposes, the discussions and conclusions that occurred when developing the guidance for residential mortgage loans held in qualifying statutory trusts. (Ref #2025-13)
B. Adopted editorial revisions to *Statement of Statutory Accounting Principles (SSAP) No. 15—Debt and Holding Company Obligations and SSAP No. 52—Deposit-Type Contracts* to remove the word "funding" from the beginning of the paragraph that describes Federal Home Loan Bank (FHLB) agreements, revisions to various SSAP's to replace the term "CUSIP" with "Security Identifier," and revisions to add "U.S." before generally accepted accounting principles (GAAP) as appropriate. (Ref #2026-03EP)
C. Adopted revisions to SSAP No. 52 to incorporate disclosures for funding agreement-backed notes and other similar structures, as well as a glossary to define the different structures. (Ref #2026-01)
D. Exposed revisions to *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* to clarify the reporting of funds withheld under reinsurance contracts. This exposure included a direction to work with the industry. In addition, the proposed effective date of the corresponding blanks proposal was directed to be changed to year-end 2027, and the proposal deferred. (Ref #2026-02)
E. Adopted revisions to *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures* to add restricted asset disclosure categories for 1) collateral assets received and on balance sheet, 2) assets under modified coinsurance (modco) reinsurance agreements, and 3) assets held under funds withheld reinsurance agreements. (Ref #2025-27)

F. Exposed a proposed SSAP and issue paper establishing guidance for asset-liability (ALM) management derivatives. The guidance was revised from the prior exposure to reflect changes in the transition guidance. (Ref #2024-15)
G. Exposed revisions to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items* to reject Accounting Standards Update (ASU) *2025-10, Accounting for Government Grants Received by Business Entities*. (Ref # 2026-04)
H. Exposed revisions to SSAP No. 1 to clarify that the restricted asset reporting for securities lending transactions shall reflect the asset lent by the reporting entity that is still reflected on the reporting entity's financial statements and not the collateral held. (Ref # 2026-05)
I. Exposed revisions to *SSAP No. 100—Fair Value* to eliminate the disclosure exclusion for "investments accounted for under the equity method" from the fair value financial instrument disclosure. (Ref # 2026-06)
J. Exposed revisions to the Life, Accident & Health/Fraternal Annual Statement Blank and Instructions for the asset valuation reserve (AVR) reporting of subsidiary controlled or affiliated common stock. (Ref # 2026-07)

The Working Group conducted an e-vote that concluded April 22 to expose a revised *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* as part of the project to establish updated long-term guidance for the interest maintenance reserve (IMR). In addition to the revised SSAP, the exposure included an issue paper that detailed the discussions and conclusions reached by the IMR Ad Hoc Group, proposed revisions to other SSAPs, and proposed annual statement instructions and blanks changes.

Sherman made a motion, seconded by Bruggeman, to adopt the Working Group's May 18 (Attachment One-A), April 22 (Attachment One-B), and March 23 (see *NAIC Proceedings – Spring 2026, Accounting Practices and Procedures (E) Task Force, Attachment One*) minutes. The motion passed unanimously.

2. Reviewed Comments on Non-Contested Positions

The Working Group reviewed comments received on previously exposed items (Attachment One-C).

A. Ref #2026-07

Clark directed the Working Group to agenda item *2026-07: Referral on AVR affiliated common stock*. Robin Marcotte (NAIC) stated that this agenda item was in response to a Life Risk-Based Capital (E) Working Group referral requesting clarification on certain reporting lines in the AVR. She stated that it has been difficult to distinguish between the subsidiary, controlled, and affiliated (SCA) common stock, certain other line, and the Securities Valuation Office (SVO) SCA common stock, other line. The proposed recommendation is limited to annual statement blank revisions and does not include any SSAP revisions. Specifically, items receiving the lower risk-based capital (RBC) charge under the certain other category will be clarified to include SCAs with statutory accounting impacted valuations. Marcotte stated that the recommendation is to adopt the agenda item and sponsor a blanks proposal to incorporate the clarifications. She stated that, in addition to clarifying the lines, NAIC committee support also recommend clarifying the instructions in lines 65 through 68, as multiple lines are addressed within a single paragraph and would benefit from additional clarification.

Walker made a motion, seconded by Malm, to adopt agenda item 2026-07 (Attachment One-D). The motion passed unanimously. With the adoption, the Working Group also directed that the Life Risk-based Capital (E) Working Group be notified of the most recent action. This agenda item does not result in any SSAP revisions.

3. Reviewed Comments on Exposed Items

The Working Group reviewed comments received on previously exposed items (Attachment One-C).

A. Ref #2026-06

Clark directed the Working Group to agenda item *2026-06: Fair Value Disclosures.* Julie Gann (NAIC) stated that during the May interim meeting, the Working Group exposed revisions to eliminate the fair value financial instrument disclosure exclusion for investments measured under the equity method. This exclusion was adopted from U.S. GAAP in 2009, but questions arose because these investments have fair values reported on the investment schedules, creating uncertainty regarding why they were excluded from Note 20C, the financial instrument fair value disclosure. Gann stated that initially, this was expected to be a simple change, but comments received from interested parties noted that some of these investments are operating entities and that reporting fair value in Note 20C is difficult. Gann stated that a referral was also received from the Investment Analysis (E) Working Group regarding Note 20C. This referral identified that the disclosure is currently free-form, with only examples provided in the blanks and no prescribed reporting categories. As a result, companies have applied different interpretations, with some reporting each investment schedule line separately and others using broad categories, such as bonds and stocks. She stated that this inconsistency has made comparisons and analysis difficult. The referral requests that the Working Group review the disclosure and consider prescribing specific reporting lines so companies can complete it consistently. Gann stated that, based on the comments received and the referral, NAIC committee support are requesting that the Working Group first accept the referral and then re-expose this agenda item. She stated that NAIC committee support are also requesting that industry representatives work with them during the interim to identify how to distinguish operating entities from investment-holding structures. This will help determine whether specific exclusions from the fair value disclosure are appropriate and provide clearer guidance on which investments should be included or excluded from the financial instrument disclosure.

Rose Albrizio (Equitable), representing interested parties, expressed appreciation that the comments were taken into consideration, particularly regarding operating entities. She noted that this issue was discussed several years ago in conjunction with the fair value disclosures and that requiring fair value disclosures for operating entities could be costly and potentially harmful. She stated that interested parties would be happy to work with NAIC committee support to develop a definition of operating entities. She also noted that developing fair values for these equity investments can be difficult given their nature. As passive investors, companies generally lack significant influence over these entities, making it challenging to obtain the information needed to determine fair value. She emphasized that this concern was highlighted in the comments submitted by interested parties.

Walker made a motion, seconded by Hudson, to re-expose agenda item 2026-06 with a specific request for the industry to propose guidance and reporting categories that could be established to differentiate equity-method investments by “operating entities” and structures that hold investments (“holding entities”), and to receive the referral (Attachment One-E) from the Investment Analysis (E) Working Group on the Note 20C fair value disclosure. The motion passed unanimously.

B. Ref #2026-05

Clark directed the Working Group to agenda item *2026-05: Securities Lending Restricted Asset Reporting*. Gann stated that this agenda item was exposed at the May 18 interim meeting and that this item is primarily a terminology change. She stated that current guidance in SSAP No. 1, which is also reflected in the blanks and certain RBC instructions, refers to the restricted asset in a securities lending transaction as the collateral held. However, the actual restricted asset is the security that has been lent and remains on the reporting entity's books. She stated that the proposed revisions make a minor clarification to SSAP No. 1 to reflect this distinction and clarify that collateral received as part of the transaction is addressed in SSAP No. 1, paragraph 23c, which contains the general disclosure requirements for collateral received when the related liability is reported on the balance sheet. Gann stated that interested parties agreed with the terminology change but questioned the inclusion of collateral held within the restricted asset disclosure. She stated that the reference to collateral is not specific to securities lending transactions. It is simply the standard location for reporting collateral received when a liability is recognized on the balance sheet.

Gann stated that no changes are being proposed to the exposed revisions, and the NAIC committee support recommendation is to adopt the item, sponsor a blanks proposal to make corresponding revisions to the annual statement blanks, and send a referral to the Capital Adequacy (E) Task Force so it can make corresponding revisions to the RBC instructions.

Sherman made a motion, seconded by Russell, to adopt agenda item 2026-05 (Attachment One-F) with the exposed SSAP No. 1 revisions, sponsor a blanks proposal to incorporate corresponding references within the annual statement instructions, and send a referral to the Capital Adequacy (E) Task Force with a request for corresponding changes. The motion passed unanimously.

C. Ref #2026-02

Clark directed the Working Group to agenda item *2026-02: Valuation of Funds Withheld*. Marcotte stated that this item was exposed at the Spring National Meeting, and NAIC committee support were directed to work with the industry to refine the exposed language and coordinate updates to the corresponding blanks proposal to move the effective date of the proposal to year-end 2027. Marcotte stated that interested parties indicated their support for the comment letter submitted by the American Council of Life Insurers (ACLI). She stated that ACLI reiterated its previous position that the statutory financial statement should be defined based on the contractual liability of the underlying reinsurance agreement.

Marcotte stated that, based on those comments, additional language has been developed. The prior exposure included revisions to SSAP No. 61, paragraph 40, regarding coinsurance with funds withheld, and paragraph 53, regarding unauthorized and certified reinsurers. She stated that with the revisions drafted for current exposure, the recommendation is to move the proposed guidance to SSAP No. 61, paragraph 22, which focuses on accounting and reporting. As a result, revisions to paragraphs 40 and 53 have been made. She stated that the recommendation is to expose the revised guidance for further discussion and review, and notify the Reinsurance (E) Task Force of the exposure.

Hans Avery (ACLI) expressed appreciation for the discussions with regulators and NAIC committee support on this issue and stated that it appears all parties are working toward the same outcome.

Walker made a motion, seconded by Hynes, to expose agenda item 2026-02 with modified guidance for SSAP No. 61. The motion passed unanimously.

D. Ref #2026-04

Clark directed the Working Group to agenda item *2026-04: ASU 2025-10, Accounting for Government Grants Received by Business Entities*. Wil Oden (NAIC) stated that this ASU addresses guidance for government grants received by business entities, including grants for assets and income, as defined in ASU 2025-10. He stated that the ASU continues to utilize the existing U.S. GAAP disclosure requirements for government grants that were initially established through *ASU 2021-10, Government Assistance (Topic 832), Disclosures by Business Entities about Government Assistance*, and it applies those disclosures to government grants and assistance transactions accounted for by analogy using either the grant accounting model or the contribution accounting model. Oden stated that ASU 2020-10 continues to utilize those disclosures but revises their scope so they apply only to government grants within the scope of Topic 832: Government Grants. He stated that it also adopts many of the same accounting principles used under the grant accounting model. Oden stated that the Working Group previously addressed and rejected ASU 2021-10, determining that neither the grant nor contribution methods of accounting for government grants are permitted under statutory accounting principles (SAPs). Instead, government grants should be accounted for in accordance with the gain contingency guidance in *SSAP No. 5—Liabilities, Contingencies and Impairment of Assets,* and remain subject to the reporting and disclosure requirements in SSAP No. 5 and SSAP No. 24. Oden stated that comments were received from interested parties, recommending that additional guidance be incorporated to address grants on assets. He stated that NAIC committee support have worked to incorporate some of that guidance, and the NAIC committee support recommendation is to expose the item with updated language. He stated that the ASU continues to be recommended for rejection, and NAIC committee support intend to continue working with interested parties to further refine the guidance.

Keith Bell (Travelers), representing interested parties, thanked NAIC committee support for taking its comments into consideration and stated that it looks forward to reviewing the revised exposure.

Walker made a motion, seconded by Sherman, to expose agenda item 2026-04 with revisions to SSAP No. 24 to reject ASU 2025-10. The motion passed unanimously.

4. Reviewed Comments on Exposed Items—IMR and ALM

A. Ref #2023-14

Clark directed the Working Group to agenda item *2023-14: SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve.* Gann stated that in April, the Working Group exposed the IMR package, which included a revised SSAP No. 7; an issue paper detailing the discussions and conclusions reached; revisions to other SSAPs that reference IMR to ensure consistency; and a document containing proposed reporting revisions. She stated that, during the interim period, NAIC committee support worked with the industry and made several revisions, most of which were editorial in nature. Gann stated that a summary document details all revisions reflected and summarizes a few key items:

- Revisions clarify the definition of IMR. The guidance continues to state that IMR and AVR do not meet the definition of assets and liabilities but are required to be recognized as statutory assets and liabilities. She stated that the language was revised to consistently describe these items as valuation adjustments.

- Examples of known liquidity sales were incorporated, but revisions from the ACLI that appear to limit the assessment of known liquidity sales were not included. She stated that the application of the guidance is intended to be broad without restrictions.
- The proof-of-reinvestment guidance was expanded, reorganized, and clarified. A key revision added an exception for reporting entities that have assumed net-negative IMR losses under a reinsurance agreement. In those situations, an assumed net negative IMR would be excluded from the proof of reinvestment calculation.
- ACLI proposed edits on reinsurance guidance were incorporated. She stated that they provided specific direction for reporting both funds withheld and modified coinsurance reinsurance transactions through aggregate write-ins for deductions. She stated that NAIC committee support believe this approach is fairly uniform across the industry, although not entirely consistent, and as a result, some companies may need to change their current reporting practices.

- Guidance regarding admission of net-negative IMR in the general account and separate account was clarified. She stated that the revisions broaden the guidance to allow companies to elect where to admit net negative IMR, provided there is net negative IMR in either the general account or separate account and the applicable admittance requirements are met.
- Revisions were made to *SSAP No. 86—Derivatives* to clarify that gains and losses from an accounting effective hedge may continue to be reported in IMR if the hedged item is reported through the IMR.
- Although revisions were not reflected in the revised Exhibit of Capital Gains and Losses, per ACLI comments, NAIC committee support plan to continue working with the industry during the interim to refine the guidance.
- Gann stated that the IMR form, which is the IMR schedule in the blanks, has been significantly expanded to identify different categories of IMR adjustments.
- The proposed reporting schedule detailing Modco and funds withheld reporting has been deleted. Gann state that the ACLI recommended narrowing that schedule to focus only on IMR, but instead, NAIC committee support have removed it from this project and will plan to address it separately as part of a broader project covering Modco and funds withheld reporting.
- The issue paper was updated to reflect the corresponding revisions made to the SSAP, and the proof of reinvestment exhibit was also revised. She stated that the proof-of-reinvestment exhibit included in the issue paper will ultimately be a reporting change, but it was not included in both locations because it is still being modified. She stated that when the blanks proposal is developed, the related disclosures and proof of reinvestment requirements will be incorporated.

Gann stated that NAIC committee support recommend the Working Group expose the entire package, including the SSAP revisions, issue paper, revisions to other SSAPs, and reporting revisions, as modified with the revisions proposed by NAIC committee support.

Gann stated that the proposed effective date for the IMR guidance was Jan. 1, 2027, and that this date was selected because the current INT provides temporary guidance allowing the admission of net-negative IMR up to 10% of adjusted capital and surplus and is scheduled to expire Dec. 31, 2026. She stated that comments were received requesting a one-year delay to the effective date of the revised SSAP. She stated that if the Working Group agrees to make the effective date Jan. 1, 2028, NAIC committee support recommend revising INT 23-01 to extend through Dec. 31, 2027, with automatic nullification Jan. 1, 2028. She stated that NAIC committee support do not believe that an effective date change requires exposure, and if the Working Group agrees to revise the effective date of the proposed SSAP, NAIC committee support would recommend adopting the change to the INT 23-01.

Gann stated that several interested parties' comments focused on the admission of net negative IMR. She stated that the current Interpretation (INT) limits admitted net negative IMR to 10% of adjusted capital and surplus, and that many companies, including the ACLI, proposed removing that admittance cap.

Tip Tipton (ACLI) stated that the ACLI believes net-negative IMR should be fully admissible when supported by meaningful safeguards, such as asset adequacy testing (AAT), proof of reinvestment, and cash flow testing. He stated that these guardrails provide regulatory discipline while allowing statutory financial statements to better reflect the economics of reinvestment activity and asset-liability management. He stated the ACLI would like to focus on possible next steps to support the positions outlined in its comment letter. He stated that they met with Working Group members to share additional insights and discuss regulator concerns regarding compliance with the proposed guardrails. Tipton stated that, to address those concerns, the ACLI is proposing a phased-in approach. Under this approach, compliance with the guardrails under INT 23-01 would continue to be evaluated while increasing the admittance cap percentage. He stated that once the revisions to SSAP No. 7 are adopted, the ACLI would like to assess compliance with the updated guardrails and consider additional increases to the cap percentage. He stated that a phased-in structure would give regulators time to evaluate the consistency of implementation, allow companies to update systems and controls, and provide a disciplined path from the current limited-admittance framework to full recognition when safeguards are satisfied.

Tipton stated that the ACLI supports moving the effective date of the revised IMR guidance to Jan. 1, 2028, while extending the current interim guidance through year-end 2027. He stated that, beginning in 2028, the ACLI recommends that regulators consider increasing the level of admitted net negative IMR based on demonstrated compliance with the guardrails, and the goal of the phased-in approach should ultimately be full admission of net negative IMR for qualifying reporting entities. Tipton stated that, following the Summer National Meeting, the ACLI supports working collaboratively with state regulators on a more clearly defined framework for how the phased-in approach would operate and how compliance would be assessed. The ACLI will also work with regulators and NAIC committee support to develop a concise annual statement instruction summary identifying the guardrails that must be met to admit net negative IMR.

Hudson, Walker, Malm, and Bruggeman stated support for extending INT 23-01 through Dec. 31, 2027, with automatic nullification on Jan. 1, 2028.

Clark stated that, regarding the admittance cap, industry comments were overwhelmingly supportive of removing any type of admittance limitation. He stated that during the years of discussion within the IMR Ad Hoc Group, considerable time was spent evaluating the purpose and concept of IMR. Through those discussions, participants reached a general agreement and ultimately adopted a definition of IMR that recognizes it as a valuation adjustment intended to maintain consistency between the valuation of assets and liabilities when interest rates change, and assets are sold and reinvested into fixed-income securities supporting liabilities with locked-in valuation rates. He stated that there appears to be broad understanding and agreement with this concept, as reflected in several of the comment letters. He stated that the IMR Ad Hoc Group devoted significant effort to developing safeguards intended to ensure reinvestment occurs when realized losses are deferred. He stated that while there is recognition that these safeguards are valuable, they are not perfect and do not provide complete precision. It is difficult to demonstrate on a sale-by-sale basis that reinvestment has occurred. He stated that, as a result, there continues to be a valid regulatory question regarding whether there should be comfort with allowing an unlimited amount of realized losses to be deferred. Clark stated that the concern is that true economic losses could be deferred over time, possibly skewing the view of company solvency.

Hudson stated that California is not supportive of removing the admittance cap at this time. He stated that net-negative IMR clearly does not meet the definition of an asset under statutory accounting. He stated that if it is viewed as a valuation adjustment, any related changes should be coordinated between the Working Group and the Life Actuarial (A) Task Force. Hudson stated that if a majority of the Working Group believes the cap should be increased, California believes it should not be increased until the safeguards have been implemented, tested, and demonstrated to be auditable and effective. He stated that, at this point, California believes it would be premature to make that change. Andersen stated support for Hudson's comments.

Walker stated that since the Working Group put the INT in place, one of the key guardrails has been cash flow testing. Even during the development of the revised SSAP No. 7 guidance, inconsistent application of the cash flow testing guardrail included in the INT has been observed. As a result, there are still concerns about the consistency and effectiveness of that safeguard.

Bruggeman stated that the Working Group has had extensive discussions with the ACLI. He stated that, as Hudson noted, one of the challenges is the conservative nature of statutory reserves. He stated that principle-based reserves (PBR) moved from a formula-based approach to a modeling approach, but there is still a floor and an inherent level of conservatism built into the reserves. He stated that IMR, whether it reflects deferred gains or losses, serves as a proxy for unlocking the reserve side, and that is the valuation adjustment. He stated that if there is already a conservative floor in place and deferred losses effectively reduce reserves below that floor, even the modeled floor begins to create challenges, which is one of the reasons the Working Group initially adopted a cap. Bruggeman stated that the Working Group had to implement the cap because of how the asset side works and the mechanics of admitting or nonadmitting amounts. Working through those details becomes challenging when IMR was originally intended to be a general proxy for unlocking what was essentially a formula-based reserve. He stated that now that PBR has been implemented, the concept does not work as well because PBR already unlocks certain assumptions through the modeling process. As a result, there may need to be additional coordination, as Walker suggested, before moving directly to consider eliminating the cap entirely.

Cheung stated that, conceptually, IMR should be admitted. The concern is that it should function as a liability adjustment. Currently, there is no framework to allow it to operate fully as a liability adjustment. That said, additional work can be done to reflect more of it through the liability side. The Life Actuarial (A) Task Force is discussing the possibility of applying *Valuation Manual* (VM)-22, Requirements for Principle-Based Reserves for Non-Variable Annuities, retroactively, at least back to 2017. Opportunities like that, where the actual characteristics of the assets can be properly reflected in the reserve calculation rather than through the net-negative IMR mechanism, should be pursued first. To the extent those efforts are limited, such as by only being able to go back to 2017, it could then be revisited on how much net-negative IMR should be admitted. As such, there are other avenues to pursue before consideration of increasing the admittance of net-negative IMR.

Clark stated that the Working Group discussed whether there was support for moving directly to an unlimited admittance cap effective Jan. 1, 2028. He noted that, based on the comments received, a straw poll did not appear necessary, as no Working Group members had expressed support for an immediate move to an unlimited cap. He stated that, absent any support, the Working Group would proceed under the assumption that it was not supportive of that option at this time.

Clark stated that it appears there is some discomfort with increasing the admittance cap before having the opportunity to see how the safeguards that have been designed and implemented are working, including whether companies are complying with those safeguards and how effective they are in practice. He stated that the ACLI is willing to work through a proposed timeline that would allow for some level of verification that these

requirements are being broadly complied with and are functioning as intended before any increase to the admittance cap is considered. However, another question he was hoping to narrow down is whether there is any appetite to increase the cap in the future. He stated that one possibility is to simply retain the current 10% cap. Clark stated that he would like feedback from Working Group members on this. He questioned whether there is support for considering an increase in the cap in the future, contingent upon demonstrated compliance with and effectiveness of the safeguards, or if there are members who would prefer to maintain the 10% cap indefinitely, with no future increases.

Hudson stated that California is not supportive of increasing the admittance cap, and if this issue is going to be addressed, it should be addressed on the liability side rather than the asset side. She stated that if the majority believes the cap should be increased in the future, the controls discussed need to be implemented and demonstrated to be effective before any increase is considered.

Walker stated that she is open to increasing the admittance cap but would like to see how the safeguards operate in practice before becoming comfortable with such a change.

Clark stated that he wanted to make clear that openness to further discussion does not mean agreement with increasing the admittance cap. It simply means continuing the discussion around what a future timeline might look like. Based on those discussions, the Working Group could ultimately decide to retain the 10% admittance cap or perhaps refer the issue to the Life Actuarial (A) Task Force to address the liability side. He stated that, with PBR, more of this issue is being addressed on the liability side over time, with the recent adoption of VM-22, and it is likely to be applied retroactively. He stated that as more businesses become subject to PBR, particularly VM-22 and approaches with less of a formulaic component, IMR becomes less necessary. He stated that he is gauging whether there is openness to continuing discussions about what a future compliance check might look like and whether there would be any willingness to consider a higher cap in the future based on that compliance check.

Malm stated that Wisconsin is open to further discussion on the issue, but the industry must demonstrate compliance with the safeguards being implemented. She noted that if companies are unable to comply with those safeguards, the decision is quick.

Andersen stated that while larger companies may have the resources and capabilities to comply with these requirements, the greater concern is opening the door for smaller companies that may not have the expertise or resources to engage in investments they should not be making. She noted that there are companies with negative IMR that do not fully understand it and simply report it because their investment advisors told them to. In her view, those are the companies of greatest concern, as they are often the ones most likely to have solvency issues. She stated that, at this time, she is comfortable with the 10% admittance cap but believes companies would need to demonstrate compliance with several safeguards before any increase in the cap is considered.

Stolte and Sherman agreed with the comments made by the other states.

Clark stated that he was hearing overwhelming support for continued discussion, although not for increasing the admittance cap at this time. He noted that any future increase would need to be contingent upon demonstrating compliance with, and the effectiveness of, the safeguards being implemented. He then asked the ACLI whether it would be willing to take the regulator feedback back to its membership and develop a more detailed proposal outlining a potential timeline and approach going forward. He stated that the Working Group wanted to continue moving the project forward and avoid delaying the discussion for another year. Instead, he expressed a desire for

the Working Group to reach conclusions on a path forward by the Fall National Meeting and asked the ACLI to develop a proposal that incorporates the regulator feedback received.

Tipton thanked the Working Group for the discussion and for openly sharing their perspectives. He stated that these conversations are important in developing a path forward. He noted that the ACLI will begin meeting on the issue next week and start developing a future framework. He acknowledged that compliance has been a recurring theme in discussions with regulators and Working Group members and stated that the ACLI understands those concerns. He also noted that the ACLI is working on several items behind the scenes that it believes will help provide a positive path forward.

Gann stated that the agenda item includes a request for the industry to consider developing a disclosure on actuarial verification, as there is currently no consistent way to verify that information, and states must perform that review individually. She requested that this be included in the work the ACLI is taking back for further consideration.

Malm asked the ACLI whether it plans to provide its membership with education on the proper reporting requirements and implementation of the proposed guardrails. She noted that Illinois had raised concerns about small- and medium-sized companies that rely heavily on investment managers and may not have the same resources as larger insurers. She emphasized that many of the discussions to date have involved larger insurers with dedicated staff, and she questions how the ACLI would help ensure that the broader industry understands and complies with the requirements under discussion.

Tipton stated that one of the suggestions raised earlier was to develop what he described as a one-page checklist. He noted that he has discussed this with Gann and others, and the goal is to clearly identify what a company must do to admit net-negative IMR, including the applicable checks, guardrails, and related requirements. He acknowledged that the topic can be complex and referenced the Illinois comments that some companies may not fully understand concepts such as net-negative IMR. He stated that the objective is to highlight the key requirements companies should focus on first. He also noted concerns, including those raised by Texas regarding cash flow testing, and the importance of giving regulators greater comfort that the related guardrails are being properly applied. He stated that, as a result, the ACLI plans to develop a one-page resource to assist its members and the life insurance industry in understanding these requirements.

Mike Reis (Northwestern Mutual), representing the ACLI, stated that the ACLI has been considering all the concerns raised during the discussion. He noted that this includes the questions raised by Gann regarding the actuarial AAT and the potential development of some type of disclosure or attestation.

Clark proposed moving forward with the exposure of the revised IMR documents while retaining the current 10% admittance cap. He asked the ACLI to develop a written proposal for consideration during the interim period. He noted that the Working Group would likely hold an interim meeting to discuss the proposal and potentially expose it for comment.

Arfanis asked whether future discussions would proceed through the IMR Ad Hoc Group or through the Working Group.

Clark stated that future discussions would be handled by the Working Group rather than the IMR Ad Hoc Group. He noted that the Ad Hoc Group has not been meeting because it reached the point where it can make no further progress. He stated that as discussions moved into more complex policy decisions, he felt there was little benefit

in continuing those discussions at the Ad Hoc Group level since the full Working Group needed to weigh in. He stated that the Working Group would likely hold at least one interim meeting before the Fall National Meeting to continue discussing the issue.

Two separate motions were passed.

Walker made a motion, seconded by Malm, to extend INT 23-01 through Dec. 31, 2027, with automatic nullification on Jan. 1, 2028 (Attachment One-G). The motion passed unanimously.

Walker made a motion, seconded by Sherman, to expose the revised IMR documents modified by NAIC committee support, reflecting the revised Jan. 1, 2028, effective date. The motion passed unanimously.

B. Ref #2024-15

Clark directed the Working Group to agenda item *2024-15: Asset Liability Management (ALM) Derivatives*. Gann stated that ALM derivatives were identified during the IMR discussion. She stated that it was brought to the attention of NAIC committee support that derivatives that did not qualify as accounting effective under SSAP No. 86 (which the industry referred to as economically effective) were being reported at fair value, but upon termination, the change in fair value that had gone through surplus was being reversed and taken to IMR. She stated this was not the intended application of SSAP No. 86 or the guidance for accounting effective hedges. Gann stated that there is currently an exception in INT 23-01 allowing companies that had been following that process, for both gains and losses taken to IMR, to continue doing so until the revised SSAP No. 7 has been implemented. Gann stated that NAIC committee support also began a project to review these economically effective hedging structures to consider whether guidance should be developed, which led to the proposed new SSAP and issue paper.

Gann stated that NAIC committee support worked with the ACLI for the initial drafting of guidance, which has now been exposed a few times. Under the proposal, derivatives that qualify under the standard would be reported at amortized cost rather than fair value. Upon termination, any gain or loss would be recognized to a deferred derivative account, rather than IMR, and amortized over the remaining life of the hedged liability portfolio, not to exceed 10 years. She stated that the ACLI submitted comments supporting the proposal in response to the last two exposures. The most recent exposure included a slight revision to the transition guidance, and the ACLI also supported adoption at this national meeting. She stated that, since it is a significant item, it has been re-exposed to provide regulators additional time to review the guidance and understand its scope.

Gann stated that, during the most recent exposure, NAIC committee support received informal regulator comments on several elements of the proposal. One issue was about accelerated amortization. She stated that the proposed SSAP for ALM derivatives includes a concept similar to *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees* that includes an accelerated amortization provision. She stated that the provision was duplicated and was intended to prevent cherry-picking, such as accelerating losses but not gains or vice versa. However, based on regulator feedback, NAIC committee support determined it was still not foolproof and proposed eliminating the accelerated amortization provision from the proposed ALM derivative guidance.

Gann stated that comments were also received regarding the derecognition of deferred items regarding reinsured balances. Currently, neither SSAP No. 108 nor the proposed ALM derivative SSAP states that deferred derivative gains or losses should be eliminated when the related portfolio of liabilities has been reinsured. She stated that revisions have been proposed to clarify that those deferred gains and losses should also be eliminated in that

situation. In addition, neither SSAP No. 108 nor the proposed ALM derivative SSAP currently addresses the inclusion of these items in cash flow testing; therefore, NAIC committee support have proposed adding that requirement.

Gann stated that there were also general questions regarding the effectiveness test and how it would be applied in practice. She stated that based on these comments, revisions have been proposed to the SSAP and issue paper, and NAIC committee support recommend exposing the guidance with the proposed modifications, with a revised effective date of Jan. 1, 2028, so it aligns with the IMR standard. Gann stated that, with this exposure, NAIC committee support proposes moving forward with a blanks proposal to add new Schedule DB reporting lines for these derivatives, as well as a referral to the Life Actuarial (A) Task Force to review the guidance and possibly conduct a pilot regarding the effectiveness test to ensure the guidance is clear on how that test would operate.

Tom Karafin (Prudential), representing the ACLI, stated that the ACLI fully supports the SSAP and issue paper exposure drafts and requests that the Working Group continue to advance this solution. He noted that the revisions in the draft do not appear to create any issues at this time and that the ACLI believes the mechanics of the exposure draft are critical for the functioning as a hedge and are consistent with SSAP No. 86. He stated that the ACLI understands the reasons for deferring the adoption date and is prepared to assist as needed by providing additional information, examples, Q&A materials, or other requested support.

Clark stated that an ad hoc group of accountants and actuaries may be formed to review the effectiveness tests. He asked Karafin whether the ACLI had identified parties willing to meet with regulators in a regulator-only session to demonstrate the effectiveness of the testing process. Karafin stated that ACLI members are currently working on a pilot program that should be available for review within the next couple of months.

Walker made a motion, seconded by Hudson, to expose the revised SSAP and the corresponding ALM derivative issue paper, with a referral to the Life Actuarial (A) Task Force, requesting it review and assess the guidance and consider facilitating a pilot review in early 2027. The motion passed unanimously.

5. Exposed Items on the Active Maintenance Agenda—Pending List

The following items were exposed for a public comment period ending Oct. 2.

A. Ref #2026-08

Clark directed the Working Group to agenda item *2026-08: SSAP No. 21 - ICOLI.* Gann stated that this agenda item addresses insurance company-owned life insurance (ICOLI) or corporate-owned life insurance (COLI). It was developed at the request of regulators and relates to *SSAP No. 21—Other Admitted Assets*, specifically paragraph 9. She stated that under the current guidance, the amount realizable from a life insurance policy when the reporting entity is the owner, beneficiary, or otherwise has rights to control the policy may be reported as an admitted asset and classified as an other-than-invested asset. As an other-than-invested asset, it is generally outside the investment RBC calculation and reported outside the asset classifications.

Gann stated that this topic was previously addressed in 2018 in response to regulatory concerns regarding investment risk and the use of cash surrender values to access alternative investment vehicles. As part of those revisions to SSAP No. 21, the Working Group incorporated the Internal Revenue Code definition of life insurance. She stated that, previously, the guidance simply referenced life insurance under statutory accounting, under which any amount of death benefit could qualify as life insurance. She stated that some of the structures observed in

2018 had very limited death benefits and functioned primarily as investment vehicles and that to address those concerns, the Internal Revenue Code definition was incorporated. In addition, a disclosure requirement was added requiring companies to identify the underlying investments backing these policies, including cash, bonds, stocks, or Schedule BA items.

Gann stated that investments in Schedule BA assets underlying these arrangements have increased significantly over the last four years, and, based on the disclosure information collected, some of these products are being marketed as a way for companies to access private credit investments without holding RBC for the underlying investment risk. She stated that the agenda item proposes moving these assets to Schedule BA, with reporting lines based on the investment's underlying characteristics, as this would allow RBC treatment to reflect the underlying investment risk. She stated that the agenda item recommends a referral to the Capital Adequacy (E) Task Force to inform them of the proposal and request feedback regarding its potential inclusion. She stated that NAIC committee support recommend comments be received before the item is formally moved to the Working Group's active agenda. Gann stated that while that approach is somewhat unusual, it would allow comments to be considered before any determination is made regarding whether the project should proceed.

Clark stated that this item has already received significant attention across the industry and is being presented as a concept agenda item because there may be some education needed on how these products work, including the investment risks involved and any mitigating factors in place. He stated that the goal is to develop a better understanding of the products moving forward, and he encouraged comments during the exposure period that include as much background information as possible so that the Working Group can fully consider that feedback.

Bruggeman stated that the referral inclusion of these items as invested assets with an assessment of RBC factors should probably be more generic, not necessarily as an investment, but rather whether they should be considered as one of the RBC charges. He stated that there has also been discussion about conducting a gap analysis across several areas, so perhaps a more targeted referral would be to include this as part of that gap analysis. He stated that there is a general RBC charge for other assets on the property/casualty (P/C) side, but not on the life or health side, and making it consistent may be appropriate.

Bruggeman stated that he has heard that some companies are advertising that they can set up a COLI arrangement specifically to provide insurers with an RBC advantage, and that some companies are using the value inside of COLIs for cash flow testing. He stated that both situations are incorrect. He stated that these comments are one why these discussions arose. He stated that when the Working Group discussed this with the industry in 2018 under agenda item 2018-08, it was understood that the parties had reached an agreement. He stated that the industry did not get everything it wanted, and neither did regulators, but it seemed a good compromise was reached. However, when companies go beyond the established principle, the issue must be addressed again. He requested that, if industry representatives become aware of situations in which companies are going beyond the established principles, whether on this topic or any other, they should attempt to stop those practices. Otherwise, this type of issue arises, and it is unfair to companies that are following the rules. He stated that this is more than just an ICOLI or COLI issue and is a general regulatory perspective. He stated that there are purposes for a specialized ICOLI product, and if products are structured differently than what was contemplated, the Working Group should take a closer look at them. Accordingly, the recommendation is to expose the agenda item for comment as described.

Jim McKeone (Institutional Insurance Group—IIG) stated that IIG designs and administers these types of programs, including for many of the companies that have purchased them over the past 10 years. IIG believes the companies that have purchased these programs have conducted extensive due diligence, and in some cases, it has taken

years to implement them properly and in the spirit of SSAP No. 21. However, IIG does not agree that there have been situations that fell outside those lines. He stated that first and foremost, and on behalf of its clients and suppliers, IIG believes that an ICOLI policy is an insurance contract. It has economics, risks, cash flows, and guarantees that differ fundamentally from a traditional invested asset. If the Working Group believes it is important to have a separate write-in treatment because the current write-in treatment is not sufficient, IIG supports that. He stated that a separate line item that recognizes it as insurance would be appropriate. He stated that if the size of the programs is a concern, IIG believes there should be limits and should tie back to employee benefit financing, which is exactly what was discussed in 2018. It should also be expressed as a percentage of capital with appropriate guardrails in place.

He stated that if there are concerns about investment risk, it is important to recognize, as Bruggeman stated, that not all products are the same. The underlying guarantees of the product, the volatility-reduction features of certain products, and how the products perform under various stress-testing scenarios should all be considered when evaluating capital charges and applicable risk factors. He stated that if there are other concerns about the ICOLI market, IIG believes there is room for best practices, and its clients would be happy to collaborate on developing guidance. IIG believes these ICOLI products can and should remain a viable option for companies seeking to finance employee benefits over the long term. However, additional guidance and somewhat stronger documentation requirements would be healthy for the market. The report released made many good points that IIG supports. IIG respects the role and position of regulators and the work they are accomplishing and is here to help.

Clark stated that he encourages the IIG to provide its comments in writing, along with as much background information as possible. He stated that the information on the differentiation of investment risk, the types of guarantees involved, and any related considerations would be very helpful as the Working Group evaluates this during the exposure period.

Kelly Rabin (Hannover Re) stated regarding any existing change to RBC consideration of the impact on the in-force business, from the perspective of the issuers of these products rather than the buyers of these products, her concern would be that, if there was a potential impact on lapses and, therefore, solvency of the writers of these companies, should there be a retroactive change.

Clark stated that this item will include a referral to the Capital Adequacy (E) Task Force, so some of that discussion will take place there. He stated that parties should follow both groups if they are interested in this topic.

Bruggeman made a motion, seconded by Stolte, to expose agenda item 2026-08 and to send a referral to the Capital Adequacy (E) Task Force, informing it of this exposure and requesting initial feedback on the potential inclusion of these items as invested assets, with assessment of RBC factors. The motion passed unanimously.

B. Ref #2026-09

Clark directed the Working Group to agenda item *2026-09: SSAP No. 86 – RSATs.* Gann stated that this agenda item concerns replication of synthetic asset transactions (RSATs). She stated that it is a concept in SSAP No. 86. Gann stated that this agenda item was drafted in response to a recent notable uptick in RSAT transactions, as well as a review of the IMR guidance and revisions to SSAP No. 86 for IMR. She stated that NAIC committee support reviewed the guidance for RSATS and realized it was not clear and required clarification. She stated that SSAP No. 86 is limited in its guidance and points only to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) for RSAT guidance, which is not the correct location for statutory accounting

guidance. She stated that RSAT securities must be filed with the SVO and reviewed, which is possibly why that guidance was previously included in the P&P Manual.

Gann stated that, regarding RSATs, there are concepts of a cash component that support the derivative, but there is currently no guidance on what qualifies as a cash component. She stated that examples frequently mention the use of a treasury; however, NAIC committee support have learned that this is not always the case. Therefore, one of the proposed revisions is to specify exactly what can be a cash component. She stated that the proposal is for cash components to be investment-grade treasuries, municipals, and corporate bonds.

Gann stated that, regarding revisions, the replicated asset is currently considered a permissible asset. She stated that the term is not actually defined in statutory accounting but is meant to be something that an insurance company could own, in accordance with their state investment laws. Presumably, if it were to activate or take possession of the RSAT asset that it is replicating, it would be allowed to hold it. She stated that if it is a lower-investment-grade asset, it would still be within its state investment law limits.

Gann stated that this is a concept agenda that proposes substantive revisions, pulling the guidance into SSAP No. 86, putting parameters on what is allowed to be a cash component, parameters on what is allowed to be the replicated asset transaction, and then specifying how the reporting should be reflected within the applicable investment schedule, as well as within the RBC formula. She stated that NAIC committee support have seen situations where companies are participating in RSAT transactions that provide RBC benefits. She stated that they subtract the cash component, add the replication asset component, and, if they use a lower-quality cash component, they receive an RBC benefit. So, NAIC committee support are proposing to specify how this should work and look for RSAT transactions.

Hudson made a motion, seconded by Sherman, to expose the proposed concept changes for the accounting and reporting guidance for RSATs. The motion passed unanimously.

C. Ref #2026-10

Clark directed the Working Group to agenda item *2026-10: SSAP No. 26 – Embedded ALM Risk.* Gann stated that this agenda item was drafted to address certain financial asset-backed security structures in which the underlying collateral comprises multiple asset types. She stated that asset-backed securities are typically supported by a single type of collateral. For example, a residential mortgage-backed security (RMBS) is backed entirely by residential mortgages. However, the structures addressed in the agenda item include different types of collateral with varying maturity dates. She stated that the debt security itself may have a 20-year term, while the underlying self-liquidating collateral may mature in five years. This creates reinvestment risk within the asset-backed security structure, as additional assets must be acquired to continue supporting the longer-term debt security obligations. Gann stated that this concept was considered for non-financial asset-backed securities in the principles-based bond definition but did not address it for financial asset-backed security structures.

Gann stated that the proposed edits include two additional changes to the principles-based bond definition. The first revision addresses financial asset-backed security structures that are not self-liquidating. She stated that if they are not self-liquidating and do not otherwise qualify as equity-backed, the proposal would require them to comply with the equity-backed provisions of the principles-based bond definition to ensure they qualify as bonds. The second revision addresses self-liquidating structures, where significant embedded ALM and reinvestment risk may exist. Gann stated that under the proposal, if significant ALM risk exists within those structures, they would not qualify under the principles-based bond definition.

Cataldo made a motion, seconded by Malm, to expose revisions to *SSAP No. 26—Bonds* to expand on the requirements that asset-backed securities are required to meet to qualify for bond reporting. The motion passed unanimously.

D. Ref #2026-11

Clark directed the Working Group to agenda item *2026-11: Residential Mortgage Loan Definition.* Oden stated that this agenda was drafted in response to a referral from the Investment Analysis (E) Working Group and to regulatory comments. He stated that the analysis conducted by the Investment Analysis (E) Working Group on residential mortgage loans (RMLs) identified significant increases in RML balances since 2014, both in overall insurer exposure to these assets and in the size of individual loans. He stated that the referral raised concerns that existing guidance lacks clearly defined boundaries between traditional RMLs and other loan types currently classified as such. These different loan types may exhibit risk characteristics that differ significantly from those traditionally associated with residential mortgage loans. He stated that another issue identified in the referral is that the reporting lacks granularity. As long as a loan is classified as a residential mortgage loan, it is subject to the same basis-point capital charge for life insurers, regardless of underlying risk factors such as the borrower's FICO score, owner-occupancy status, loan-to-value ratio, and similar characteristics.

Oden stated that this agenda item proposes incorporating a formal definition of residential mortgage loans into *SSAP No. 37—Mortgage Loans*. He stated that this would help ensure that loans reported as RMLs are appropriately secured by residential property. *SSAP No. 58—Mortgage Guaranty Insurance*, NAIC *Investment of Insurers Model Act (Defined Limits Version)* (#280), and the annual statement instructions each indicate that a residential mortgage loan is secured by one-to-four-family property. However, part of the confusion identified in the referral is that this term is not currently defined in SSAP No. 37. He stated that NAIC committee support research indicates that the term "one-to-four-family property" likely originated from Title 12 of the Code of Federal Regulations. He stated that, while this term has likely been relied upon indirectly because it is commonly used, it would be considered, at best, Level 5 guidance under the statutory hierarchy. As a result, NAIC committee support recommend using this definition as a starting point for incorporation into SSAP No. 37, along with reviewing the multifamily property definition in Title 12 of the Code of Federal Regulations.

Oden stated that a second area of focus is whether underlying risk factors should be incorporated into Schedule B reporting through new columns, reporting codes, or separate loan reporting. Potential risk factors to consider include lien position, such as first or second lien status, loan-to-value ratio, owner-occupancy status, FICO score, and other relevant characteristics. He stated that NAIC committee support are requesting comments on these factors, as well as any additional risk characteristics that should be considered for reporting purposes.

Marc Altschull, representing the ACLI, stated that the ACLI has organized a group and is collecting feedback to share with the Working Group.

Hudson made a motion, seconded by Bruggeman, to receive the referral from the Investment Analysis (E) Working Group (Attachment One-H) and to expose agenda item 2026-11 to clarify the existing definition of "one-to-four family properties" as the definition of a residential mortgage loan and then assess different characteristics and risk components of properties that meet that definition for more granular reporting and/or accounting guidance. The motion passed unanimously.

E. Ref #2026-12

Clark directed the Working Group to agenda item *2026-12: Retroactive Reinsurance Exception.* Marcotte stated that this item addresses the retroactive reinsurance exception in *SSAP No. 62—Property and Casualty Reinsurance*, paragraph 36d. She stated that regulators requested this agenda item to consider an exception to retroactive reinsurance accounting, which allows retroactive reinsurance contracts between insurers that are 100% owned by a common parent or ultimate controlling person to be treated as prospective reinsurance, provided there is no gain in surplus as a result of the transaction. She stated that a more punitive accounting treatment applies when a surplus gain exists. Marcotte stated that this intercompany exception has existed since before statutory codification and, since 1995, it has allowed reinsurance contracts covering prior-year business to be treated as prospective reinsurance. As a result, large blocks of prior-year business can be shifted within an insurance group. She stated that the exception is often used in intercompany pooling arrangements or when new members are added to a pooling agreement in order to reallocate prior-year reserves and premiums within a group. Marcotte stated that previous informal discussions have indicated that, although this exception is more permissive, these transactions remain subject to regulatory review under the *Insurance Holding Company System Regulatory Act* (#440). She stated that Working Group members requested a public discussion of the broader issue. She stated that comments are requested on whether the existing exception should remain unchanged, be narrowed, or eliminated. She stated that, if warranted by the discussion and comments received, the agenda item could subsequently be reclassified as a new SSAP concept. Marcotte stated that NAIC committee support are recommending a disclosure requirement to identify contracts applying this exception, as there is currently no disclosure that captures such transactions.

Stolte made a motion, seconded by Sherman, to expose agenda item 2026-12 with a request for comment regarding whether the existing exception to retroactive accounting in SSAP No. 62, paragraph 36.d, should remain unchanged, be considered for elimination, or be narrowed. The motion passed unanimously.

F. Ref #2026-13

Clark directed the Working Group to agenda item *2026-13: Medicaid Updates.* Marcotte stated that questions were received from three states and industry representatives regarding statutory accounting for Medicaid state-directed payments and separate payment terms. She stated that Medicaid recently revised its program guidance, resulting in certain payments that were previously classified as pass-through payments now being considered at-risk payments under Medicaid guidance. Under *SSAP No. 54—Individual and Group Accident and Health Contracts* and *SSAP No. 47—Uninsured Plans*, if a payment is considered at risk, it is reported as premium under insured plan guidance rather than as an uninsured plan arrangement and, as a result, these changes affect statutory reporting.

Marcotte stated that NAIC committee support are recommending exposure of revisions to SSAP No. 47 and SSAP No. 54 to add a high-level, principles-based statement that Medicaid contract payments classified as capitated payments are included within insured plan guidance. This approach is intended to address the Medicaid revisions without providing detailed guidance for every Medicaid program change. Instead, it establishes a broad framework that would cover state-directed payments and separate payment terms while avoiding overly prescriptive guidance. She stated that NAIC committee support also recommend notifying the Health Risk-Based Capital (E) Working Group of the exposure because industry representatives indicated that their primary concern is not the accounting treatment but the RBC implications. She stated that although these payments are now considered at risk under Medicaid guidance, the actual level of risk is often very low. Some industry representatives indicated that payment variability may be as little as approximately 1% from expected amounts.

As a result, questions have been raised regarding the appropriate health RBC charge when these payments are no longer treated as pass-through payments.

Malm made a motion, seconded by Andersen, to expose agenda item 2026-13, including revisions to SSAP No. 47 and SSAP No. 54 to add a principles-based statement that Medicaid contract payments classified as capitated payments are included in insured plans and make a referral to the Health Risk-Based Capital (E) Working Group for consideration of the related RBC implications. The motion passed unanimously.

G. Ref #2026-14

Clark directed the Working Group to agenda item *2026-14: Updates to INT 18-03 for OBBBA.* Jake Stultz (NAIC) stated that this agenda item addresses changes to *INT 18-03: Additional Elements Under the Tax Cuts and Jobs Act*. In 2018, the Working Group adopted INT 18-03 to address three primary items: the repatriation transition tax, the alternative minimum tax (AMT) credit, and the Global Intangible Low-Taxed Income (GILTI). He stated that the repatriation transition tax was expected to run for eight years and is scheduled to end in 2026, and the AMT credit effectively phased out in 2021, when the remaining credits would have been utilized. More recently, changes to federal tax law made GILTI permanent and renamed it Net Controlled Foreign Corporation Tested Income (NCTI). He stated that this agenda item proposes nullifying INT 18-03, effective Jan. 1, 2027, and incorporating the updated NCTI guidance into *SSAP No. 101— Income Taxes*.

Kasinow made a motion, seconded by Travis, to expose agenda item 2026-14, including revisions to nullify INT 18-03, effective Jan. 1, 2027, and to add language in SSAP No. 101 for NCTI. The motion passed unanimously.

H. Ref #2026-15

Clark directed the Working Group to agenda item *2026-15: SSAP No. 23 –Canadian Translations.* Gann stated that this agenda item proposes eliminating what is commonly referred to as the Canadian exception in *SSAP No. 23—Foreign Currency Transactions and Translations*. She stated that under SSAP No. 23, foreign currency translations are generally required to be performed on a line-by-line basis, consistent with U.S. GAAP. However, when statutory codification was adopted, a Canadian exception was incorporated for entities meeting certain materiality thresholds specified in the SSAP. Gann stated that, over time, this exception has created issues, particularly with line items not reconciling consistently. As a result, questions have been raised about whether the Canadian exception remains necessary. She stated that when the exception was originally adopted, the Canadian and U.S. currencies were relatively close in value, and that is no longer the case. Accordingly, this agenda item proposes that all foreign currency translations be performed consistently under the standard and that the Canadian exception be eliminated.

Hudson made a motion, seconded by Arfanis, to expose agenda item 2026-15, including revisions to SSAP No. 23 to remove the Canadian exception for foreign currency translation. The motion passed unanimously.

6. Considered Maintenance Agenda—Active Listing

A. Ref #2025-22

Clark directed the Working Group to agenda item *2025-22: IMR Impact to Reinsurance Collateral.* Gann stated that this item also addresses IMR, but not the calculation of IMR itself. Instead, this item focuses on how derecognized IMR is factored into the reinsurance collateral calculation under SSAP No. 61. She stated that current

guidance provides that derecognized IMR in a liability position increases the reinsurance collateral requirement for entities that are required to post collateral. However, the guidance does not address how net-negative IMR should be treated upon derecognition as part of a reinsurance transaction. Gann stated that this issue was identified during the IMR project and resulted in significant discussion. The original proposal from the IMR Ad Hoc Group, exposed by this Working Group, was to apply an asymmetrical approach. Under this approach, derecognized IMR in a liability position would continue to increase the reinsurance collateral requirement, while derecognized net negative IMR would not decrease the collateral requirement.

Ganns stated that comments were received from the ACLI supporting a symmetrical approach, under which derecognized net-negative IMR would decrease the collateral requirement. A referral was previously made to the Reinsurance (E) Task Force, and it has since provided its response. She stated that NAIC committee support are recommending that the Working Group receive the referral response from the Reinsurance (E) Task Force, supporting the asymmetrical treatment that was originally exposed by the Working Group, and proceed with adoption of the previously exposed revisions to SSAP No. 61, supporting the asymmetrical treatment. She stated that, under that approach, derecognized IMR in a liability position would increase collateral requirements, while derecognized net negative IMR would not decrease collateral requirements. Gann stated that, if the Working Group supports this approach, NAIC committee support believe the revisions can be adopted without re-exposure. She stated that NAIC committee support are aware that the ACLI supports symmetrical treatment, as ACLI comments were provided both to the Working Group and the Reinsurance (E) Task Force. As the proposal has already been exposed, NAIC committee support anticipate that re-exposure would simply result in additional comments supporting the previously communicated position.

Avery stated that the ACLI supports the symmetrical approach and continues to believe it reflects the more appropriate economic outcome. He stated that the ACLI believes the symmetrical approach better aligns the valuation of assets and liabilities with market value, particularly given that collateral is often held at market value. At the same time, it recognizes and appreciates the recommendation from the Reinsurance (E) Task Force and the discussion that has taken place on this issue. He stated that it also understands that the Reinsurance (E) Task Force recommendation was based on current circumstances and that the options presented were largely binary. As such, it encourages the Working Group to revisit this issue in the future if conditions change, whether through modifications to the IMR cap or broader environmental changes.

Clark stated that the response from the Reinsurance (E) Task Force indicated that removing the admittance cap could affect the conclusion. He stated that the primary issue is that, with the admittance cap in place, fully symmetrical treatment of the collateral requirement could create an incentive for reinsurance transactions that generate an immediate surplus benefit for amounts that were previously nonadmitted. For that reason, it is generally understood that this issue would be revisited if the admittance cap were ever removed. He stated that the Working Group would also be open to considering other proposals in the future if they are developed and offer an alternative approach to addressing this issue.

Hudson made a motion, seconded by Kasinow, to adopt agenda item 2025-22, including the previously exposed revisions to SSAP No. 61 to reflect the asymmetrical approach. (Attachment One-I). The motion passed unanimously.

7. Discussed Errors/Noncompliance in Statutory Financial Statements

Gann stated that this matter is about the misreporting of non-bond debt securities with SVO-assigned designations. When the principles-based bond definition was adopted, securities that do not qualify as bonds were directed to Schedule BA. Within Schedule BA, there are separate reporting lines for securities with SVO-

assigned designations and those without. Securities reported with SVO-assigned designations flow through AVR and receive RBC treatment based on the assigned designation. She stated that only securities that have received an actual SVO-assigned designation from the SVO may be reported on those lines. Securities relying on credit rating provider (CRP) ratings, modeled determinations, initial filings, or other items that the SVO has not designated should not be reported on those lines.

Gann stated that NAIC committee support identified a significant percentage of misreported items in those categories, with approximately 57% of the items reported on the applicable Schedule BA lines identified as errors for year-end 2025, as they did not reflect an SVO-assigned designation. She stated that NAIC committee support have shared these findings with regulators, including the names of the affected companies, and the NAIC Quality Assurance team is also contacting those companies directly to notify them of the issue. Gann stated that most responding companies acknowledged the reporting error and indicated that they will correct it going forward. She stated that regulators requested NAIC committee support to highlight this issue, particularly as companies prepare for year-end reporting, to emphasize that only securities with a distinct SVO-assigned designation may be reported on those lines. She stated that the security must have been filed with the SVO and have received an assigned designation. She stated that if a security is in its initial year and has not yet received an SVO designation, it cannot be reported on that line using a self-assigned designation.

Bruggeman stated that this is a specific example of a broader issue. He requested industry input on whether outreach, education, and training on these issues should be improved to ensure that people understand what is changing and how those changes affect reporting. He stated that in many cases, these discussions occur at a fairly technical level, but the individuals ultimately preparing and reporting the information in the financial statements may not always receive it. He stated that there should be a way to ensure it reaches the appropriate level within organizations, and this is not the only area where regulators have seen similar issues. He stated that, while this example is a good one to highlight, it reflects a broader concern. He stated that he is aware that NAIC committee support already provide education sessions that cover not only this topic but many others as well, but his concern is simply that there is so much happening that a different approach may be necessary to ensure the information reaches the people who need it.

8. Received a Life Risk-Based Capital (E) Working Group Referral—Collateral Loan Reporting

Gann stated that this item is to receive a referral response from the Life Risk-Based Capital (E) Working Group on collateral loans. She stated that the Life Risk-Based Capital (E) Working Group adopted revisions to its RBC formula for collateral loans from a prior Statutory Accounting Principles (E) Working Group referral. She stated that they provided a referral response, informing them of the changes made, and also recommended additional disclosures in the statutory financial statements proposed by the ACLI. Gann stated that an agenda item for these items is anticipated for the Fall National Meeting. For this national meeting, NAIC committee support are asking that the Working Group receive the referral and direct NAIC committee support to move forward with an agenda item for potential exposure at the NAIC Fall National Meeting. The Working Group received the referral (Attachment One-J).

9. Received an Update on SSAP No. 48 Discussions and Revisions

Gann stated that NAIC committee support have continued to meet regularly with industry representatives on clarifications to *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, and proposed edits for exposure consideration are expected at the Fall National Meeting.

10. Received an Update on the Commitments and Contingencies Disclosures

Oden stated that NAIC committee support have continued to meet regularly with industry representatives on clarifications of commitments and contingencies in the SSAPs and annual statement instructions, and proposed edits for exposure consideration are expected at the Fall National Meeting.

11. Received an Update on U.S. GAAP Exposures

Marcotte identified U.S. GAAP items currently exposed by the Financial Accounting Standards Board (FASB) (Attachment One-K). She stated that comments are not recommended at this time, and NAIC committee support recommend a review of the final issued ASUs under the SAP maintenance process as detailed in Appendix F—Policy Statements.

12. Discussed the Life Actuarial (A) Task Force VM Coordination Memo

Marcotte stated that the Life Actuarial (A) Task Force coordination memo (Attachment One-L) was posted after the initial agenda posting and is now available on the website. She stated that the memo outlines the items the Task Force has adopted and highlights two areas that are relevant to this Working Group. First, the Task Force coordinated with NAIC committee support to update VM guidance on credit rating mappings to align with the annual statement reporting framework. Second, the Task Force adopted revisions to VM-21, Requirements for Principle-Based Reserves for Variable Annuities, and VM-22 to reflect the concept that IMR is associated with a group of policies rather than with specific assets. Marcotte stated that, at this time, NAIC committee support do not believe any direct action is necessary; however, they are recommending the Working Group direct NAIC committee support to review these Task Force revisions as part of the ongoing IMR exposure process to determine whether any corresponding updates or coordination of language are needed within the statutory accounting guidance.

13. Heard an IAIS Audit and Accounting Working Group Update

Gann stated that the next meeting of the International Association of Insurance Supervisors (IAIS) Audit and Accounting Working Group is scheduled for Sept. 16–17, and that an update will be provided at the Fall National Meeting.

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.

Draft: 10/27/26

Statutory Accounting Principles (E) Working Group
Virtual Meeting
October 7, 2026

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met Oct. 7, 2026. The following Working Group members participated: Kevin Clark, Chair (IA); Dale Bruggeman, Vice Chair (OH); Sheila Travis and Richard (Hamp) Russell (AL); Kim Hudson (CA); William Arfanis and Michael Estabrook (CT); Rylynn Brown (DE); Cindy Andersen and Matt Cheung (IL); Shantell Taylor and Tom Travis (LA); Steve Mayhew and Kristin Hynes (MI); Ned Cataldo (NH); Bob Kasinow (NY); Diana Sherman (PA); Jamie Walker (TX); Doug Stolte and Jennifer Blizzard (VA); and Amy Malm (WI).

1. Heard a Presentation from the ACLI on a Proposed IMR Compliance Proposal

Clark stated that the meeting was a follow-up to the Working Group's discussion at the Summer National Meeting regarding the admittance cap proposed for net-negative interest maintenance reserve (IMR) in the revisions to *Statement of Statutory Accounting Principles (SSAP) No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. He stated that the discussion focused on whether the safeguards being built into SSAP No. 7 are sufficient to give regulators comfort to raise the admittance cap from the 10% of capital and surplus limit that has been in place since the implementation of the interim guidance. He stated that many Working Group members indicated they are open to raising the admittance cap in the future, but not until there has been an opportunity to assess compliance with and the effectiveness of the safeguards being implemented. He stated that the American Council of Life Insurers (ACLI) volunteered to work with its membership to develop a roadmap that identifies the points at which compliance with each safeguard could be assessed, along with the resulting decision points over the next several years for the Working Group to reassess the admittance cap.

Clark stated that no decisions would be made during the meeting and that the goal was to expose the ACLI presentation to allow time for review and comment before the Fall National Meeting. He stated that the Working Group is expected to consider adoption of the revisions to SSAP No. 7, which have been exposed several times, at the Fall National Meeting and that the revisions would retain the previously exposed existing 10% capital and surplus admittance cap pursuant to *Interpretation (INT) 23-01: Net Negative (Disallowed) Interest Maintenance Reserve*. He stated that the roadmap, if supported by the Working Group, would not impact SSAP No. 7 but would be incorporated into the Working Group's working agenda to establish the timing of compliance reviews and decision points that the Working Group would undertake, with the assistance of NAIC committee support, over the coming years. He stated that incorporating the roadmap would not bind the Working Group's future decisions on whether to increase the admittance cap. Rather, it would commit to performing the compliance reviews and reassessing the admittance cap at each scheduled point, with the ultimate decision at each point resting with the Working Group membership at that time.

Hudson stated that the Working Group must both review the controls and allow for a testing period to determine whether the controls are effective as applied, and that agreeing to the review does not commit the Working Group to raising or not raising the limit.

Tip Tipton (ACLI) stated that the ACLI's proposal provides a way forward to demonstrate compliance with the safeguards supporting net-negative IMR and to potentially increase the amount of net-negative IMR that can be admitted as compliance is demonstrated over the coming years.

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2. Discussed the Presentation and IMR Timeline

Mike Reis (Northwestern Mutual), representing the ACLI, stated that approximately 50% or more of ACLI member companies now have negative IMR, many with significant balances, and that member companies expect those balances to increase. He stated that if statutory accounting does not properly reflect the economics of negative IMR in surplus, companies will be inhibited from trading as part of prudent investment and duration risk management practices. Reis stated that the ACLI heard regulators' concerns that economic losses could be deferred, which presents a solvency concern, and that this concern was exacerbated by noted instances of noncompliance, particularly regarding the reflection of IMR in asset adequacy testing (AAT) and related IMR disclosures, as well as broader compliance concerns.

Reis stated that the proposal focuses on demonstrating compliance over time to provide evidence that the safeguards are working and that solvency concerns are not masked. He stated that the proposal addresses three safeguards: 1) IMR is properly reflected in AAT; 2) the proof of reinvestment, which becomes applicable in 2028, is working appropriately; and 3) companies are properly complying with controls to identify liquidity sale losses that are economic in nature. He stated that each safeguard would have specified compliance criteria to determine whether an individual company is complying, as well as a specified compliance threshold representing the aggregate percentage of companies in compliance. He stated that the ACLI is also committed to providing education to its member companies and the insurance industry. Reis stated that the proposed admittance cap percentages and compliance thresholds shown in the summary table are illustrative only, with the cap remaining at 10% for the first two years, and that the ACLI will continue to work with NAIC committee support and regulators to obtain feedback and refine the AAT criteria.

Hudson asked whether, if the compliance threshold were met, outlier companies would also be subject to the increased admittance cap or would remain at the lower cap.

Reis stated that the compliance threshold is measured by the percentage of companies rather than by assets, as measuring by dollar amount could overrepresent compliance, and that the 80% threshold is illustrative.

Hudson stated that regulators may be uncomfortable if outlier companies were able to admit net-negative IMR of 100% or more of surplus.

Reis stated that this concern could be quantified in the proposal or considered as a qualitative factor at each decision point.

Clark stated that there are two somewhat separate considerations: determining whether, on a broad industry basis, the vast majority of companies are appropriately complying with the safeguards, and addressing the companies that are not complying. He stated that companies must comply with each safeguard to defer and admit negative IMR, such as completing the proof of reinvestment, and that a company that does not comply should not be admitting negative IMR. He stated that addressing noncompliant companies may be a separate effort from determining whether enough of the industry is complying for the Working Group to be comfortable addressing the admittance cap for those companies that are complying, and that an enforcement process will be needed for companies that do not comply.

Walker asked whether the reporting year in the summary table reflects the year in which the proposed cap would apply or the year compliance testing would occur.

Reis stated that the ACLI intends to codify an AAT compliance tool, potentially in the annual statement, that would not be usable until year-end 2027. Therefore, the first assessment of AAT compliance would occur in 2028 with

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the filing of the year-end 2027 financial statements. He stated that proof of reinvestment compliance would be assessed in 2029, and liquidity sale loss control compliance would be assessed in 2030.

Walker asked whether the ACLI would seek to increase the cap based on a determination of compliance with AAT, which is an existing safeguard.

Reis stated that AAT compliance, along with qualitative factors and broader compliance, would inform the first decision point. He stated that the plus signs shown in the table indicate that subsequent years would assess compliance with both AAT and the proof of reinvestment, and then with all three safeguards collectively.

Malm recommended adding a column to the table showing the proposed effective date for each increased cap, as compliance cannot be measured until after the reporting is complete.

Clark stated that, for example, year-end 2027 AAT compliance would be assessed in 2028, and a decision on whether to raise the cap for year-end 2028 would be based on that review.

Reis confirmed this understanding and agreed to clarify the reporting year and the proposed effective year of the cap in the table.

Cheung asked who would assess compliance with each item.

Reis stated that the AAT tool would facilitate that review, that NAIC committee support would have the tools to assess the proof of reinvestment, and that the liquidity sale loss controls would be more difficult to assess.

Cheung asked whether the items in the table are also illustrative and whether additional items could be required. Reis stated that the three safeguards were identified as the most important, with an overlay of general compliance to be reviewed qualitatively, and that the ACLI is not opposed to adding items, but expanding the criteria to address items such as compliance with all disclosures, the appropriate deferral of market value adjustments (MVAs), or the new NAIC designation categories would require significant effort.

Cheung stated that accepting the roadmap should not preclude the insertion of other items.

Clark agreed and stated that, as Hudson noted at the Summer National Meeting, the Working Group must also assess whether the safeguards are effective, and that it needs the authority not to increase the cap if it believes doing so could create solvency concerns.

Theresa Resnick (Everlake Life Insurance Company), representing the ACLI, stated that the AAT control remains at the prototype and idea stage and that the ACLI is preparing a proposal with three parts: 1) a certification that net-negative IMR is appropriately reflected in AAT; 2) a form, automated from the annual statement, that calculates the maximum amount of cash and invested assets the appointed actuary may use in AAT; and 3) potential blanks changes and revisions to the SSAP No. 7. She stated that Section 1 of the prototype form identifies the reserves tested, consistent with *Valuation Manual* (VM)-30, Actuarial Opinion and Memorandum Requirements, of the *Valuation Manual*, and cross-checks to the annual statement; Section 2 identifies the invested assets available for testing; Section 3 addresses the asset valuation reserve (AVR) used in AAT, which cannot also be included in total adjusted capital (TAC) for risk-based capital (RBC) purposes; and Section 4 calculates the maximum amount of invested assets that may be used in AAT.

Resnick stated that Section 4 limits invested assets to the lesser of reserves or invested assets held, and then subtracts admitted net negative IMR, AVR not used in testing, non-tested reserves, and other items still to be

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developed. She stated that net-negative IMR is currently reported as a write-in on page 2 of the annual statement and is expected to receive its own line through a future blanks change, and that non-tested reserves, which are currently reported in the actuarial opinion, may also require a blanks change to be included in the statements. She stated that the tool could ensure that net-negative IMR is appropriately used in AAT and may also be useful for other non-invested assets, such as deferred tax assets (DTAs).

Resnick stated that the form would be prepared as a spreadsheet filed with the NAIC or reported in the statements, allowing regulators to identify the assets used in the appointed actuary's AAT. She stated that the certification would be added to the list of supplemental filings with a March 1 due date, with companies answering "yes" or providing an explanation, such as that the company does not admit net-negative IMR. She stated that the illustrative certification language would have the appointed actuary certify that the starting assets for AAT were reduced by the amount of net-negative IMR reported in the statements, or alternatively that the invested assets used do not exceed the amount calculated on the form, and that the ACLI will vet the language with actuarial regulators.

Cheung stated that the AAT prototype is a good start and that appointed actuaries do not need to wait for its adoption to use a similar approach at year-end to support the starting assets used in AAT. He stated that companies should consider this approach a best practice.

Reis stated that the proof of reinvestment will be required in 2028, with compliance assessed in 2029. He stated that most of the information in the proof comes directly from the financial statements and that NAIC committee support believes it can be data-captured and readily verified, including whether losses are appropriately deferred when the proof is passed and the yield is positive, or appropriately reflected in the income statement when the proof is not completed or is failed. He emphasized the distinction between losses deferred in the IMR, which must be supported by proof of reinvestment regardless of admittance, and losses under the SSAP provisions, which allow a net negative IMR to be admitted. Reis stated that compliance with liquidity sale loss controls is the most difficult to verify because controls are company-specific and must be assessed for both design and operating effectiveness. He stated that verification may rely on domestic regulator review, including through financial examinations or targeted reviews triggered by events such as disintermediation, that compliance would be assessed in 2030, and that the assessment may need to rely partly on negative assurance. He stated that 2031 would be the final decision point, at which regulators would have insight into overall compliance with the three safeguards to make an informed decision on a permanent solution.

3. Exposed the ACLI Presentation

Clark stated that the ACLI presentation would be exposed, with a Nov 6 comment deadline, to allow time for review and comment before the Fall National Meeting.

Julie Gann (NAIC) confirmed that a Nov. 6 comment deadline would allow time to compile comments before the Fall National Meeting.

Bruggeman made a motion, seconded by Hudson, to expose the ACLI proposal for a 31-day public comment period ending Nov. 6 (Attachment 1). The motion passed unanimously.

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.

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

Issue: Updates to INT 18-03 for OBBBA

Check (applicable entity):

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

Description of Issue: In 2018, the Working Group adopted INT 18-03, Additional Elements Under the Tax Cuts and Jobs Act, which provided guidance for three specific provisions of the TCJA, which were Repatriation Transition Tax (RTT), Alternative Minimum Tax (AMT) credit, and Global Intangible Low-Taxed Income (GILTI), all of which were addressed by the INT. In 2025, congress passed the One Big Beautiful Bill Act (OBBBA), which further addressed some of the prior tax provisions. This agenda intends to address these three aspects of INT 18-03.

RTT was a one-time transition tax on untaxed foreign earnings of foreign subsidiaries of U.S. companies. This guidance had an eight-year period under which the liability could be paid in accordance with IRC 965 of the Internal Revenue Code. This guidance was originally applicable for 2018, so year-end 2026 would be the last year where balances would exist. This guidance would be nullified in 2027 and the Blanks (E) Working Group would be directed to remove it from the annual statements.

AMT credit was set up to be used in 2021 reporting years or prior, so these balances do not exist at this point. This agenda item recommends that the Blanks (E) Working Group be directed to remove these disclosures from Note 9.

Net Controlled Foreign Corporations Tested Income (NCTI), formerly known as the Global Intangible Low-Taxed Income (GILTI), was originally created by the TCJA, and was further developed and made permanent by the OBBBA. This agenda item recommends that the guidance from INT 18-03 for NCTI be added to SSAP No. 101, which will allow the INT to be nullified in full once the RTT guidance is no longer needed in 2027.

Existing Authoritative Literature: Existing guidance is in INT 18-03, which is attached to this document, and in SSAP No. 101.

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

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): None

Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to INT 18-03, as illustrated in Exhibit 1 of

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this agenda item to nullify the INT, effective Jan. 1, 2027, and to add language in SSAP No. 101—Income Taxes, as illustrated below, to add language for NCTI. These revisions provide updates to guidance that was originally created by the TCJA, and subsequently updated by the OBBBA, or for guidance from the TCJA that included an ending date for the provisions.

The three provisions of INT 18-03 will each had a slightly different outcome in this agenda item. RTT will be allowed to expire as the liabilities were to be paid over an eight-year period, ending in 2026, so this guidance is no longer needed, and the disclosures can be removed in 2027. AMT credits would have been used in 2021 or prior, so this agenda item recommends that the Blanks (E) Working Group be directed to remove that reporting upon adoption. NCTI (formerly known as GILTI) was made permanent under the OBBBA, so this is recommended to be added to SSAP No. 101, as illustrated below. On Jan. 1, 2027, INT 18-03 can be nullified in full once the RTT provisions have expired, since the NCTI guidance will be included in SSAP No. 101 and the AMT guidance will have already expired.

SSAP No. 101, Disclosures

24. The significant components of income taxes incurred (i.e., current income tax expense) and the changes in DTAs and DTLs shall be disclosed. Those components would include, for example:

    a. Current tax expense or benefit;

    b. The change in DTAs and DTLs (exclusive of the effects of other components listed below);

    c. Investment tax credits;

    d. The benefits of operating loss carryforwards;

    e. Adjustments of a DTA or DTL for enacted changes in tax laws or rates or a change in the tax status of the reporting entity; and

    f. Adjustments to gross deferred tax assets because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset, and the reason for the adjustment and change in judgment.

    ~~f.~~g. Net Controlled Foreign Corporations Tested Income (NCTI), formerly known as Global Intangible Low-Taxed Income (GILTI) tax from the current-year tax return is treated as a current-year tax item in accordance with paragraph 3. The amount payable shall be recognized as a current-year expense with a liability recognized as a current federal and foreign income tax. Reporting entities shall not recognize deferred tax for basis differences in foreign entities. (As an exception to this general rule, reporting entities are permitted to recognize deferred tax items for basis differences expected to reverse as NCTI in future years if they have recognized deferred tax items for basis differences expected to reverse as NCTI under U.S. GAAP. However, a reporting entity that has recognized deferred tax items for NCTI under U.S. GAAP may follow the statutory accounting general rule (no recognition of deferred tax items). Reporting entities that recognize deferred tax items for NCTI shall explicitly disclose this item in Note 9, beginning with the 2018 year-end statutory financial statements.)

Staff Review Completed by: Jake Stultz – NAIC Staff

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Status:
On August 12, 2026, the Statutory Accounting Principles (E) Working Group exposed revisions to nullify INT 18-03, effective Jan. 1, 2027, and to add language in *SSAP No. 101—Income Taxes* for NCTI. These revisions provide updates to guidance that was originally created by the TCJA, and subsequently updated by the OBBBA, or for guidance from the TCJA that included an ending date for the provisions. With nullification of the INT, it will move to the Appendix H – Superseded SSAPs and Nullified Interpretations of the Accounting Practices and Procedures Manual for historical purposes. Appendix H is available on the Working Group website.

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EXHIBIT 1

Interpretation of the
Statutory Accounting Principles (E) Working Group

INT 18-03: Additional Elements Under the Tax Cuts and Jobs Act

Exposed for nullification with prior GILTI guidance moved into SSAP No. 101.

INT 18-03 Dates Discussed

May 14, 2018; August 4, 2018; August 12, 2026

INT 18-03 References

Current:
SSAP No. 101—Income Taxes

INT 18-03 Issue

1. This interpretation has been issued to provide statutory accounting and reporting guidance for the following items under the federal Tax Cuts and Jobs Act (TCJA) as additional guidance to *SSAP No. 101—Income Taxes*:

   a. Repatriation Transition Tax (RTT)

   b. Alternative Minimum Tax (AMT) Credit

   c. Global Intangible Low-Taxed Income (GILTI)

Issue 1 – Repatriation Transition Tax

2. The Repatriation Transition Tax (RTT) is a one-time transition tax on untaxed foreign earnings of foreign subsidiaries of U.S. companies. Under section 965 of the Internal Revenue Code (IRC), these earnings are deemed to be repatriated. Under the IRC guidance, foreign earnings held in the form of cash and cash equivalents are taxed at a 15.5% rate, and the remaining earnings are taxed at an 8% rate.

   a. The RTT is calculated in the 2017 and, in some cases, the 2018 tax return. It is not a temporary tax item and does not reverse in subsequent years.

   b. The RTT is an amount owed under the revised tax law, and is not impacted by future taxable income.

   c. Although the full amount of the calculated RTT is owed, companies can elect to pay the liability over eight years under a set IRC schedule. If electing to make installment payments, the future RTT payments are due regardless whether a company has future taxable income or losses.

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Issue 2 – Alternative Minimum Tax Credit

3. The Alternative Minimum Tax (AMT) credit is, pursuant to the provisions of the TCJA, a tax refund of AMT amounts paid in prior periods. The AMT credit can be recovered through an offset to regular taxes or received as a refund.

a. A reporting entity could realize all of its AMT receivable in the 2018 tax year if it is used to reduce its regular tax obligation. (It could also be used fully in 2019-2021 in this manner.)

b. If the AMT credit carryforward is not used to reduce regular taxes, it can be recovered as a refund (50%) to the extent not so used in tax years 2018 through 2020, with a 100% refund in 2021 to the extent not used to reduce 2021 regular tax liability.

c. If the AMT credit will be received as a refund (and not as an offset to tax liability), it may be subject to U.S. federal administrative sequestration requirements, which could reduce the amount paid by the federal government. (In 2017, the sequestration percentage was 6.6%, but this percentage varies yearly.)

d. U.S. GAAP guidance permits reporting the AMT credit as a current-year recoverable or as a deferred tax asset (DTA).

Issue 3 - Global Intangible Low-Taxed Income Tax - Description

4. The Global Intangible Low-Taxed Income (GILTI) tax is a new tax under the TCJA and is calculated each year on a portion of a controlled foreign corporation's active income.

a. GILTI is included in 2018 and subsequent year tax returns. An amount owed for GILTI in any tax year is not a temporary tax item and does not reverse in subsequent years. GILTI is a current income tax.

b. Assessments of changes in the basis differences in foreign entities could result in calculations of deferred tax items related to GILTI. The issue is whether existing basis differences will result in GILTI when they reverse. Although these deferred items may be theoretically correct, such calculations are expected to be very complex and require aggregate assessments that consider all companies within a consolidated tax group.

c. In January 2018, the *Financial Accounting Standards Board* (FASB) *Staff Q&A Topic 740, No. 5 Accounting for Global Intangible Low Taxed Income* identified that reporting entities may make an election to recognize deferred items under GILTI. (The recognition of the deferred items does not impact current tax recognition for GILTI, but whether basis differences for foreign controlled entities shall result in deferred tax assets or deferred tax liabilities.) The FASB Staff Q&A Topic 740, No. 5 also identified that FASB staff will be monitoring how entities that pay tax on GILTI are accounting for and disclosing these deferred effects over the next few quarters. The FASB staff will provide a subsequent update so the FASB can consider whether accounting and disclosure improvements are needed for U.S. GAAP.

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INT 18-03 Discussion

5. The Statutory Accounting Principles (E) Working Group consensuses for accounting and reporting for the noted items are included below.

Issue 1 – Repatriation Transition Tax:

6. The Repatriation Transition Tax (RTT) is a current-year tax item captured in SSAP No. 101, paragraph 3. The amount payable shall be recognized as a current-year expense with a liability recognized as "current federal and foreign income taxes" and not as a deferred tax liability (DTL), regardless if an entity elects to make installment payments of the amount owed or pays the amount in full.

Disclosure

7. Reporting entities that are subject to the RTT shall include the following in a narrative disclosure as part of the income tax disclosures in Note 9:

a. RTT owed under the TCJA.

b. Schedule of payments made and expected future payments to satisfy the RTT liability. This disclosure shall explicitly identify whether the insurance entity has remitted full payment of the RTT, or whether the reporting entity is electing to pay the liability under the permitted installments. If the reporting entity fully remitted the RTT, disclosure of the RTT and the remitted payment is only required in the year-end 2018 financial statements. Reporting entities electing to make installment payments shall include the disclosure beginning in the year-end 2018 financial statements and continuing through the year-end statutory financial statements for the year in which the last installment payment was remitted.

Issue 2 – Alternative Minimum Tax Credit:

8. The Alternative Minimum Tax (AMT) credit qualifies as a current income tax recoverable pursuant to paragraph 9 of SSAP No. 101. Although qualifying as a current-year recoverable, some companies may elect to report the AMT credit as a DTA. Although the AMT refund qualifies as a current income tax recoverable, in order to mirror provisions permitted under U.S. GAAP, reporting entities may elect to report the AMT credit as either a current-year recoverable or as a DTA. If reported as a DTA, it would be subject to the statutory accounting admittance limitations for DTAs. If the AMT credit accounted for as a DTA exceeds statutory admittance provisions, it would be nonadmitted under SSAP No. 101.

Disclosure

9. Reporting entities with an AMT credit shall include the following narrative disclosure as part of the income tax disclosures in Note 9:

a. Identification of whether the AMT credit was recognized as a current-year recoverable or DTA.

b. The balance of the AMT credit carryforward as of the beginning of the year; the amount of the AMT credit recovered during the year; other current-year adjustments to the AMT

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credit carryforward; the balance of the AMT credit carryforward at the end of the year; the amount, if any, by which the ending balance has been reduced for sequestration; and the amount, if any, by which the reporting entity has elected to nonadmit. (This disclosure intends to capture any nonadmittance of the AMT credit by the reporting entity prior to application of the DTA admittance limitations reflected in SSAP No. 101.)

(These disclosures shall be made on an accrual basis beginning in the 2018 year-end statutory financial statements and continuing through the year-end statutory reporting period in which the AMT credit is fully utilized/received.)

Issue 3 – Global Intangible Low-Taxed Income Tax:

10. Under statutory accounting, reporting entities shall not recognize deferred GILTI tax for basis differences in foreign entities. GILTI tax from the current-year tax return is treated as a current-year tax item captured in SSAP No. 101, paragraph 3. The amount payable shall be recognized as a current-year expense with a liability recognized as a current federal and foreign income tax.

11. As an exception to this general rule, reporting entities are permitted to recognize deferred tax items for basis differences expected to reverse as GILTI in future years if they have recognized deferred tax items for basis differences expected to reverse as GILTI under U.S. GAAP. However, a reporting entity that has recognized deferred tax items for GILTI under U.S. GAAP may follow the statutory accounting general rule (no recognition of deferred tax items). Reporting entities that recognize deferred tax items for GILTI shall explicitly disclose this item in Note 9, beginning with the 2018 year-end statutory financial statements.

INT 18-03 Status

12. Any accounting change required by INT 18-03 shall, if not otherwise covered by *INT 18-01: Updated Tax Estimates Under the Tax Cuts and Jobs Act*, be recognized as a change in accounting estimate, pursuant to *SSAP No. 3—Accounting Changes and Corrections of Errors.*

13. The consensuses adopted in this interpretation provide information regarding the RTT, AMT credit and GILTI under the federal Tax Cuts and Jobs Act, and the statutory accounting assessment for reporting and disclosure for each of these items.

~~13.~~14. On XXXXXXXXXX, 2026, the Working Group nullified INT 18-03, effective January 1, 2027. Guidance for RTT and AMT credit were allowed to expire, and guidance related to GILTI, now known as Net Controlled Foreign Corporations Tested Income (NCTI), which was made permanent by the One Big Beautiful Bill Act (OBBBA), and was added to SSAP No. 101.

~~14.~~15. No further discussion is planned.

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Statement of Statutory Accounting Principles No. 7

Asset Valuation Reserve and Interest Maintenance Reserve

STATUS

Type of Issue	Life, Accident and Health
Issued	Initial Draft,
Effective Date	January 1, 2001, 2026 Fall NM Draft
Affects	No other pronouncements
Affected by	No other pronouncements
Interpreted by	INT 23-01
Relevant Appendix A Guidance	None

STATUS **1**
SCOPE OF STATEMENT **1**
SUMMARY CONCLUSION **2**
Asset Valuation Reserve 2
Interest Maintenance Reserve 3
Adjustments – Market Value Adjustments 4
Amortization 5
Net Negative IMR Recognition Restrictions 5
Adjustments – Ceded and Assumed Reinsurance 6
Admittance 7
Disclosures 9
Effective Date and Transition 10
REFERENCES **12**
Relevant Issue Papers 12

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for an asset valuation reserve (AVR) and an interest maintenance reserve (IMR) for life and accident and health insurance companies filing on the *Life, Accident & Health/Fraternal Annual Statement Blank* for the general account as well as book-valued insulated and noninsulated separate accounts[1].

[1] Pursuant to SSAP No. 56, if AVR is required for investments held at book value or fair value in a separate account, it is combined with the general account AVR and accounted for in the general account statements. Guidance in SSAP No. 56 shall be followed for recognizing IMR for book value separate accounts.

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SUMMARY CONCLUSION

2. Life and accident and health insurance companies shall recognize an AVR in the general account and an IMR in the general account and in book-valued insulated and noninsulated separate accounts in accordance with the principles included in this statement. (IP 6)

3. The AVR represents a reserve to offset potential non-interest investment losses on all invested asset categories excluding cash, policy loans, premium notes, and income receivable. (IP 7)

4. The IMR is a valuation adjustment to maintain consistency between the valuation manual basis for insurance liabilities (for which the rate used to discount cash flows is often unchanged from origin), and the amortized cost of assets needed to support them (where the portfolio yield is updated any time there are fixed income realizations). IMR intends to defer and amortize the recognition of non-economic realized gains or losses where investment activity essentially unlocks interest rate related unrealized gains and losses. IMR is not intended to defer economic realized losses compelled by liquidity pressures that fund cash outflows (e.g., such as excess withdrawals and collateral calls). (IP 8)

5. Both AVR and IMR are required to be recognized as statutory assets and liabilities although they do not meet the definition of assets and liabilities under *SSAP No. 4—Assets and Nonadmitted Assets* and *SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets*, as neither represent present rights to an economic benefit or present obligations to transfer an economic benefit. AVR represents a valuation adjustment to invested assets for future expected non-interest-related losses and IMR represents a valuation adjustment to maintain consistency between the valuation manual basis for insurance liabilities (for which the rate used to discount cash flows is often unchanged from origin), and the amortized cost of assets needed to support them (where the portfolio yield is updated any time there are fixed income realizations). Separate reporting of these valuation adjustments as assets or liabilities facilitates their accounting and tracking. While AVR can only be in a liability position, IMR can be either positive (liability) or negative (asset). (IP 9)

6. This statement includes requirements for the recording of various types of unrealized and realized gains and losses. In all circumstances, the portion of any unrealized or realized gains or losses attributable to changes in foreign currency exchange rates shall be immediately recognized as either a change in net unrealized foreign exchange gains or loss or as realized foreign exchange capital gains or losses (excluded from both AVR and IMR), with the remaining portion subject to the requirements contained in this statement. (IP 15)

Asset Valuation Reserve

7. The accounting and reporting guidance for the AVR is primarily contained with the *Life, Accident & Health/Fraternal Annual Statement Instructions*. The guidance contained there addresses the basis for determining the basic contribution to the AVR, reserve objective, maximum reserve, and other relevant guidance. The AVR guidance contained in this statement is limited to determining which unrealized and realized gains and losses are allocated to the AVR due to the impact this determination has on the IMR. Unrealized gains and losses as referred to in this statement are those which are recorded in the financial statements in accordance with the applicable SSAPs. (IP 16)

8. Realized and unrealized gains and losses on equity investments and fixed income investments held at fair value are recorded to the AVR except where other specific statutory accounting provisions exist. (IP 17)

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9. Realized losses on sales of fixed income investments and derivatives that otherwise would qualify for the IMR under paragraph 10 are allocated to AVR if the investment or derivative counterparty has experienced credit deterioration, as defined as one of the following: (IP 21)

a. For those with NAIC designations[2] (excluding derivative counterparties), if the NAIC designation has declined by more than 3 designation categories and does not have an ending NAIC 1 designation.

b. There was an acute credit event (a known event that significantly impacts the price of the security), that was not reflected in the credit rating provider (CRP) rating detail and/or within the SVO AVS+ (NAIC designation detail) at the time of the sale.

c. An other-than-temporary impairment is recognized because the insurer does not expect to collect all contractual amounts due from the issuer, regardless of the extent of NAIC designation changes. This provision is specific to credit-related impairments and is not intended to encompass situations in which an OTTI is recognized simply because a decision was made to sell the security at fair value, and that amount is below the book/adjusted carrying value (BACV) due to interest-related changes.

d. For mortgage loans:

i. Mortgage loan had an established valuation allowance under *SSAP No. 37—Mortgage Loans*,

ii. Interest was more than 90-days past due,

iii. Loan was in process of foreclosure,

iv. Loan was in course of voluntary conveyance, or

v. The terms of the loan have been restructured during the last two years.

Interest Maintenance Reserve

10. Realized gains and losses from the following list of qualifying fixed income investments shall be allocated to the IMR, subject to the other provisions and requirements of this standard. Investments not included on this list are not permitted to have realized gains or losses allocated to the IMR. (IP 22 & 33)

a. Debt securities that do not Qualify as Bonds as defined in *SSAP No. 21—Other Admitted Assets*

b. Investments in scope of *SSAP No. 26—Bonds*

c. Investments in scope of *SSAP No. 43—Asset-Backed Securities*

d. Redeemable preferred stock in scope of *SSAP No. 32—Preferred Stock*

[2] Mandatory convertible bonds in scope of SSAP No. 26 are not assigned NAIC designations and are reported at the lower of amortized cost or fair value prior to conversion. If sold prior to conversion and reported at amortized cost, the realized gain or loss shall be fully allocated to the IMR. If reported at fair value at the time of sale, the realized gain or loss shall be fully allocated to the AVR.

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e. Mortgage loans in scope of *SSAP No. 37—Mortgage Loans*

f. Investments in scope of *SSAP No. 41—Surplus Notes*

g. Highly-effective hedging derivatives qualifying for "hedge accounting treatment" under *SSAP No. 86—Derivatives* when the realized derivative gain or loss offsets the realized gain or loss from a hedged item that was recognized in IMR.

h. Terminated income generating derivatives in scope of SSAP No. 86 resulting in a realized gain or loss when the covering asset is accounted for at amortized cost. (Per SSAP No. 86, for options that are exercised, the remaining premium adjusts the cost, resulting in no gain or loss for the derivative.)

i. Replication (synthetic asset) (RSAT) transactions in scope of SSAP No. 86 when the derivative is reported at amortized cost[3].

11. All realized gains on sales of qualifying fixed income investments shall be allocated to IMR net of tax, using the federal marginal tax rate. This includes all gains, including those incurred during periods in which the entity has incurred known liquidity sales. (IP 23)

12. Realized losses on sales of qualifying fixed income investments that have not experienced credit deterioration under paragraph 9 shall be allocated to IMR, unless it represents a known liquidity sale loss. Known liquidity sale losses shall be recognized as capital losses immediately when incurred[4]. (IP 24)

13. ~~Known l~~Liquidity sale losses are realized losses that occur when an IMR qualifying fixed income investments are sold and the proceeds are not reinvested into other IMR qualifying fixed income investments. While it is impractical to track sales and reinvestment on an asset-by-asset basis, reporting entities shall not defer losses on sales for which it is known that proceeds will not be reinvested into other IMR qualifying fixed income investments. ~~These include s~~Situations in which reinvestment may be known to not occur include, ~~such as,~~ but are not limited to, sales used to fund surrenders/withdrawals, derivative collateral calls, or other needs that lead to a decision to sell investments. ~~as well as any other situation (e.g., derivative collateral calls or any other business entity expenses).~~ Additionally, ~~R~~reporting entities shall implement control procedures designed to identify material known liquidity sale losses. The reporting entity ~~and~~ shall attest to having identified and recognized all material known liquidity sale losses in the quarterly and annual financial statement disclosures. (IP 25)

Adjustments – Market Value Adjustments

14. Gains or losses resulting from market value adjustments (MVA), net of the federal marginal tax impact, shall be captured in the IMR as they are incurred throughout the year[5]. Reporting entities that

[3] Allocation to IMR or AVR for RSAT transactions shall follow the designation change guidance in paragraph 9a based on the SVO-assigned NAIC designation for the RSAT. Gains or losses from RSAT transactions when the derivative is reported at fair value are not permitted to be recognized in the IMR. Realized gains and losses associated with the cash component of the RSAT shall be credited or charged to the IMR or AVR in accordance with the provisions stated within the statement for the specific asset used as the cash component.

[4] Gains and losses from known liquidity sales offset by a SSAP No. 86 highly effective hedging derivative, captured in paragraph 10g, shall be reported consistently along with the gain or loss of the hedging instrument and reported as a known liquidity loss if the net amount is a loss.

[5] MVAs shall only be deferred for book-valued separate account and general account products. No MVAs shall be deferred in the IMR for separate accounts held at fair value.

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have recognized known liquidity sale losses in the current year are permitted to reclassify current year net MVA gains from the IMR to net realized capital gains and losses at the current year-end. This reclassification is not required, and the reclassification of net MVA gains is limited to the extent of current year known liquidity sale losses reflected in net capital gains and losses. (IP 70)

Amortization

15. Reporting entities shall amortize IMR into income over the expected remaining life of the qualifying fixed income investment sold using a standard method in which capital gains and losses, net of capital gains tax, are grouped according to the number of calendar years to expected maturity[6] using the NAIC "Grouped Amortization Schedule" published annually. For application of this guidance, "the calendar year to maturity" means the calendar year of maturity minus the calendar year of sale date. As such, a bond sold in 2007 that would have matured in 2012 has five calendar years to expected maturity. (IP 88)

16. For MVA (liability) taken to IMR, the amortization timeframe shall also use a simplified method in which the gains and losses are grouped according to the calendar years remaining in which the policy would incur a MVA, following the NAIC "Grouped Amortization Schedule," not to exceed 10 years. For example, a policy surrendered in 2010 with a MVA that would have incurred a MVA if surrendered through 2015, has five calendar years to expected maturity. (IP 71)

Net Negative IMR Recognition Restrictions

17. The allocation of interest-related realized gains and losses from qualifying investments to the IMR shall occur as sales occur, with an updated net negative or positive IMR balance reflected in each quarterly financial statement. For year-end, reporting entities are required to assess their net IMR position in each account (general and each filed separate account blank) and determine whether they are required to complete a proof of reinvestment disclosure for each account to support the initial recognition of a net negative IMR balance (from a prior positive IMR balance) or the increase of a net negative IMR balance from the prior year. (IP P. 26)

a. Reporting entities with an ending net positive IMR position, after inclusion of expected amortization from the prior year IMR balance and current year realized gains and losses, are not required to complete the proof of reinvestment.

b. Reporting entities with an ending net negative IMR position that is a lesser net negative IMR position from the prior year (closer to zero), after inclusion of expected amortization from the prior year IMR balance, and current year realized gains and losses are not required to complete the proof of reinvestment.

18. The premise for deferring and amortizing interest-related realized losses into income over time, and the support for admittance for any portion of net negative IMR, is predicated on the concept that sales proceeds are reinvested into new fixed-income investments with higher yields that will cause those realized losses to reverse over the remaining period that they support policyholder obligations. The year-end proof of reinvestment calculation and disclosure provides a validation check of this reinvestment

[6] For fixed income investments with fixed contractual repayment dates and amounts, the term "expected maturity" shall be consistent with the "effective date of maturity" defined in SSAP No. 26 for callable bonds under the yield-to-worst concept. This requires amortization to the call or maturity value/date that produces the lowest asset value. The annual statement instructions include further guidance on the application of "expected maturity" for specific investments.

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concept with 1) a test that determines if investments acquired exceeds investments sold and investable premium and 2) a test that determines whether the yield of purchased fixed income investments is greater than the yield of fixed income investments sold. (IP P. 27)

19. Reporting entities (other than those described in paragraphs 17a and 17b) that do not pass both tests within the proof of reinvestment disclosure are only permitted to defer current year realized losses to the IMR that can be offset by current year IMR realized gains. Any realized losses in excess of realized gains must be recognized as realized capital losses. This guidance shall be followed regardless of whether a reporting entity admits net negative IMR. If a reporting entity does not complete or pass the proof of reinvestment, the reporting entity is permitted to recognize current year IMR losses beyond what is offset by current year IMR realized gains resulting from the following two exceptions only. These exceptions are permitted ~~as~~ because the net negative losses are not from the sale of a fixed-income investment; ~~,~~ therefore, ~~as such~~ these IMR impacts are outside the parameters of the proof of reinvestment calculation. (IP P. 28)

a. Reporting entities are permitted to recognize current year net negative IMR losses resulting from transfers that occurred at fair value between the general account and a book-value separate account beyond what is permitted as an offset to realized capital gains.

b. Reporting entities are permitted to recognize current year net negative IMR losses recognized from an assumed reinsurance arrangement beyond what is permitted as an offset to realized capital gains.

Adjustments – Ceded and Assumed Reinsurance

20. At inception of the reinsurance agreement, an insurer (ceding entity) that has sold, transferred or reinsured a block of its in-force liabilities under an agreement that qualifies for reinsurance accounting as described in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*, except where asset risk is not transferred such as with most yearly-renewable term (YRT) agreements, shall derecognize the associated IMR at the time the business is ceded unless the transaction is a modified coinsurance (modco) or coinsurance with funds withheld (FWH) agreement. An insurer (ceding entity) shall derecognize the associated IMR when the policyholder obligations or related treaty balances to which those amounts were attributed have been derecognized. The amount of the IMR that shall be derecognized includes: (IP P. 77)

a. Past Sales Attributed to Reinsured Block of Business: Remaining, unamortized, interest related realized gains and losses recognized in the IMR from prior asset sales associated with the reinsured block of liabilities shall be derecognized from the IMR as part of the reinsurance transaction. If the ceding entity had not been tracking assets specific to the block of business, the entity shall identify the assets (and the unamortized realized gains/losses remaining in the IMR from those assets) using methodologies in line with the insurer's existing practices, for example, proportionate to reserves ceded .

b. Current Sales Incurred or the Transfer of Assets to Provide Reinsurance Premium: Interest-rate related gains and losses generated from the sale or transfer of qualifying fixed-income investments supporting the reinsurance transaction shall be recognized initially in the IMR and then derecognized as part of the reinsurance transaction.

21. For insurers ceding business under a modco or FWH agreement, the accounting for the IMR depends on the terms of the reinsurance agreement. Reporting entities shall follow the IMR reporting

process in the Annual Statement Instructions for ceding/assuming reinsurance business using a modco or FWH agreement. (IP P. 78)

a. For agreements that stipulate that the IMR is transferred to the reinsurer with ongoing realized gains and losses settled with the reinsurer as they occur, the insurer (ceding entity) shall derecognize the IMR associated with the block of reinsured business at treaty inception consistent with paragraph 20. An insurer (ceding entity) shall continue to recognize and derecognize IMR generated from any fixed-income investment sales incurred for investments held under the modco or FWH reinsurance agreement. An insurer (ceding entity) shall derecognize the IMR as a direct adjustment to IMR with the offset to Aggregate Writes-Ins for Deductions. .

b. For agreements that settle realized gains and losses with the reinsurer over time through inclusion of the IMR amortization, an insurer (ceding entity) shall retain the IMR attributed to the reinsured business and pass through the associated IMR amortization through an adjustment to the FWH liability or modco reserve on an ongoing basis. An insurer (ceding entity) that retains the IMR and passes through the amortization shall continue to recognize the IMR from any fixed-income investment sales incurred for investments held under the modco or FWH reinsurance agreement. The amortization of the IMR shall be passed through as an adjustment to the FWH liability or modco reserve.

22. A U.S. domiciled reporting entity that has assumed business via a qualifying reinsurance transaction from another U.S. domiciled insurer shall set up an IMR balance that reflects an equal amount of IMR derecognized by the ceding entity. This IMR recognition shall reflect the unamortized IMR balance of gains and losses from prior asset sales associated with the reinsured block of business and interest-related realized gains and losses from the current dispositions or asset transfers the ceding entity incurred to transfer the reinsurance obligation. (IP P. 80)

23. The ceding entity shall provide the IMR amortization timeframe details for the derecognized IMR to the assuming entity to allow for continuation of IMR accounting, if required. In the event the reinsurance transaction is recaptured, the assuming entity shall provide current information on the remaining unamortized IMR balance and amortization schedule back to the ceding entity for re-recognition of remaining IMR. If an assuming entity is not required to maintain IMR (i.e., non-U.S. domiciled insurance reporting entities), and has not tracked IMR, the ceding entity shall re-establish an estimated IMR using reasonable methodologies, such as imputing a value from the change in market interest rates between reinsurance inception and the recapture date. (IP P. 81)

Admittance

24. Reporting entities that meet the requirements of paragraph 25 are permitted to admit overall net negative IMR (collectively between the general accounts and all separate accounts) up to 10% of the reporting entity's adjusted general account[7] capital and surplus as required to be shown on the reporting entity's statutory balance sheet for its most recently filed financial statement with the domiciliary state commissioner. Further, to safeguard from situations in which the reporting entity has experienced a decline in capital and surplus, the admittance of overall net negative IMR (collectively between the general account and all separate accounts) shall also not exceed 10% of the current period unadjusted capital and surplus. Reporting entities with net negative IMR that exceeds either admittance limit shall nonadmit the

[7] The general account capital and surplus includes surplus reflected in the separate account; therefore, an aggregation of general account and separate account surplus is not necessary.

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negative IMR that exceeds the allowable thresholds. Reporting entities are not required to admit any portion of net negative IMR in any account (general account or separate account). (IP P. 94)

a. For the adjusted capital and surplus calculation: Capital and surplus shall be adjusted to exclude any admitted net positive goodwill, electronic data processing (EDP) equipment and operating system software, net deferred tax assets (DTAs) and net negative IMR. The adjusted capital and surplus calculation shall reflect the most recently filed financial statements for all admitted components (e.g., a subtraction of admitted positive goodwill, EDP equipment/software, net DTAs and net negative IMR as reported in the third quarter financial statements to determine the limit for the annual financial statements.)

b. For the unadjusted capital and surplus restriction: Reporting entities required to nonadmit net negative IMR that exceeds 10% of current period unadjusted capital and surplus are not required to recalculate the reconciliation of admitted negative IMR to the reported IMR reflected for principles-based reserving and ~~cash flow~~asset adequacy testing pursuant to paragraph 25.c. Rather, any reconciliation difference from the admitted IMR originally determined based on the prior period adjusted capital and surplus 10% limit and what is admitted based on the 10% unadjusted current period limit shall be identified in the notes to the financial statements and in the actuarial opinion memorandum.

25. Requirements to admit net negative IMR: (IP P. 95)

a. Reporting entities admitting net negative IMR are required to have a risk-based capital (RBC) greater than 300% authorized control level (ACL) after an adjustment to total adjusted capital (TAC) that reflects a reduction to remove any admitted net positive goodwill, EDP equipment and operating system software, net deferred tax assets and admitted net negative IMR. Compliance with this adjusted RBC calculation shall be affirmed for all quarterly and annual financial statements for which net negative IMR is reported as an admitted asset in the general or separate accounts. Reporting entities shall provide documentation to illustrate compliance with this requirement upon state regulator request. Reporting entities with an adjusted RBC calculation of 300% ACL or lower are not permitted to admit net negative IMR in the general or separate accounts.

b. Reporting entities admitting any amount of net negative IMR shall fully complete the data-captured disclosures described in paragraph 29. If a reporting entity does not fully complete the data-captured disclosures[8] the reporting entity shall nonadmit all net negative IMR.

c. Reporting entities admitting any amount of net negative IMR shall capture the admitted negative IMR in the principles-based reserving (PBR) calculation or asset adequacy testing (AAT)~~/ cash flow testing (CFT)~~ pursuant to all relevant Valuation Manual calculations, including but not limited to, *Valuation Manual (VM)-20: Requirements for Principle-Based Reserves for Life Insurance, VM-21: Requirements for Principle-Based Reserves for Variable Annuities*, *VM-22: Requirements for Principle-Based Reserves for Non-Variable Annuities*, and *VM-30: Actuarial Opinion and Memorandum Requirements*. Reporting

8 Reporting entities that complete narrative disclosures in lieu of the data-captured templates, even if reporting equivalent information, are not permitted to admit negative IMR.

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entities shall prepare a reconciliation of admitted negative IMR to the reported IMR reflected for PBR and ~~CFT~~ AAT to ensure reserves are appropriately stated.

26. Reporting entities are permitted to admit net negative IMR in the general account and/or in each separate account to the extent net negative IMR is recognized in each account, up to the overall net admittance limit as detailed in paragraph 24. Reporting entities that follow an admittance allocation approach that is not proportionate to the recognized net negative IMR in each account shall provide rationale supporting their admittance allocation methodology upon state regulator request. (IP P. 97)

27. Reporting entities that admit net negative IMR shall allocate an amount equal to the admitted net negative IMR from unassigned funds to an aggregate write-in for special surplus funds (named as "Admitted Negative IMR"). Although dividends are contingent on state specific statutes and laws, the intent of this reporting is to provide transparency and preclude the ability for admitted negative IMR to be reported as funds available to dividend. (IP P. 98)

Disclosures

28. Reporting entities are required to detail the recognized realized capital gains and losses from the sale of securities and the allocation to AVR and IMR in the Exhibit of Capital Gains and Losses. Reporting entities are also required to complete the IMR rollforward and amortization schedule[9] in the annual financial statements. (IP. P 101)

29. Reporting entities are required to complete the following disclosures in the annual and quarterly financial statements: (IP P 102)

a. Reporting entities with admitted net negative IMR shall complete a note disclosure that details the following:

i. Total net negative IMR in aggregate and allocated between the general account, insulated separate account and non-insulated account,

ii. Amounts of net negative IMR admitted in the general account and in the separate account insulated and non-insulated blank,

iii. The calculated adjusted capital and surplus per paragraph 24.a., and

iv. Percentage of adjusted capital and surplus for which the admitted net negative IMR represents (including what is admitted in the general account and in the separate accounts).

b. Reporting entities shall include an attestation regarding known liquidity sale losses: (IP 103)

i. The reporting entity has a documented process to identify material known liquidity sale losses, as addressed in paragraph 13. ~~, including but not limited to sales used to fund surrenders/withdrawals as well as other liquidity needs (e.g., derivative collateral calls or other business entity expenses)~~.

[9] For reporting entities subject to paragraph 29.c., the annual amortization schedule shall be completed after completion of the proof of reinvestment to ensure that the year-end IMR balance and amortization schedule is completed after any required modifications to eliminate losses from IMR.

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ii. The reporting entity has not allocated any material realized losses to IMR from known liquidity sales. Realized losses taken to the IMR are attributable to investment activity related to a block of recognized insurance liabilities, whereby the proceeds have been reinvested in fixed income investments.

iii. The reporting entity has disclosed all known liquidity sale losses recognized in income.

c. Reporting entities that have moved from a net positive IMR position to a net negative position or that have increased a net negative position in any account (general account or filed separate accounts) and wants to defer current year net realized losses that exceed current year realized gains allocated to IMR shall complete the proof of reinvestment template applicable to the account with a net negative IMR balance. Reporting entities that fail the proof of reinvestment in any account shall disclose the amounts removed from IMR and recognized as immediate capital losses. (IP. 104)

d. Reporting entities that had previously allocated realized gains or losses to IMR from derivatives that did not qualify as highly effective hedges or a permitted income generation or RSAT transaction under SSAP No. 86 shall disclose the unamortized balances in IMR from these allocations separately between gains and losses. This disclosure shall include the amortization projection to eliminate these remaining unamortized balances within 10 years. (IP P. 105)

e. Reporting entities shall disclose the reconciliation of admitted negative IMR to the reported IMR reflected for PBR and AAT as required in paragraph 25. Reporting entities that are required to nonadmit net negative IMR based on the 10% unadjusted current period limit shall disclose the difference between the admitted IMR reflected in the principles-based reserving or asset adequacy~~/cash flow~~ testing reconciliation to the admitted IMR ultimately shown in the annual financial statement. Notation of this difference shall also be captured in the actuarial opinion memorandum annually. (IP P. 106)

Effective Date and Transition

30. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

31. Revisions to this statement, adopted month/year, that incorporate revisions reflecting a comprehensive review of the IMR, are effective January 1, 2028, and shall be applied prospectively from the effective date. With the implementation of this guidance, distinct changes from historical guidance, and transition provisions (as applicable) include the items noted in the following subparagraphs. Issue Paper No. ___ includes additional discussion and other revisions incorporated. (IP. P 98)

a. Designation Change Guidance: The NAIC designation category change guidance incorporated within this statement is based on the 20 designation categories (NAIC designation with the NAIC designation modifier) initially applied in 2020. Investments acquired prior to 2020 shall use the initial designation category attributed to the investment when the 20-granular designation approach was implemented as the beginning designation in determining whether the investment had three or less

designation declines at the time of sale. Changes also revised the guidance to require allocation to the AVR for fixed-income instruments held at fair value, instead of using the NAIC 6 designation and incorporated the designation category change guidance for all investments with NAIC designations. This was a change for asset-backed securities and non-bond debt securities that previously required individual assessment and bifurcation of interest and non-interest components.

b. Disallowed IMR: Prior the effective date of this statement, IMR in the general account and the separate accounts was compared to determine whether the IMR was "disallowed." Meaning, a negative IMR in the general account was permitted to be reported as a contra-liability instead of a nonadmitted asset if the separate account IMR was in an offsetting positive balance. With the changes reflected in this statement, IMR shall be separately contained within each account, and the reporting shall be based on the position of IMR in each account. The provisions of this statement do not allow reporting of the IMR as a contra-liability, and the concept of "disallowed" IMR has been eliminated.

c. IMR Amortization: Prior to the effective date of this statement, reporting entities had three options in determining IMR amortization. With the revisions, all reporting entities shall follow the standard "simplified" method in which capital gains and losses, net of capital gains tax, are grouped according to the number of calendar years to maturity and shall follow the NAIC "Grouped Amortization Schedule" published annually. Reporting entities that had elected a different amortization approach for previously recognized IMR are permitted to continue to follow that amortization schedule until the associated IMR has fully amortized. All IMR recognized after the effective date of this statement shall follow the simplified group method for amortization.

d. IMR from Hedging Derivatives: Although SSAP No. 86 only referenced IMR allocation for realized gains and losses from highly effective accounting hedges, an industry interpretation of the annual statement instructions resulted with some companies allocating gains and losses from non-accounting effective hedging derivatives to the IMR. With the revisions in this statement, only realized gains and losses from highly effective hedges that qualify under the "hedge accounting method" under SSAP No. 86 are permitted to be allocated to the IMR. Reporting entities that had previously allocated realized gains and losses to IMR from non-qualifying hedging derivatives shall amortize those IMR balances over a period not to exceed 10 years.

e. Hypothetical IMR: The concept of hypothetical IMR has been removed with the effective date of this statement. This was a historical concept to eliminate IMR for what would be generated if the remaining assets associated with a ceded block of business were to be sold, ultimately reflecting a ceding of IMR that had yet to be established. After assessing the theoretical basis and practical limitations, the concept of hypothetical IMR was eliminated. Discussion of the rationale supporting this position is retained in Issue Paper ___.

f. Excess Withdrawal Test: The excess withdrawal formula calculation has been eliminated. With the elimination, reporting entities shall recognize immediately realized capital losses from known liquidity sales and not defer them through the IMR. A new disclosure attestation was incorporated with the effective date of this statement to identify known liquidity sales losses.

g. Market Value Adjustments: The inclusion of all MVAs in IMR is a change from historical guidance where they were only included in accordance with a materiality threshold. With the revisions, reporting of market value adjustments is separately divided between realized gains and losses on the IMR schedule.

REFERENCES

Relevant Issue Papers

Issue Paper No. 7—Asset Valuation Reserve and Interest Maintenance Reserve

Issue Paper No. XX – Interest Maintenance Reserve

https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2026/11-15-26 fall national meeting/hearing/04 - ssap no. 007 - imr - revised 10.5.2026.docx

Statutory Issue Paper No.

Interest Maintenance Reserve

STATUS
2026 Fall National Meeting – Draft for Adoption Consideration

Original SSAP: SSAP No. 7

Current Authoritative Guidance: SSAP No. 7 & Annual Statement Instructions

Type of Issue:
Common Area

SUMMARY OF ISSUE

1. The guidance within this issue paper details the new statutory accounting concept revisions to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* pursuant to the Statutory Accounting Principles (E) Working Group's (Working Group) project to evaluate and conclude on long-term accounting and reporting provisions, including the potential admittance of net negative interest maintenance (IMR). The revisions and discussions detailed within this issue paper reflects a comprehensive review, referred to as the "Long-Term IMR Project" to assess various components of historical guidance and prior industry practices, which includes reporting realized gains and losses to the AVR or IMR, the impact to the IMR from reinsurance transactions and how the IMR should be reported in the general and separate accounts. Although this issue paper addresses some aspects pertaining to the AVR, the focus of the accounting and reporting provisions within is on the IMR.

SUMMARY CONCLUSION

2. The recognition of realized gains or losses from investment activity shall comply with the provisions of SSAP No. 7. This statement has been revised to include the accounting guidance, with the removal of accounting provisions from the annual statement instructions. Reporting guidance and illustrative examples retained within the annual statement instructions are not intended to conflict with the SSAP No. 7 accounting concepts. Pursuant to the Statutory Hierarchy, the SSAPs are the highest form of authoritative statutory guidance. Any potential conflict or inconsistency between the SSAP and the annual statement instructions shall follow the SSAP No. 7 provisions.

DISCUSSION

3. The discussion of IMR, and assessing admittance for net negative IMR, originally began in August 2023 with agenda item #2023-14: SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve. That item was developed as a broad concept agenda item with the goal to incorporate accounting guidance for the IMR into SSAP No. 7, with removal of accounting guidance from the annual statement instructions, with direction to determine a long-term solution on the admittance of net negative IMR. Determining a long-term solution for net negative IMR was directed as part of the action from the August 2023 adoption of *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve*. That INT provided limited-time exception guidance to SSAP No. 7 and the annual statement instructions, which allowed limited admittance of net negative (disallowed) IMR as a short-term solution. With the adoption of the interpretation, the IMR Ad Hoc Group was formed, comprised of accounting and actuarial regulators and industry representatives. The ad hoc group met regularly, approximately every other week,

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to discuss IMR and the historical guidance for allocating realized gains and losses to the IMR, the impact of reinsurance, amortization, and other IMR accounting and reporting provisions.

4. In addition to the work of the ad hoc group, separate agenda items and actions were taken to the Statutory Accounting Principles (E) Working Group to address issues identified in the annual statement instructions related to the IMR:

a. Agenda item #2023-15: IMR/AVR Specific Allocations addressed annual statement instructions that appeared to direct allocation of non-interest related losses to the IMR rather than to the AVR. Revisions detailed in the agenda item were adopted December 1, 2023, and clarified that mortgage loans with realized gains or losses that more predominantly reflect interest related changes shall be taken to IMR, with identification of mortgage loan characteristics that shall result with reporting in the AVR. The revisions incorporated guidance for debt securities to specify that if there is a known credit impact that had not been reflected in the debt security's rating from a credit rating provider (CRP) or in the SVO designation, the resulting loss shall not be included in the IMR.

b. Agenda item #2023-29: IMR/AVR Preferred Stock updated guidance in the annual statement instructions for perpetual preferred stock, including SVO-Identified Preferred Stock ETFs, as the instructions had not been updated to reflect statutory accounting measurement revisions that required use of fair value for these investments. Revisions in the agenda item were adopted March 16, 2024, and removed the guidance that directed preferred stock allocation between IMR and AVR based on NAIC designation. The revisions clarified that gains and losses from perpetual preferred stock, including SVO-Identified Preferred Stock ETFs, and all mandatorily convertible preferred stock, which are held at fair value, shall be reported to the AVR.

c. Agenda item #2024-15: Asset Liability Management Derivatives was developed to consider new statutory accounting guidance that prescribes guidance for interest-rate hedging derivatives that do not qualify as effective hedges under *SSAP No. 86—Derivatives*, that are used for asset-liability management (ALM). On March 24, 2025, the Working Group directed NAIC staff to research and develop potential guidance for these derivatives and remove guidance from the Annual Statement Instructions that has been interpreted to allow gains and losses related to these "non-accounting effective" derivative hedges to be allocated to the IMR.

5. With the ongoing discussions of the IMR Ad Hoc Group, as issues were finalized, certain conclusions were submitted to the Statutory Accounting Principles (E) Working Group for review and broad exposure. Although considered by the full Working Group and interested parties, these items were noted not to be final until the adoption of the revised SSAP No. 7 and would not go in effect until the implementation date of the revised standard. Edits to the concepts presented to the Working Group throughout the discussion process could occur as part of the SSAP No. 7 exposure and review process. The final adopted issue paper and SSAP would reflect the resulting conclusions. Concepts presented to the Working Group throughout the discussion process:

a. Agenda item 2025-03: IMR Definition was prepared and exposed March 24, 2025, to present proposed IMR definitions to the Working Group. An IMR definition, modified from the ACLI proposed definition, was considered and directed as a broad IMR definition during the 2025 Summer National Meeting to be used as the basis for SSAP No. 7

revisions. As detailed within this issue paper, subsequent clarification edits to the definition have been incorporated.

b. A memorandum recommending the removal of hypothetical IMR was exposed March 24, 2025. This memorandum, and the initiative to remove the concept and recognition of hypothetical IMR, was supported during the 2025 Summer National Meeting.

c. Agenda item 2025-23: IMR Proof of Reinvestment detailing the background and proof of reinvestment calculation was exposed during the 2025 Fall National Meeting. During the 2026 Spring National Meeting, the Working Group supported the proof of reinvestment concept, which provides evidence that proceeds from the sale of fixed-income investments had been reinvested into higher-yielding fixed income investments. Companies that do not complete the proof of reinvestment or that do not pass the reinvestment tests, are limited to the extent they can recognize realized losses to the IMR.

d. Agenda item 2025-25: Separate Account Nonadmittance detailing the intent to incorporate reporting columns to identify nonadmitted assets on the separate account balance sheet was exposed during the 2025 Fall National Meeting. During the 2026 Spring National Meeting, the Working Group supported revisions to *SSAP No. 56—Separate Accounts* and to the separate account blank to incorporate the concept of nonadmitted assets on the separate account balance sheet for book-valued separate accounts, as well as other schedules consistent with the general account admittance limitations.

Discussion of IMR Concepts

Overview and IMR Definition

6. Life and accident and health companies, filing on the *Life, Accident and Health/Fraternal Annual Statement Blank*, shall recognize an AVR in the general account and an IMR in the general account and in book-valued insulated and non-insulated separate accounts in accordance with key principles included in the revised SSAP No. 7[1]. (SSAP P. 2)

7. The AVR represents a reserve to offset potential non-interest investment losses on all invested asset categories, excluding cash, policy loans, premiums notes and income receivables. (SSAP P. 3)

8. Pursuant to the broad IMR definition supported by the Statutory Accounting Principles (E) Working Group in agenda item #2025-03, the IMR is a valuation adjustment to maintain consistency between the valuation manual basis for insurance liabilities (for which the rate used to discount cash flows is often unchanged from origin), and the amortized cost of assets needed to support them (where the portfolio yield is updated any time there are fixed income realizations). IMR intends to defer and amortize the recognition of non-economic realized gains or losses where investment activity essentially unlocks interest rate related unrealized gains and losses. IMR is not intended to defer economic realized losses

[1] Pursuant to *SSAP No. 56—Separate Accounts*, if AVR is required for investments held at book value or fair value in a separate account, it is combined with the general account AVR and accounted for in the general account statements. Guidance in SSAP No. 56 shall be followed for recognizing IMR for book value separate accounts

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compelled by liquidity pressures that fund cash outflows (e.g., such as excess withdrawals and collateral calls)[2]. (SSAP P. 4)

9. Both AVR and IMR are required to be recognized as statutory assets and liabilities although they do not meet the definition of assets and liabilities under *SSAP No. 4—Assets and Nonadmitted Assets* and *SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets*, as neither represent present rights to an economic benefit or present obligations to transfer an economic benefit. AVR represents a valuation adjustment to invested assets for future expected non-interest-related losses and IMR represents a valuation adjustment to maintain consistency between the valuation manual basis for insurance liabilities (for which the rate used to discount cash flows is often unchanged from origin), and the amortized cost basis of assets needed to support them (where the portfolio yield us updated any time there are fixed income realizations.) Separate reporting of these valuation adjustments as assets or liabilities facilitates their accounting and tracking. While AVR can only be in a liability position, IMR can be either positive (liability) or negative (asset). (SSAP P. 5)

10. The recognition of IMR stems from a reporting entity selling a fixed-income investment prior to the investment's scheduled maturity and incurring an interest-related gain or loss as the fair value proceeds received were above or below the reported book/adjusted carrying value (BACV) at the time of sale. Reporting IMR as an asset or liability is a statutory concept that reflects an exception to the asset and liability definitions under SSAP Nos. 4 and 5.

11. Although there are various debates on the historical, full concept of IMR, it is generally agreed that a key intent was to prevent insurance companies from recognizing a surplus benefit from the sale of investments in a gain position, caused by a decrease in interest rates (increase in fair value), when the funds received from the sale had to be reinvested at lower interest rates as sufficient assets would still be needed to satisfy future policyholder obligations. By recognizing such realized gains as an IMR liability, and amortizing that gain into surplus overtime, the reporting entities' surplus would not immediately benefit from actions to churn liabilities for gain potential from a decline in interest rates, where the insurance entity would ultimately result with lower-yielding assets. The regulatory priority for gains when IMR was originally established was due to the consistent decreasing interest rate environment at that time, as sales resulting in gains and the overstatement of surplus could mask solvency issues. Although there were much discussion and support submitted from 1992-2002 to various groups on the relevance of a negative IMR and symmetrical treatment, the resulting conclusions of the historical AVR/IMR Working Group noting concern that a negative IMR did not meet the definition of an asset, and nonadmittance of net negative IMR were reflected as the original statutory accounting conclusion. Subsequent consideration was suggested, but the project did not manifest before 2023 as a priority project of the Statutory Accounting Principles (E) Working Group.

12. With the ongoing discussions around the definition and purpose of IMR, ACLI comments were received that negative IMR (realized losses) should be supported as a recognized, admitted asset so, like positive IMR, surplus would not be misstated, as the IMR facilitates better alignment of the timing of interest rate related gain or loss realizations on certain fixed income investments with the interest rate assumptions embedded in policyholder liabilities that the assets support. These comments noted that inconsistent asset and liability valuations could provide false indicators of financial strength or weakness. Although these ACLI comments supported full admitted asset recognition of negative IMR, the proposed

[2] Subsequent to the IMR definition discussion in agenda item 2025-03, clarification edits were incorporated. These edits clarify the valuation basis of the liabilities and assets, included direct reference to the discount rate of cash flows and portfolio yield, and specify that the definition focuses on interest rate related gains/losses with the intent to only defer non-economic gains and losses and not economic gains and losses.

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ACLI IMR definition was modified to not include statements implying support for the full admittance of negative IMR. As previously identified, neither negative IMR nor positive IMR reflects actual assets or liabilities and including these items in the financial statements as assets and liabilities may present an inaccurate presentation of the assets available to pay claims, as well as the actual obligations of the insurance reporting entity. The definition modifications reflected in agenda item #2025-03 removed the implied conclusion of net negative IMR admittance but allowed for further assessment to occur on the treatment. Although it was noted that the Working Group could decide to retain the current statutory recognition of IMR, discussion on the extent (if any) to which negative IMR is permitted as an admitted asset was identified as a key aspect that warranted specific focus, as realized losses recognized as assets are clearly not available to pay policyholder claims. As such, the proposed ACLI IMR definition was supported without the inclusion of broad statements that implies negative IMR (realized losses) should always be permitted to reflect an admitted asset in the statutory financial statements and that the admittance of negative IMR always provides an appropriate reflection of statutory surplus.

13. In addition, the ACLI proposed IMR definition discussed in agenda item #2025-03 was also modified to specifically eliminate reference to derivative hedging transactions as a source for IMR gains and losses. Under *SSAP No. 86—Derivatives*, gains and losses from highly effective accounting hedges are permitted to be recognized to the IMR if they are offsetting gains and losses recognized in IMR from the hedged item. With the discussion of IMR, it was identified that some reporting entities had interpreted an IMR annual statement instruction "hedging" reference to permit all derivatives used for hedging, regardless of if they qualified as accounting-effective under SSAP No. 86, to be taken to the IMR. This treatment was inconsistent with the intent of the guidance in SSAP No. 86. The Working Group permitted a continuation of this practice under INT 23-01, but only if the entity had a historical practice that included the deferral of realized gains through IMR for these non-accounting effective derivative hedges. With subsequent discussion, the Working Group directed a project to explicitly prohibit these non-accounting effective derivative gains and losses from being allocated to the IMR with consideration of new statutory accounting guidance for asset-liability management (ALM) derivatives. The determination of whether gains and losses for qualifying ALM derivative hedges are permitted to be deferred, with deferred losses shown as admitted assets, will be subject to separate discussion by the Working Group. If deferral and admitted asset provisions for these gains and losses, are supported, they will not flow through the IMR.

14. For historical purposes, the adopted definition, with tracked changes to show modifications from the ACLI proposal, can be obtained from the *NAIC Proceedings – Summer 2025, Accounting Practices and Procedures (E) Task Force, Attachment One-O*.

Allocation to IMR and AVR

15. This issue paper includes requirements for the recording of various types of unrealized and realized gains and losses. In all circumstances, the portion of any unrealized or realized gains or losses attributable to changes in foreign currency exchange rates shall be recognized as either a change in net unrealized foreign exchange gains or losses or as realized foreign exchange capital gains or losses immediately (excluded from both IMR and AVR), with the remaining portion subject to the AVR/IMR requirements of the revised statement. (SSAP P.6)

Allocation to AVR

16. The accounting and reporting guidance for the AVR is primarily contained within the *Life, Accident & Health/Fraternal Annual Statement Instructions*. The guidance contained there addresses the basis for determining the basic contribution to the AVR, reserve objective, maximum reserve and other relevant guidance. The AVR guidance contained in the revised statement is limited to determining which unrealized and realized gains and losses are allocated to the AVR due to the impact this determination has on the

IMR. Unrealized gains and losses as referred to in this issue paper are those which are recorded in the financial statements in accordance with the applicable SSAPs. (SSAP P. 7)

17. All realized and unrealized gains and losses on equity investments and fixed income investments held at fair value are recorded to the AVR except where other specific statutory accounting provisions exist. (SSAP P. 8)

18. With the widespread clarification, the following fixed-income instruments shall have realized gains and losses allocated to the AVR and not the IMR:

a. SVO Identified Bond ETFs in scope of *SSAP No. 26—Bonds* held at fair value.

b. Bonds in scope of SSAP No. 26 and *SSAP No. 43—Asset-Backed Securities* held at fair value, when fair value is less than amortized cost.

c. Mandatory convertible bonds in scope of SSAP No. 26 held at fair value, when fair value is less than amortized cost.

d. Non-bond debt securities in scope of *SSAP No. 21—Other Admitted Assets* held at fair value, when fair value is less than amortized cost.

e. Redeemable Preferred Stocks in scope of *SSAP No. 32—Preferred Stocks* held at fair value, when fair value is less than amortized cost.

f. Capital Notes and Surplus Notes in scope of *SSAP No. 41—Surplus Notes* with NAIC designations 3-6 (or without designations) held at fair value, when fair value is less than amortized cost.

19. The decision to allocate realized gains and losses from securities held at fair value to AVR, instead of retaining the prior historical threshold for investments with an NAIC 6 designation, was discussed and supported by the IMR Ad Hoc Group. This change allows consistency in reporting for all instances in which an investment is held at fair value, where fair value changes are unrealized prior to sale and then realized when the fixed-income instrument is sold. This prevents potential situations in which a recognized surplus impact (unrealized change) is reversed at the time of an investment sale, and then potentially deferred over time through the IMR. With the discussion, it was noted that the population of securities impacted by this wide-spread clarification is not significant, as bonds in scope of SSAP No. 26 and redeemable preferred stocks in scope of SSAP No. 32 with NAIC 6 designations had historically been excluded from the IMR. With the change, it is possible, but not expected to be common, for gains and losses from the sale of fixed-income investments with NAIC 6 designations to be allocated to the IMR. This would only occur if the investment was still held at amortized (as amortized cost is less than fair value), and the security had not incurred the number of designation declines to require AVR allocation. For these investments, the decision to utilize the fair value measurement method for AVR allocation instead of the NAIC designation 6 will be incorporated upon the effective date of the issued SSAP.

20. Unless a realized loss is attributed to the AVR, interest-related losses from qualifying fixed-income instruments not permitted to be allocated to the IMR shall not be allocated to AVR. These items shall be retained as immediate capital losses. For example, interest-related losses from investments in scope of *SSAP No. 2—Cash, Cash Equivalents, Drafts and Short-Term Investments* and investments in scope of *SSAP No. 105—Working Capital Finance Investments* shall not be allocated to the IMR. For these investments, and other items excluded from the IMR, the interest related loss shall not be taken to the AVR, but shall be retained as an immediate capital loss.

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21. Realized losses on sales of fixed income investments and derivatives that otherwise would qualify for the IMR under paragraph 10 are allocated to AVR if the investment or derivative counterparty has experienced credit deterioration, as defined as one of the following: (SSAP P. 9)

a. For those with NAIC designations[3](excluding derivative counterparties), if the NAIC designation has declined by more than 3 designation categories and does not have an ending NAIC 1 designation.

b. There was an acute credit event (a known event that significantly impacts the price of the security), that was not reflected in the credit rating provider (CRP) rating detail and/or within the SVO AVS+ (NAIC designation detail) at the time of the sale.

c. An other-than-temporary impairment is recognized because the insurer does not expect to collect all contractual amounts due from the issuer, regardless of the extent of NAIC designation changes. This provision is specific to credit-related impairments and is not intended to encompass situations in which an OTTI is recognized simply because a decision was made to sell the security at fair value, and that amount is below the book/adjusted carrying value (BACV) due to interest-related changes.

d. For mortgage loans:

i. Mortgage loan had an established valuation allowance under *SSAP No. 37—Mortgage Loans*,

ii. Interest was more than 90-days past due,

iii. Loan was in process of foreclosure,

iv. Loan was in course of voluntary conveyance, or

v. The terms of the loan have been restructured during the last two years.

Allocation to Interest Maintenance Reserve

22. Realized gains and losses from the list of qualifying fixed-income investments, identified in paragraph 33, shall be allocated to the IMR, subject to the other provisions and requirements of the revised standard. Investments not included on that list are not permitted to have realized gains or losses to be allocated to the IMR. (SSAP. P. 10)

23. All realized gains on sales of qualifying fixed income investments shall be allocated to IMR net of tax, using the federal marginal tax rate. This includes all gains, including those incurred during period in which the entity has incurred known liquidity sales. (SSAP. P. 11)

24. Realized losses on sales of qualifying fixed income investment that have not experienced credit deterioration under paragraph 10, shall be allocated to the IMR, unless it represents a known liquidity

[3] Mandatory convertible bonds in scope of SSAP No. 26 are not assigned NAIC designations and are reported at the lower of amortized cost or fair value prior to conversion. If sold prior to conversion and reported at amortized cost, the realized gain or loss shall be fully allocated to the IMR. If reported at fair value at the time of sale, the realized gain or loss shall be fully allocated to the AVR.

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sale loss. Known liquidity sale losses shall be recognized as capital losses immediately when incurred[4]. (SSAP. P. 12)

25. ~~Known l~~Liquidity sale losses are realized losses that occur when an IMR qualifying fixed income investments are sold and the proceeds are not reinvested into other IMR qualifying fixed income investments. While it is impractical to track sales and reinvestment on an asset-by-asset basis, reporting entities shall not defer losses on sales for which it is known that proceeds will not be reinvested into other IMR qualifying fixed income investments. ~~These include s~~Situations in which reinvestment may be known to not occur include, ~~such as,~~ but are not limited to, sales used to fund surrenders/withdrawals, derivative collateral calls, or other needs that lead to a decision to sell investments. ~~as well as any other situations (e.g., derivative collateral calls or any other business entity expenses).~~ Additionally, ~~R~~reporting entities shall implement control procedures designed to identify material known liquidity sale losses. The reporting entity ~~and~~ shall attest to having identified and recognized all material known liquidity sale losses in the quarterly and annual financial statement disclosures. (SSAP. P. 13)

Net Negative IMR Recognition Restrictions

26. The allocation of interest-related realized gains and losses from qualifying investments to the IMR shall occur as sales occur, with an updated net negative or net positive IMR balance reflected in each quarterly financial statement. For year-end, reporting entities are required to assess their net IMR position in each account (general account and each filed separate account blank) and determine whether they are required to complete a proof of reinvestment disclosure for each account to support the initial recognition of a net negative IMR balance (from a prior positive IMR balance) or the increase of a net negative IMR balance from the prior year. (SSAP P. 17)

a. Reporting entities with an ending net positive IMR position, after inclusion of expected amortization from the prior year IMR balance and current year realized gains and losses, are not required to complete the proof of reinvestment.

b. Reporting entities with an ending net negative IMR position that is a lesser net negative IMR position from the prior year (closer to zero), after inclusion of expected amortization from the prior year IMR balance, and current year realized gains and losses are not required to complete the proof of reinvestment.

27. The premise for deferring and amortizing interest-related realized losses into income over time, and the support for admittance for any portion of net negative IMR, is predicated on the concept that sales proceeds are reinvested into new fixed-income investments with higher yields that will cause those realized losses to reverse over the remaining period that they support policyholder obligations. The year-end proof of reinvestment calculation and disclosure provides a validation check of this reinvestment concept with 1) a test that determines if investments acquired exceeds investments sold and investable premium and 2) a test that determines whether the yield of purchased fixed-income investments is greater than the yield of fixed income investments sold. (SSAP P. 18)

28. Reporting entities (other than those described in paragraphs 17a and 17b) that do not pass both tests within the proof of reinvestment disclosure are only permitted to defer current year realizes losses to the IMR that can be offset by current year IMR realized gains. Any realized losses in excess of realized

[4] Gains and losses from known liquidity sales offset by a SSAP No. 86 highly effective hedging derivative, captured in paragraph 10g, shall be reported consistently along with the gain or loss of the hedging instrument and reported as a known liquidity loss if the net amount is a loss.

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gains must be recognized as realized capital losses. This guidance shall be followed regardless of whether a reporting entity admits net negative IMR. If a reporting entity does not complete or pass the proof of reinvestment, the reporting entity is permitted to recognize current year IMR losses beyond what is offset by current year IMR realized gains resulting from the following two exceptions only. These exceptions are permitted ~~as~~because the net negative losses are not from the sale of a fixed-income investment;~~,~~ ~~as such~~therefore, these IMR impacts are outside the parameters of the proof of reinvestment calculation. (SSAP P. 19)

a. Reporting entities are permitted to recognize current year net negative IMR losses resulting from transfers that occurred at fair value between the general account and a book-value separate account beyond what is permitted as an offset to realized capital gains.

b. Reporting entities are permitted to recognize current year net negative IMR losses recognized from an assumed reinsurance arrangement beyond what is permitted as an offset to realized capital gains.

Illustrations on whether a proof of reinvestment is required in included in Appendix ___.

29. The assessment of whether a company is in an ending net negative or net positive position and whether the proof of reinvestment is required shall be determined on an individual account basis (general account and each individual separate account). A reporting entity with an ending net negative IMR in the general account, when current year losses exceed gains, is required to complete the proof of reinvestment for the general account activity, regardless of whether a separate account is in a net positive IMR position. When a separate account has a net negative ending position and current year losses exceed gains, a proof of reinvestment is required for the book-valued assets within that separate account. If there is more than one separate account blank filed, then the proof of reinvestment is required to be assessed and completed separately for each separate account blank that has book-valued assets. Separate accounts that only hold assets at fair value shall not record IMR and are not required to complete the proof of reinvestment calculation.

30. The proof of reinvestment, and the removal of losses from IMR is a calendar-year calculation and assessment. It is not permissible to utilize prior or subsequent calendar year gains to support the reinstatement of realized losses in the IMR or to pass the proof of reinvestment calculation.

31. The calculated net IMR balance used to determine whether a proof of reinvestment is required will not reflect the year-end reported IMR balance, regardless of whether the proof is passed or failed, and if adjustment is needed to remove IMR losses. This is because the calculation to determine whether the proof is required only reflects the expected current-year amortization to adjust the beginning IMR balance. The year-end IMR reported in the financial statements shall reflect the IMR balance after actual current-year IMR amortization and any permitted current year deferrals.

32. To address questions on whether reporting entities could forgo allocating to the IMR throughout the year if they knew they were not going to complete (or pass) the proof of reinvestment, this is not permissible. All reporting entities are required to allocate interest-related gains and losses from qualifying investments pursuant to the adopted standard to the IMR throughout the year. Although the reporting entity could choose not to complete the proof of reinvestment at year-end, which would result in a failure of the reinvestment tests, the result of the failure is that if the reporting entity is in a net negative position, they would remove the realized losses that exceed realized gains. This would result with the company retaining a net zero or net positive IMR position. To ensure realized gains are properly allocated to IMR,

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and that realized losses are taken to IMR to offset those gains, reporting entities are required to allocate qualifying interest-related gains and losses throughout the year.

Fixed-Income Investments Subject to IMR:

33. When the provisions permit, allocation to IMR shall only include interest-related realized impacts from the sale of qualifying fixed-income investments. The following list details the fixed-income instruments for which qualifying interest-related realized gains and losses can be allocated to the IMR. Investments not included on this list are not permitted to have realized gains or losses allocated to the IMR. In all instances, whether the realized gains and losses from the sale of these investments are permitted to the IMR are subject to the other provisions and requirements of the adopted guidance. (SSAP P. 11)

a. Debt Securities that do not Qualify as Bonds as defined in *SSAP No. 21—Other Admitted Assets*

b. Investments in scope of *SSAP No. 26—Bonds*

c. Investments in scope of *SSAP No. 43—Asset-Backed Securities*

d. Redeemable preferred stock in scope of *SSAP No. 32—Preferred Stock*

e. Mortgage loans in scope of *SSAP No. 37—Mortgage Loans*

f. Investments in scope of *SSAP No. 41—Surplus Notes*

g. Highly-effective hedging derivatives qualifying for "hedge accounting treatment" under *SSAP No. 86—Derivatives* when the realized derivative gain or loss offsets the realized gain or loss from a hedged item that was recognized in IMR.

h. Terminated income generating derivatives in scope of SSAP No. 86 resulting in a realized gain or loss when the covering asset is accounted for at amortized cost. (Per SSAP No. 86, for options that are exercised, the remaining premium adjusts the cost, resulting in no gain or loss for the derivative.)

i. Replication (synthetic asset) transactions in scope of SSAP No. 86 where the derivative is reported at amortized cost.

34. Realized capital gains and losses that result from the sale of investments in scope of *SSAP No. 2—Cash, Cash Equivalents, Bonds and Short-Term Investments* shall not be allocated to the IMR. The exclusions for these investments exist because if such items were allocated to IMR, the limited timeframe to maturity would be used as the amortization period, which would essentially have all amounts allocated to the IMR fully amortized within the next calendar year.

35. Historically, investments in scope of *SSAP No. 105—Working Capital Finance Investments* were identified to go to the IMR. However, revisions have been proposed as part of this IMR project to clarify that realized gains and losses from the sale of these investments shall be retained as immediate capital gains and losses. This change is supported because these investments are also short-term. Although they are specified for Schedule BA reporting, the "right to payment" that the insurer holds under SSAP No. 105 is a short-term obligation. If these were to be sold, and allocated to IMR, the amortization timeframe based on the remaining life of the investment would be less than one year. The removal of working capital

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finance investments from IMR allocation results in treatment consistent with other short-term investments.

36. For derivative instruments, the list of fixed-income instruments for which interest-related gains and losses are permitted to the IMR has been clarified. The permissible structures are limited to highly effective hedging derivatives that qualify for hedge accounting treatment (e.g. amortized cost accounting), terminated income-generating (written) derivative structures that are covered by an asset accounted for at amortized cost, and replication (synthetic asset) transactions where the derivative is reported at amortized cost. This guidance also clarifies that realized gains and losses associated with the cash component of the RSAT shall be credited or charged to the IMR or AVR in accordance with the provisions stated within the statement for the specific asset used for the cash component. The clarifications make it clear that any RSAT for which the derivative is held at fair value is not permitted to have realized gains and losses taken to IMR. Further discussion on derivative transactions begins at paragraph 53.

Determining Interest/Non-Interest -Related Realized Losses – Excluding ABS & Non-Bond Debt Securities

37. The distinction between IMR and AVR focuses on interest-related and non-interest-related (credit) changes, respectively. For simplicity, historical provisions have stipulated guidelines to use in determining whether the realized gain or loss shall be reported fully as interest or non-interest for issuer credit obligations (ICOs) in scope of *SSAP No. 26—Bonds* and redeemable preferred stocks in scope of *SSAP No. 32—Preferred Stocks*. These provisions have allowed companies to automate allocations within investment software programs. Items captured in *SSAP No. 43—Asset-Backed Securities* and non-bond securities in scope of *SSAP No. 21—Other Admitted Assets* have been required to be individually assessed by the reporting entity with bifurcated allocation of the interest and non-interest components of the realized gain or loss to the IMR and AVR.

38. For issuer credit obligations and redeemable preferred stock, the historical provisions have utilized a "more than one NAIC designation change" assessment in determining whether the realized gain or loss was interest or non-interest related. This has been measured from the designation at the beginning of the holding period to the designation at the end of the holding period, and if there was a change of "one or less" in the NAIC designation, the realized gain or loss was deemed to be fully interest related and taken to IMR. A "more than one" designation change would indicate a non-interest-related impact, and the realized gain or loss was fully taken to AVR. For illustration purposes, under the historical rules, a change in NAIC designation from 1 to 2 would have allowed IMR treatment, whereas a change from NAIC 1 to 3 would have required AVR treatment.

39. The historical designation change assessment was established when there were 6 bond designations and had not been reassessed since the expansion to the 20 designation categories. Even with the expanded designation categories, the ongoing interpretation of the historical guidance allowed IMR treatment as long as the numerical designation had not changed by more than one. With this interpretation, an investment could have experienced as many as nine designation declines (e.g., 1.A to 2.C) and still be interpreted to qualify for IMR treatment. As each designation decline reflects a credit (non-interest related) impact, the extent of declines permitted while still allowing IMR allocation of realized gains or losses was identified as needing to be reassessed as part of the IMR project in accordance with the expanded 20 designation categories.

40. Information provided by industry supported that a simple "more than one" designation change under the expanded designation categories (e.g., 1.A to 1.C) could result with interest-related impacts being incorrectly classified to AVR. To balance the impact, a compromise position was proposed,

supporting a broad "three or less" designation change approach under the expanded designation categories.

41. The "three or less" designation category change concept was proposed as it reflects the number of designation declines that would be permitted to move from an NAIC 1.G to be within the NAIC 2 categories. A fourth designation change would move an NAIC 1.G designated investment to an NAIC 3.A, and that would reflect a "more than one" numerical designation change consistent with historical concepts. There are three designation categories within the broad NAIC 2, 3, 4 and 5 categories (e.g., A-C), therefore the number of credit declines permitted while staying within these numerical categories, before moving to the next numerical designation is consistent. With this approach, designation declines of "four or more" would require allocation of the entire realized loss to the AVR.

42. With the discussion of designation changes, an exception was incorporated for investments that end with an NAIC 1 designation as it was noted that this grouping reflects the highest quality, where investment risk is the lowest and the issuer's credit profile is stable. From a review of credit and interest spreads from 2018-2023, it was noted that investments within this NAIC 1 category, even with designation declines within the category, predominantly reflected interest related changes, and not credit impacts.

43. With the discussion, it was also noted that designation changes should not impact the allocation of realized gains. All realized gains, regardless of any designation change (upward or downward) shall be taken to the IMR. It was noted that there could be situations in which a realized gain was recognized after an investment incurred a realized loss from an other-than-temporary impairment (OTTI) that was taken to AVR, and a subsequent realized gain from the same security upon sale should theoretically offset the prior realized loss in the AVR. Although this would be the ideal approach in concept, it was also noted to hinder the automation in the allocation of IMR and AVR. As such, even if the security had a prior OTTI that was taken to AVR, any realized gain at the time of sale shall be taken to the IMR.

44. The broad concepts for allocating realized gains and losses on ICOs and redeemable preferred stocks to IMR and AVR are as follows:

a. All realized gains shall be allocated to the IMR regardless of beginning (when acquired) and ending (when disposed) NAIC designation category.

b. For investments with realized losses:

i. All realized losses from investments that end with an NAIC designation 1, regardless of beginning and ending designation shall be allocated to the IMR.

ii. If the investment had 3 or less designation category[5] declines and does not have an ending NAIC 1 designation, then the entire realized loss shall be allocated to the IMR. If the investment had a designation category improvement, it shall be considered to have 3 or less designation category declines, with the realized loss taken to IMR.

[5] The designation change guidance is based on the 20 designation categories (NAIC designation with the NAIC designation modifier) initially applied in 2020. Investments acquired prior to 2020 shall use the initial designation category attributed to the investment when the 20-granular designation approach was implemented as the beginning designation in determining whether the investment had three or less designation declines at the time of sale.

iii. If the investment had more than 3 designation category declines and does not have an ending NAIC 1 designation, then the entire realized loss shall be allocated to the AVR.

45. With this discussion, it was also noted that revisions will be incorporated to clarify that when an other-than-temporary impairment (OTTI) is recognized because the reporting entity does not expect to collect amounts due, that the realized loss from that the OTTI shall be allocated to AVR regardless of the extent of any designation category changes. The discussion at the IMR Ad Hoc Group noted that the revisions are consistent with broad industry practice, although the existing statutory guidance is not explicit on the requirement for AVR. This clarification impacts credit-related impairments recognized from the following individual-security scenarios:

a. Issuer credit obligations and redeemable preferred stock for OTTI's that are recognized based on the guidance in SSAP No. 26 and SSAP No. 32 because it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms in effect at the date of acquisition.

b. Asset-backed securities and non-bond debt securities for OTTI's that are recognized when an entity does not expect to recover the amortized cost basis, even if the entity does not intend to sell and the entity has the intent and ability to hold.

46. Further, the clarification of allocating credit-related OTTI losses to the AVR was noted to be consistent with revisions adopted in 2023 (agenda item 2023-15), for issuer credit obligations and redeemable preferred stocks. That adopted revision specified that regardless of the ending NAIC designation or change from the beginning designation, a reporting entity shall allocate a realized loss fully to the AVR if there was an acute credit event (a known event that significantly negatively impacts the price of the security), that was not reflected in the credit rating provider (CRP) feeds and/or the SVO feed (AVS+) at the time of the sale, and the resulting loss from the sale was predominantly credit related.

47. The following chart illustrates application of the change in designation category guidance:

Beginning NAIC Designation Category	Lowest Ending NAIC Designation Category for IMR Treatment	First NAIC Ending Designation Category that Requires Realized Loss AVR Allocation
1.A	1.G	Investments that end with NAIC 1 go to IMR.
1.B	1.G	
1.C	1.G	
1.D	1.G	2.A
1.E	2.A	2.B
1.F	2.B	2.C
1.G	2.C	3.A
2.A	3.A	3.B
2.B	3.B	3.C
2.C	3.C	4.A
3.A	4.A	4.B
3.B	4.B	4.C
3.C	4.C	5.A

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4.A	5.A	5.B
4.B	5.B	5.C
4.C	5.C	6
5.A	5.C	6
5.B	5.C	6
5.C	5.C	6
6	All items held at fair value shall go to AVR.	

48. The allocation to IMR and AVR for realized gains or losses from the sale of mortgage loans shall also follow an all-allocation approach based on the whether the gains or losses predominantly reflect interest or non-interest related changes. By default, realized gains or losses attributed to mortgage loans with any of the characteristics detailed in the following subparagraphs shall not be considered interest related and shall not be allocated to the IMR. Realized gains and losses from the sale of mortgage loans with any of the following characteristics shall be fully allocated to the AVR:

a. Mortgage loan had an established valuation allowance under SSAP No. 37,

b. Interest is more than 90-days past due,

c. Loan is in process of foreclosure,

d. Loan is in course of voluntary conveyance, or

e. The terms of the loan have been restructured during the last two years.

49. Historically, guidance for specific investments has been captured in the annual statement instructions. In most instances, application of the designation change guidance shall address the allocation to IMR and AVR without retaining the specific investment guidance. The following details the application to items previously included in the annual statement instructions under the revised guidance:

a. SVO-Identified Bond ETFs reported in scope of SSAP No. 26 and held at systematic value shall follow the same NAIC designation change guidelines as issuer credit obligations in determining IMR and AVR treatment for realized gains and losses. If the ETF is removed from the SVO-Identified Bond ETF listing, it shall be reported in scope of *SSAP No. 30—Unaffiliated Common Stock*, with realized gains and losses reported to AVR, consistent with other equity investments. Unrealized and realized gains and losses from SVO-Identified Bond ETFs held at fair value shall be allocated to the AVR.

b. Issuer credit obligations that are terminated early from a call or tender offer shall follow the guidance in SSAP No. 26 for determining the amount allocated to investment income and realized gains or losses. For amounts reported as realized gains or losses, the entity shall follow the NAIC designation change guidance for determining IMR and AVR treatment.

c. Realized gains and losses from the sale of surplus notes and capital notes in scope of *SSAP No. 41—Surplus Notes* shall be fully allocated to the IMR if they have an NAIC designation of NAIC 1 and 2 at the time of the sale. (Under SSAP No. 41, investments with these designations are reported at amortized cost.) For surplus notes and capital notes with NAIC 3-6 designations or that are not rated, reporting is required at the lower of amortized cost or fair value. Items held at amortized cost shall follow the designation

change guidance applied to issuer credit obligations for determining allocation to IMR or AVR. Unrealized and realized gains and losses from surplus notes and capital notes held at fair value shall be allocated to the AVR.

d. For ICOs and redeemable preferred stock, realized losses from the recognition of an OTTI because it is probable that the reporting entity will be unable to collect all amounts due accordingly to the contractual terms of the debt security shall be allocated to the AVR. For other OTTI situations, such as deciding to sell an investment prior to its maturity date at an amount below carrying value, shall be allocated to IMR or AVR in accordance with the NAIC designation change provisions. Although believed to be consistent with past application, this clarifies that credit (non-interest) related impairments shall be allocated to the AVR regardless of the change in NAIC designation. As OTTI assessments are completed on an individual investment basis, allocating realized losses for these OTTI situations to AVR shall be part of the OTTI recognition process.

e. Pursuant to SSAP No. 26, mandatory convertible bonds are not assigned NAIC designations and are reported at the lower of amortized cost or fair value prior to conversion. If sold prior to conversion, the allocation of realized gains and losses to IMR or AVR shall be determined based on whether the investment was held at amortized cost or fair value at the time of the sale. If held at amortized cost, the realized gain or loss shall be fully allocated to the IMR, if held at fair value, the realized gains or loss shall be fully allocated to the AVR.

f. Proceeds from the sale of convertible bonds and redeemable preferred stock (excluding mandatory convertible) shall follow the NAIC designation change provisions with allocating the full realized gain or loss to IMR or AVR. If sold after conversion, these investments shall follow the IMR and AVR allocation provisions of the security held at the time of the sale. This provision is different from the historical guidance where assessment was based on whether the convertible was in/out of the money. Revising to conform to the NAIC designation change process results with concepts consistent with other investments and more efficient to apply.

Determining Interest/Non-Interest-Related Realized Losses – ABS & Non-Bond Debt Securities

50. Investments in scope of *SSAP No. 43—Asset-Backed Securities* and securities that fail the principles-based bond definition and represent non-bond debt securities in scope of *SSAP No. 21—Other Admitted Assets* not held at fair value have been required to allocate realized gains and losses between IMR and AVR in accordance with the reporting entity's individual security assessment to bifurcate interest and non-interest factors. (For items in scope of SSAP No. 43, this bifurcated assessment began in 2010.) For these securities, the guidance did not permit utilization of the NAIC designation change approach in determining allocation to IMR or AVR. The bifurcated allocation of interest and non-interest factors to IMR and AVR was to occur regardless of whether the realized gain or loss was caused from a sale or from an other-than temporary impairment.

51. With the IMR Ad Hoc Group discussions, the individual security assessment for ABS and non-bond debt securities was reassessed. This discussion noted the impracticability of individual security assessments for all sales and recognized that materiality thresholds and/or other practical expedients have been incorporated into insurance reporting entity processes. This discussion highlighted that the use of the NAIC designation category change approach, consistent with bond investments captured in SSAP No. 26 and redeemable preferred stock in SSAP No. 32, would allow for similar conclusions across companies and allow for investment system automation. This change was supported by the IMR Ad Hoc

Group and proposed to be captured as part of the revisions incorporated under the IMR project. Consistent with other investments and prior discussion in this issue paper, if the ABS or non-bond debt security was held at fair value at the time of the sale, the entire realized loss shall be allocated to the AVR.

52. With this change, the existing SSAP No. 43 guidance for bifurcating IMR and AVR will be deleted and replaced with consistent language to refer to the SSAP No. 7 for the allocation of gains and losses to the IMR. SSAP revisions incorporated with the adoption of this issue paper are detailed in Appendix ___.

Determining Interest/Non-Interest-Related Realized Losses – Derivatives

53. Historically, the guidance in *SSAP No. 86—Derivatives* has permitted allocation of gains and losses to IMR for derivatives that qualify for "hedge accounting" as a highly-effective hedge if the realized gain or loss for the hedged item was taken to IMR. With this treatment, a realized gain recognized on the hedged item, offset by the realized loss of a highly effective hedging derivative (or vice versa), would virtually be offset in the IMR. There is no proposed change to this guidance.

54. With the original discussion of net negative IMR in 2023, it was identified that some reporting entities were allocating realized gains and losses to IMR from derivatives that did not qualify for "hedge accounting" as defined under SSAP No. 86. These companies noted that the annual statement IMR instructions referred to "hedging" transactions, and some companies took the position that their derivatives were hedging transactions although they did not qualify as highly effective hedges that could follow the "hedge accounting" measurement method prescribed in SSAP No. 86. As these derivative transactions did not qualify for "hedge accounting" they were reported at fair value, with changes in fair value recognized as unrealized changes to surplus. These unrealized changes were allocated to the AVR. However, under the company's interpretation of the annual statement instruction "hedging" reference, upon termination of the derivative, the reporting entities reversed the surplus and AVR impacts and recognized the realized gain or loss to IMR where it would be deferred and amortized over time. With the adoption of *INT 23-01: Net Negative (Disallowed) IMR*, an interim provision was permitted to allow companies that had taken this interpretation to continue that process and admit net negative IMR generated from these derivatives as permitted in the INT, as long as the company had historical documentation of also taking realized gains from these derivative transactions to IMR and not just realized losses. Subsequently, in March 2025, the Statutory Accounting Principles (E) Working Group agreed that realized gains and losses from non-accounting effective hedging derivatives shall not be reversed from AVR and allocated to the IMR and directed a separate project for asset-liability management derivatives (ALM). As such, with the implementation of the revised SSAP No. 7, regardless of the status of the ALM derivative project, only realized gains and losses from specifically permitted derivative transactions noted in the adopted guidance shall be allocated to IMR.

55. For derivatives which qualify as highly effective hedges under SSAP No. 86, reported under the hedge accounting measurement method (e.g., amortized cost), upon termination of the derivative, if the realized gain or loss from the hedged item was taken to IMR, the realized gain or loss on the highly effective hedging derivative shall also be subject to the IMR upon termination. Under SSAP No. 86, this IMR treatment was an election that was supposed to be consistently followed. The proposed revisions to SSAP No. 86 to clarify derivatives eligible for IMR allocation eliminates the optionality and requires IMR allocation in all instances in which the gain or loss from the hedged item is allocated to IMR.

56. For income generation transactions under SSAP No. 86 (which are derivatives written or sold by the reporting entity to generate additional income or equity), only a realized gain or loss incurred at termination or closed without exercise of the derivative can be considered for IMR allocation. To allocate to IMR, the realized gain or loss must be interest related and the covering asset or underlying interest

shall be subject to IMR. If the covering asset or underlying interest is subject to the IMR, but the realized gain or loss is not interest rate related, then the realized gain or loss shall be allocated to the AVR. If the covering asset or underlying interest is not subject to IMR, then the realized gain or loss shall be recognized as an immediate capital gain or loss.

57. Pursuant to SSAP No. 86, when a written derivative option is exercised, the remaining premium shall adjust the proceeds (cost) associated with the exercise resulting in no explicit gain or loss reported for the derivative.

58. For income generation transactions with realized gains or losses that go to IMR, the amortization timeframe shall follow the remaining useful life of the covering asset, underlying interest or derivative contract maturity as follows: (Note: the SSAP references are for exposure reference only and will be removed from the final issue paper.)

a. For written fixed income covered options, realized gains and losses taken to IMR shall be amortized over the remaining life of the covered asset or underlying interest. This is a slight change from the existing guidance in SSAP No. 86 that stipulates that the callable bond rules should be used to determine the remaining life. (SSAP No. 86, P 52c)

b. For written covered put options, realized gains and losses taken to IMR shall be amortized over the remaining life of the underlying interest. (SSAP No.86, P 53b.)

c. For written fixed income caps and floors, realized gains and losses taken to IMR shall be amortized over the expected derivative contract's maturity. (SSAP No. 86, P 55b.)

59. For replication (synthetic asset) transactions (RSATs), under existing guidance in *SSAP No. 86—Derivatives*, there is no prescribed IMR treatment. Historically, the guidance in the annual statement instructions has been utilized to determine IMR or AVR treatment for these transactions. It is proposed that revisions be captured to both SSAP No. 86 and in the IMR guidance to provide clear guidance on how IMR or AVR is impacted with realized gains and losses from RSAT transactions.

60. SSAP No. 86 provides guidance for determining the measurement method for RSATs. This determination is based on whether the RSAT asset and cash instrument used are held at amortized cost or fair value. Only RSAT transactions where both the RSAT asset and cash instrument would be held at amortized cost is the derivative permitted to be held at amortized cost. In all other situations, the derivative is required to be held at fair value. This IMR project incorporates revisions to SSAP No. 86 to clarify that only realized gains and losses from terminated RSATs where the derivative is held at amortized cost could be allocated to the IMR. Consistent with prior discussions, unrealized gains and losses for items held at fair value have a surplus impact and go to the AVR. Upon realization, these items shall continue in the AVR and shall not be reversed and deferred over time in the IMR.

61. For qualifying RSAT derivatives held at amortized cost, upon termination, the realized gain or loss shall be allocated to IMR or AVR based on interest and non-interest factors. For simplicity, this IMR and AVR allocation shall be based on the designation category change guidance, applied to the RSAT designation received by the SVO. The RSAT designation is updated annually as all RSATs are required to be submitted to the SVO for review, and the SVO provides SVO-Assigned NAIC Designations for RSAT transactions.

62. For RSATs, the amortization timeframe for realized gains and losses allocated to IMR shall be based on the remaining life of the referenced asset.

63. For RSATs, it is important to highlight that there are no sales proceeds that are reinvested to support the deferral and amortization of IMR. However, the recognition of IMR from the RSAT transaction is consistent with would have occurred if the entity had initially acquired a bond (rather than the forward agreement) and had sold the bond for a realized loss (receiving proceeds) prior to its maturity date. The RSAT transaction intends to replicate the holdings and actions that would have occurred if the acquisition occurred. An example RSAT transaction and realized gain or loss recognition is detailed as follows:

a. Reporting entity enters a 5-year forward replication to purchase a 20-year treasury bond at a fixed price of 107. The cash instrument for the RSAT is a 5-year treasury.

b. As the replication asset (20-year treasury bond) would be reported at amortized cost, and the cash instrument is reported at amortized cost, the derivative qualifies for amortized cost accounting under SSAP No. 86. As such, at inception (trade date), the RSAT transaction is reported at $0 as there is no upfront cost. This reporting and measurement method continues as long as the RSAT is held unless the cash instrument would be disqualified for amortized cost treatment. (This would be highly unlikely when treasury bonds are used as the cash instrument, but any asset can be used for the cash instrument under SSAP No. 86, and other assets may not qualify for amortized cost.)

c. In year 5 with termination, the realized gain or loss would be determined based on the bond price at that time. If the bond price increased to 109, the reporting entity would recognize a realized gain of $400,000, as they would be able to acquire the bond at the forward price of 107.

d. Although a reporting entity could acquire the bond, it is perceived that in most RSAT transactions, the bond is not acquired and the cash to settle the RSAT transaction is simply received. This illustration would be shown as follows:

Cash		400,000	
	Realized Gain		400,000
Realized Gain		400,000	
	IMR		400,000

e. With the referenced asset reflecting a 20-year treasury bond, the realized gain taken to IMR would be amortized over 20-years.

f. The same concepts and amortization timeframe would be applicable if after 5 years at termination, the bond price decreased to 105 and the entity recognized a realized loss, as they would have been able to acquire the bond for less than the forward price of 107:

Realized Loss		400,000	
	Cash		400,000
IMR		400,000	
	Realized Loss		400,000

64. SSAP revisions incorporated to SSAP No. 86 to clarify the accounting and reporting of IMR with the adoption of this issue paper are detailed in Appendix ___.

General Account and Separate Account IMR Allocation:

65. Under historical concepts, IMR was calculated and retained separately between the general account and separate account. However, the balances in each account were compared to determine whether the IMR was "disallowed." Meaning, a negative IMR in the general account was permitted to be reported as a contra-liability on the liability page instead of an asset if the separate account IMR was in an offsetting positive balance (or vice versa). This guidance has been noted to be confusing with some using the term "disallowed" to mean "nonadmitted." Further, this guidance has been identified as flawed, as it would not be possible for an insulated separate account IMR balance to be allocated to the general account. The insulated classification requires isolation of the separate account assets from being used for general account purposes.

66. In accordance with the IMR Ad Hoc Group discussions, revisions have been incorporated to require all IMR assessments to be separately contained with each general and filed separate account blank, and the reporting shall be based on the position of the IMR in each account. With these revisions, the concept of reporting IMR as a contra-liability has been eliminated along with the term "disallowed" IMR.

67. The guidance requires that IMR be determined and recognized in the general account and each filed insulated and non-insulated separate account blank pursuant to the provisions of the revised statement. The determination and recognition of IMR shall be restricted to the account in which it is generated. For example, a negative IMR in a separate account shall not impact the recognition of a positive IMR in the general account.

68. Furthermore, whether realized gains and losses are permitted to be allocated to the IMR shall be separately assessed for each account individually. This means that the "proof of reinvestment" must be met for each account for the allocation of IMR. A reporting entity that qualifies with "proof of reinvestment" in the general account but fails the "proof of reinvestment" in a filed separate account is only permitted to allocate additional qualifying realized losses that exceed realized gains to the IMR in the general account. A reporting entity that has more than one filed separate account blank shall complete the proof of reinvestment calculation and determine the ability to allocate qualifying realized gains and losses for each individual filed separate account blank.

69. Reporting entities that have IMR recognized in a separate account shall follow the same provisions that exist for general account. To ensure the ability to identify nonadmitted IMR (as well as other nonadmitted assets), a revision to the separate account blank is being incorporated to capture "nonadmitted assets" on the balance sheet. This reporting will allow for consistent treatment of IMR as a nonadmitted asset in the separate account when threshold limits are breached. This reporting change will also allow for the clear identification of other nonadmitted assets held in the separate account. With the increase in book-value separate accounts, which are separate accounts used to segregate specific general account products, the book-value assets shall be subject to the same statutory accounting admittance requirements as if they were in the general account. Without the nonadmitted asset column, there is no mechanism to identify nonadmitted assets reported on the separate account balance sheet.

IMR Adjustments – Market Value Adjustments

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70. Gains and losses resulting from market value adjustments (MVA), net of the marginal federal tax impact, shall be captured in the IMR as they are incurred throughout the year[6]. Reporting entities that have recognized known liquidity sale losses in the current year are permitted to reclassify current year net MVA gains from the IMR to net realized capital gains and losses at the current year-end. This reclassification is not required, and the reclassification of net MVA gains is limited to the extent of current year known liquidity sale losses reflected in net capital gains and losses. (SSAP P. 14)

71. For MVA liability taken to IMR, the amortization timeframe shall also use a simplified method in which the gains and losses are grouped according to the calendar years remaining in which the policy would incur a MVA, following the NAIC "Grouped Amortization Schedule," not to exceed 10 years. For example, a policy surrendered in 2010 with a MVA that would have incurred a MVA if surrendered through 2015, has five calendar years to expected maturity. (SSAP P. 16)

72. The historical rationale to include realized gains and losses from market value adjustments in the IMR is predicated on the concept that the surrender of a policy requires the insurer to sell a fixed-income instrument, recognizing an offsetting gain or loss, that was taken to IMR. Although the realized gains and losses from the two transactions may not have exactly offset, taking the fixed income investment realized gain or loss to IMR without the market value adjustment would result in contrasting recognition in the financial statements (deferral through the IMR and immediate recognition in income).

73. However, it has been identified that it is common for surrenders with market value adjustments to not be accompanied by the sale of a fixed income instrument. Rather, reporting entities use alternative ways to cover the surrenders, including utilizing new premiums as the source of funds to cash out policies instead of liquidating existing assets. By using new premium, reporting entities forego potential increased yields that would have been obtained if the premium was used to acquire new fixed-income investments. Although the use of new premium does not result in a realized loss that is taken to IMR, by forgoing the purchase of a new bond and obtaining a then-current interest rate, there is spread compression from what the entity is receiving from their asset portfolio and what they are crediting policyholders. For these situations, taking the MVA gain to IMR and amortizing it essentially offsets the spread compression overtime.

74. The prominent disconnect for allocating market value adjustments to IMR results when coupled with a known liquidity sale resulting in a realized loss, as such losses are not permitted to be allocated to the IMR. This dynamic results in a reporting mismatch, as the market value adjustment gain is deferred and amortized overtime in the IMR, but the realized loss is immediately recognized as a net capital loss. This discussion noted that if market value adjustment gains were recognized immediately (and not deferred in the IMR), it would provide a surplus benefit, and this is not an acceptable accounting solution unless a corresponding loss from the forced sale was also recognized immediately.

75. With the discussion, and to ensure conservative accounting and to minimize reporting disconnects, the IMR Ad Hoc Group agreed to incorporate guidance that would require all market value adjustments to be taken to the IMR as incurred throughout the year. However, reporting entities would be permitted, but not required, to reclassify at year-end market value adjustment gains allocated to the IMR in the current year to net realized capital gains and losses to the extent that realized losses were recognized in the current year from known liquidity sales. A disclosure intends to capture realized losses from known liquidity sales taken directly to net realized capital gains and losses, therefore a direct

[6] MVAs shall only be deferred for book-valued separate account and general account products. No MVAs shall be deferred in the IMR for separate accounts held at fair value

comparison of what is permitted as a market value adjustment reclassification from IMR will be identifiable in the financial statements. The reclassification allows reporting entities to offset market value adjustment gains and realized losses from known liquidity sales concurrently in the same reporting category for year-end reporting. The reclassification is not required, as deferring MVA gains in the IMR while recognizing realized losses immediately as a capital loss provides a more conservative financial statement presentation.

76. The materiality threshold previously captured in the annual statement instructions for allocating market value adjustments in the IMR has been eliminated as a result of the IMR project. All market value adjustments shall be initially allocated to the IMR. It is uncertain the extent the materiality threshold, previously established as a gain or loss that exceeded both 0.01% of liabilities and $1,000,000, was a factor in allocating market value adjustments to the IMR. Presumably, it would have often resulted in many market value adjustments being immediately recognized to income. This would create a disconnect if the realized loss from the investment sale to pay the surrender was taken to IMR, and the realized gain from the reduced payout obligation was immediately recognized in income, which has been identified as an unacceptable accounting provision. For consistency purposes, all market value adjustments shall be taken to the IMR without a prescribed materiality threshold.

Reinsurance Adjustments:

77. At inception of the reinsurance agreement, an insurer (ceding entity) that has sold, transferred or reinsured a block of its in-force liabilities under an agreement that qualifies for reinsurance accounting as described in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*, except where asset risk is not transferred such as with most yearly-renewable term (YRT) agreements, shall derecognize the associated IMR at the time the business is ceded unless the transaction is a modified coinsurance (modco) or coinsurance with funds withheld (FWH) agreement. An insurer (ceding entity) shall derecognize the associated IMR when the policyholder obligations or related treaty balances to which those amounts were attributed have been derecognized. (SSAP P. 20)

a. Past Sales Attributed to Reinsured Block of Business: Remaining, unamortized, interest related realized gains and losses allocated to IMR from prior asset sales associated with the reinsured block of liabilities shall be derecognized from the IMR as part of the reinsurance transaction. If the ceding entity had not been tracking assets specific to the block, the entity shall identify the assets (and the unamortized realized gains/losses remaining in the IMR from those assets) using methodologies in line with the insurer's existing practices, for example, proportionate to reserves ceded.

b. Current Sales Incurred or the Transfer of Assets to Provide Reinsurance Premium[7]: Interest-rate realized gains and losses generated from the sale or transfer of qualifying fixed-income investments supporting the reinsurance transaction shall be recognized initially in the IMR and then derecognized as part of the reinsurance transaction.

[7] Reporting entities are presumed to sell the associated assets and transfer cash to the assuming insurer. If a reporting entity transfers assets to the assuming entity, the transfer and calculation of realized gain or loss shall be completed at fair value unless the transaction reflects a non-economic transaction between related parties pursuant to paragraph 19b of *SSAP No. 25—Affiliates and Other Related Parties*. In those situations, the transfer shall occur at the lower of book value or fair value. For these non-economic transactions, there will either be no realized gain or loss (transfer at book), or the reporting entity will have a realized loss on the transfer (transfer at the lower fair value).

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78. For insurers ceding business under a modco or FWH agreement, the accounting for the IMR depends on the terms of the reinsurance agreement. Reporting entities shall follow the IMR reporting process in the Annual Statement Instructions for ceding/assuming reinsurance business using a modco or FWH agreement. (SSAP P. 21)

a. For agreements that stipulate that the IMR is transferred to the reinsurer with ongoing realized gains and losses settled with the reinsurer as they occur, the insurer (ceding entity) shall derecognize the IMR associated with the block of reinsured business at treaty inception consistent with paragraph 77. An insurer (ceding entity) shall continue to recognize and derecognize IMR generated from any fixed-income investment sales incurred for investments held under modco or FWH reinsurance agreements. An insurer (ceding entity) shall derecognize the IMR as a direct adjustment to IMR with the offset to Aggregate Write-Ins for Deductions.

b. For agreements that settle realized gains and losses with the reinsurer over time through inclusion of the IMR amortization, an insurer (ceding entity) shall retain the IMR attributed to the reinsured business and pass through the associated IMR amortization through an adjustment to the FWH liability or modco reserve on an ongoing basis. An insurer (ceding entity) that retains the IMR and passes through the amortization shall continue to recognize the IMR from any fixed-income investments sales incurred for investments held under the modco or FWH reinsurance agreement. The amortization of the IMR shall be passed through as an adjustment to the FWH liability or modco reserve.

79. Similar to the treatment of MVA, the materiality threshold previously captured in the IMR annual statement instructions for reinsurance transactions has been eliminated as part of the IMR project. Under the past historical provisions, the guidance only required the elimination of IMR for reinsurance ceding transactions above a materiality threshold. (That threshold was more than 1% of the ceding company's GA liabilities per page 3, line 26 unless a lower threshold had been established by the reporting entity.) Pursuant to the principal concept, IMR shall not be retained or recognized[8] if the policy reserves related to the recognition of IMR have been eliminated. With the potential ability to admit negative IMR, it is important to ensure removal of negative IMR balances from reinsurance transactions, therefore the historical materiality threshold has been eliminated. Elimination of the materiality threshold also enables consistent treatment across transaction types

80. A U.S. domiciled reporting entity that has assumed business via a qualifying reinsurance transaction from another U.S. domiciled insurer shall set up an IMR balance that reflects an equivocal amount of IMR derecognized by the ceding entity. This IMR recognition shall reflect the unamortized IMR balance of realized gains and losses from prior asset sales associated with the reinsured block of business and interest-related realized gains and losses from the current dispositions the ceding entity incurred to transfer the reinsurance obligation. (SSAP P. 22)

[8] The concept of hypothetical IMR has been removed in accordance with this issue paper. This was a historical concept to eliminate IMR for what would be generated if the remaining assets associated with a ceded block a business were to be sold, ultimately reflecting a ceding of IMR that had yet to be established. After assessing the theoretical basis and practical limitations, the concept of hypothetical IMR was eliminated. Discussion of the rationale supporting this position is retained in the *NAIC Proceedings – Summer 2025, Accounting Practices and Procedures (E) Task Force, Attachment One-N*.

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81. The ceding entity shall provide the IMR amortization timeframe details for the derecognized IMR to the assuming entity to allow for continuation of IMR accounting, is required. In the event the reinsurance transaction is recaptured, the assuming entity shall provide current information on the remaining unamortized IMR balance and amortization schedule back to the ceding entity for re-recognition of remaining IMR. As IMR is strictly a statutory-accounting concept, non-U.S. domiciled insurance reporting entities would not be subject to the recognition of IMR. If an assuming entity is not required to maintain IMR (i.e., non-U.S. domiciled insurance reporting entities), and has not tracked IMR, the ceding entity shall re-establish an estimated IMR using reasonable methodologies, such as imputing a value from the change in market interest rates between reinsurance inception and the recapture date. (SSAP P. 23)

82. The above assuming-entity concepts in paragraphs 80-81 have been revised and clarified from the prior annual statement instructions. The prior guidance for the assuming entity was specific to IMR liabilities (and did not address IMR assets), with adjustments for IMR recognition based on the establishment of policyholder reserves. From the IMR Ad Hoc Group review, there was uncertainty as to the practical application of the noted adjustments, as well as a lack of understanding when they should be required. From information gathered, there were no known situations in which the adjustments detailed in the prior annual statement instructions were reflected. The ad hoc group supported simplifying the concepts with focus on the complementary recognition by the U.S. domiciled assuming entity and clarification for non-US entities not required to recognize IMR, particularly with the use of reasonable methodologies in the event the ceding entity must reestablish IMR.

Elimination of Excess Withdrawal Guidance:

83. During the IMR Ad Hoc discussions, ACLI representatives presented information highlighting that the historical excess withdrawal guidance may inappropriately permit or prevent a company from deferring realized gains and losses to the IMR. With the information presented, supported by the requirement to prove reinvestment when deferring losses that result in (or increase) a net negative IMR balance, the ad hoc group supported the elimination of the historical excess withdrawal guidance. This elimination was supported on the basis that reporting entities would include an attestation that assets sales did not reflect known liquidity sales to fund liabilities that are no longer recognized as insurance obligations and/or known liquidity sales were not in response to other liquidity needs, such as to provide derivative collateral. Further, the attestation shall identify that the company has a documented process to identify forced sales that would be subject to examination.

84. With the elimination of the excess withdrawal guidance, reporting entities will be required to recognize the realized losses from all known liquidity sales immediately. All realized gains on sales of qualifying fixed income investments are to be allocated to the IMR..

85. With the elimination of the excess withdrawal guidance, reporting entities will be required to provide the following attestation each year in the statutory financial statements: (SSAP P. 29b.)

a. The reporting entity has a documented process to identify material known liquidity sale losses, including but not limited to, sales used to fund surrenders/withdrawals as well as other liquidity needs (e.g., derivative collateral calls or other business entity expenses).

b. The reporting entity has not allocated any material realized losses to IMR from known liquidity sales. Realized losses taken to the IMR are attributable to investment activity related to a block of recognized insurance liabilities, whereby the proceeds have been reinvested in fixed income investments.

c. The reporting entity has disclosed all known liquidity sale losses recognized in income.

86. As historical support for the elimination of the excess withdrawal language, the following scenarios identify concerns with the existing formulaic excess withdrawal calculation. If a decision was made to retain a specific calculation, revisions to the approach would need to consider these dynamics:

a. False positives created by low surrender levels followed by normal surrender levels: There may be timeframes in which a reporting entity experiences a period of lower-then-expected surrenders. Using the formula approach that creates a baseline from past year experience, if surrender activity returns to normal or expected levels in the following year, the excess withdrawal safeguard may be inadvertently triggered.

b. False positives created by expected elevated surrenders: Reporting entities offer a variety and multitude of products. For example, these could include single premium deferred annuities (SPDAs) or guaranteed investment contracts (GICs) that have a high initial guaranteed rate, followed by a low renewal rate after the initial guaranteed period. In such cases, reporting entities should fully expect that a high proportion of policyholders will surrender their policies at the end of the guaranteed period to seek higher yields elsewhere. Reporting entities that manage this expectation will align their asset strategy with expected surrenders, so that asset maturities coincide with the guaranteed period. This prevents the need to sell assets as known liquidity sales for withdrawals. Even with this preplanning, with the formulaic excess withdrawal calculation, the reporting entity could still trigger an excess withdrawal in the year that the guaranteed period ended. With the multitude (and ongoing issuance) of products, a reporting entity could be experiencing asset sales for reinvestment purposes for different product offerings while the SPDA or GIC's initial guaranteed rate was ending and expected policyholder withdrawals were occurring. Although no known liquidity sales may occur, under the formulaic approach, the reporting entity would be identified as incurring excess withdrawals and the gains and losses from the asset sales unrelated to the liabilities that triggered the excess withdrawal safeguard would also be excluded from IMR. That exclusion would be inappropriate if those asset sales were focused on reinvestment related to a different set of product liabilities.

c. False negative from understated IMR exclusions caused by arbitrary calendar year allocation: The historical excess withdrawal calculation utilizes a calendar year allocation that may not be in line with actual activity of the reporting entity. For example, if a reporting entity was to anticipate elevated surrender activity, they could sell assets in the current year, prior to the actual occurrence of the actual surrender activity in the subsequent year. This action would permit the gains and losses to be allocated to IMR as the reporting entity would not have triggered the formulaic excess withdrawal safeguard in the year in which the sales occurred. Once the surrenders occurred in the following year, there would be gains and losses remaining in IMR from the prior anticipated asset sales that no longer match remaining policyholder obligations.

d. False negative caused by elevated prior year withdrawals: If prior year withdrawals are elevated and the current year withdrawal rate is consistent or lower, this would not trigger the excess withdrawal safeguard. This would be inappropriate if the current year surrenders were in excess of expected withdrawals.

e. Distorted calculation results from reinsurance: It was identified that the use of and comparison to the "beginning of year withdrawable reserves" would be distorted by reinsurance assumed and ceded, which could result in either false positives or false negatives as the reserve comparison would no longer be equivalent.

f. Distortions caused by capturing all products in a single calculation: The prior formulaic approach captures all products within a single calculation. Therefore, a product line with excess withdrawals could be masked by other products that had less surrenders than expected. Such an approach would allow gains and losses from the product with excess withdrawals to be deferred in IMR when the policyholder obligations no longer exist.

g. Arbitrary threshold withdrawal level: The historical calculation used 150% as the percentage used to determine the "threshold withdrawal level." The 150% determinant is not supported by any historical metric and is considered a very arbitrary number.

h. Known liquidity sales occur for reasons outside of excess withdrawals: The historical excess withdrawal calculation focuses on unscheduled withdrawals and surrenders. However, known liquidity sales can occur for other reasons that have nothing to do with excess withdrawals. For example, known liquidity sales could occur to meet derivative collateral requirements. These sales are not captured in the excess withdrawal calculation, allowing gains and losses from such sales to be allocated to the IMR although they were not reinvested to support future policyholder obligations.

Tax Impact:

87. The realized capital gains and losses that result from changes in the overall level of interest rates allocated to IMR shall be net of tax, using the federal marginal tax rate. By capturing the realized capital gains and losses net of tax, the capital gains tax associated with those capital gains/losses due to an interest rate change is charged or credited to the IMR and amortized in proportion to the before-tax amortization. This guidance is consistent with what has been historically captured in the IMR instructions.

Amortization of IMR Into Income:

88. Reporting entities shall amortize IMR into income over the expected remaining life of the qualifying fixed income investment sold using a standard method in which capital gains and losses net of capital gains tax, are grouped according to the number of calendar years to expected maturity[9] using the NAIC "Grouped Amortization Schedule" published annually. For application of this guidance, "the calendar year to maturity" means the calendar year to maturity minus the calendar year of sale date. As such, a bond sold in 2007 that would have matured in 2012 has five calendar years to expected maturity. (SSAP P. 15)

89. The guidance in paragraph 88 has been revised from historical provisions. Historically, there were three prescribed methods for calculating the amortization schedule. Under the prior guidance, a reporting entity could select either the seriatim method or one of two grouped methods for calculating IMR

[9] For fixed income investments with fixed contractual repayment dates and amounts, the term "expected maturity" shall be consistent with the "effective date of maturity" defined in SSAP No. 26 for callable bonds under the yield-to-worst concept. This requires amortization to the call or maturity value/date that produces the lowest asset value. The annual statement instructions include further guidance on the application of "expected maturity" for specific investments.

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amortization. In the past, a company was not precluded from changing methods on a prospective basis, but the overriding consideration for such a decision would have been the reasonableness of the amortization. Once a method had been selected for a particular year's capital gains (losses), the amortization would be locked in and could not be changed without specific approval by the domiciliary state commissioner. The historical approaches are detailed as follows:

e. Seriatim Method: The amount of each capital gain or loss, net of capital gains tax, amortized in a given year using the seriatim method is the excess of the amount of income which would have been reported in that year, had the asset not been disposed of, over the amount of income which would have been reported had the asset been repurchased at its sale price. The capital gains tax associated with each gain or loss is amortized in proportion to the amortization of the gain or loss. For asset-backed securities, the reporting entity uses an amortization schedule developed based on anticipated future cash flows of the sold security consistent with the prepayment assumptions that would have been used to value the security had the security been purchased at its sale price.

f. Grouped Method – Option 1: Reporting entities use a method to amortize interest-related capital gains or losses among lines of business and policyholders in accordance with the investment income allocation process approved by the domiciliary state insurance commissioner.

g. Group Method – Option 2: As an alternative, reporting entities use a standard "simplified" method in which capital gains and losses, net of capital gains tax, are grouped according to the number of calendar years to expected maturity. (The calendar years to expected maturity" means the calendar year of maturity minus the calendar year of sale date. As such, a bond sold in 2007 that would have matured in 2012 has five calendar years to expected maturity.) The NAIC publishes the "Grouped Amortization Schedule" in July of each year. Amortization of current year gains and losses is based on prior year's amortization factors until the current table is published. Amortization of each year's gains and losses for future years must be based on the amortization table applicable to that year. (For example, for 2006 gains and losses, use the 2006 table). The groupings are in bands of five (5) calendar years, except that an investment with one (1) calendar year to expected maturity are grouped separately from those with two (2) to five (5) calendar years to maturity, as shown below:

0	calendar years to expected maturity,
1	calendar year to expected maturity,
2 to 5	calendar years to expected maturity,
6 to 10	calendar years to expected maturity,
11 to 15	calendar years to expected maturity,
16 to 20	calendar years to expected maturity,
21 to 25	calendar years to expected maturity,
over 25	calendar years to expected maturity.

90. Pursuant to the discussion of the IMR Ad Hoc Group, the "Group Method – Option 2" is the prominent method for calculating the amortization timeframe into IMR. With an initiative to streamline the guidance, as well as make it consistent across reporting entities, revisions are incorporated to mandate use of the "Group Method – Option 2" for IMR amortization. Reporting entities that had previously used the seriatim method or the group option 1 method will be permitted to continue that amortization method for existing IMR balances until those balances have been fully amortized, but all new realized gains and losses taken to IMR shall be amortized under the "Group Method – Option 2" approach.

91. For fixed income instructions with fixed contractual repayment dates and amounts, the expected maturity is defined as the contractual retirement date which produces the lowest amortization value for annual statement purposes (lowest internal rate of return or "yield to worst"). As such, the retirement date shall reflect the first call or maturity date that reflects the lowest amortization value.

Admittance of IMR:

92. The interest-related realized gains and losses allocated to the IMR shall be reported net as either a positive or negative IMR separately for the general account and each separate account based on the IMR position in each account. The amount reported as the reserve in the account's IMR schedule shall agree to the liability page (positive IMR) or as a write-in on the asset page (negative IMR).

93. Reporting entities that report net negative IMR in the general account and/or in separate accounts shall aggregate the total negative IMR and determine whether the amount qualifies to be admitted pursuant to the restrictions in this issue paper. A positive IMR in any account does not impact the aggregation for total negative IMR and in determining the admittance limits of net negative IMR.

94. Reporting entities that meet the requirements of paragraph 95 are permitted to admit overall net negative IMR (collectively between the general accounts and all separate accounts) up to 10% of the reporting entity's adjusted general account[10] capital and surplus as required to be shown on the reporting entity's statutory balance sheet for its most recently filed financial statement with the domiciliary state commissioner. Further, to safeguard from situations in which the reporting entity has experienced a decline in capital and surplus and/or had significant increases in net admitted IMR in the current period, the admittance of overall net negative IMR (collectively between the general account and all separate accounts) shall also not exceed 10% of the current period unadjusted capital and surplus. Reporting entities with net negative IMR that exceeds either admittance limit shall nonadmit the negative IMR that exceeds the allowable thresholds. Reporting entities are not required to admit any portion of net negative IMR in any account (general account or separate account) (SSAP P. 24)

a. For the adjusted capital and surplus calculation: Capital and surplus shall be adjusted to exclude any admitted net positive goodwill, electronic data processing (EDP) equipment and operating system software, net deferred tax assets (DTAs) and net negative IMR. The adjusted capital and surplus calculation shall reflect the most recently filed financial statements for all admitted components (e.g., a subtraction of admitted positive goodwill, EDP equipment/software, net DTAs and net negative IMR as reported in the third quarter financial.)

b. For the unadjusted capital and surplus restriction: Reporting entities required to nonadmit net negative IMR that exceeds 10% of current period unadjusted capital and

[10] The general account capital and surplus includes surplus reflected in the separate account; therefore, an aggregation of general account and separate account surplus is not necessary.

surplus are not required to recalculate the reconciliation of admitted negative IMR to the reported IMR reflected for principles-based reserving and ~~cash flow~~asset adequacy testing pursuant to paragraph 24.c. Rather, any reconciliation difference from the admitted IMR originally determined based on the prior period adjusted capital and surplus 10% limit and what is admitted based on the 10% unadjusted current period limit shall be identified in the notes to the financial statements and in the actuarial opinion memorandum.

95. Requirements to admit net negative IMR: (SSAP P. 25)

a. Reporting entities admitting net negative IMR are required to have a risk-based capital (RBC) greater than 300% authorized control level (ACL) after an adjustment to total adjusted capital (TAC) that reflects a reduction to remove any admitted net positive goodwill, EDP equipment and operating system software, net deferred tax assets and admitted net negative IMR. Compliance with this adjusted RBC calculation shall be affirmed for all quarterly and annual financial statements for which net negative IMR is reported as an admitted asset in the general or separate accounts. Reporting entities shall provide documentation to illustrate compliance with this requirement upon state regulator request. Reporting entities with an adjusted RBC calculation of 300% ACL or lower are not permitted to admit net negative IMR in the general or separate accounts.

b. Reporting entities admitting any amount of net negative IMR shall fully complete the data-captured disclosures required in the revised SSAP No. 7. If a reporting entity does not fully complete the data-captured disclosures[11] the reporting entity shall nonadmit all net negative IMR.

c. Reporting entities admitting any amount of net negative IMR shall capture the admitted negative IMR in the principles-based reserving (PBR) calculation or asset adequacy testing (AAT)~~/ cash flow testing (CFT)~~ pursuant to all relevant Valuation Manual calculations, including but not limited to, *Valuation Manual (VM)-20: Requirements for Principle-Based Reserves for Life Insurance, VM-21: Requirements for Principle-Based Reserves for Variable Annuities, VM-22: Requirements for Principles-Based Reserves for Non-Variable Annuities* and *VM-30: Actuarial Opinion and Memorandum Requirements*. Reporting entities shall prepare a reconciliation of admitted negative IMR to the reported IMR reflected for PBR and ~~CFT~~ AAT to ensure reserves are not overstated.

96. The requirements to admit net negative IMR detailed in paragraph 95 are virtually identical to what was required under INT 23-01 as revised in August 2025. Excerpt from paragraph 9 of INT 23-01:

9. Reporting entities are permitted to admit net negative (disallowed) IMR with the following restrictions:

a. Reporting entities that qualify pursuant to paragraph 9.b., are permitted to admit net negative (disallowed) IMR up to 10% of the reporting entity's adjusted general

11 Reporting entities that complete narrative disclosures in lieu of the data-captured templates, even if reporting equivalent information, are not permitted to admit negative IMR.

account[12] capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner. The capital and surplus shall be adjusted to exclude any net positive goodwill, EDP equipment and operating system software, net deferred tax assets and admitted[13] net negative (disallowed) IMR. The adjusted capital and surplus calculation intends to reflect the most recently filed financial statements for all admitted components (e.g., a subtraction of admitted positive goodwill, EDP equipment/software, net DTAs and net negative (disallowed) IMR as reported in the third quarter financial statements to determine the limit for year-end.) However, to safeguard from situations in which the company has experienced a decline in capital and surplus and/or had significant increases in net admitted (disallowed) IMR in the current period, the admittance of net negative (disallowed) IMR shall also not exceed 10% of the current period unadjusted capital and surplus.

b. Reporting entities applying this interpretation are required to have a risk-based capital (RBC) greater than 300% authorized control level (ACL) after an adjustment to total adjusted capital (TAC) that reflects a reduction to remove any net positive goodwill, EDP equipment and operating system software, net deferred tax assets and admitted net negative (disallowed) IMR. Compliance with this adjusted RBC calculation shall be affirmed for all quarterly and annual financial statements for which net negative (disallowed) IMR is reported as an admitted asset in the general account or recognized as an asset in the separate accounts. Reporting entities shall provide documentation to illustrate compliance with this requirement upon state regulator request. Reporting entities with an adjusted RBC calculation of 300% ACL or lower are not permitted to admit net negative (disallowed) IMR in the general account or recognize IMR assets in the separate accounts.

c. The net negative (disallowed) IMR permitted for admittance shall not include losses from derivatives that were reported at fair value prior to derivative termination[14] unless the reporting entity has historically followed the same process for interest-rate hedging derivatives that were terminated in a gain position. In other words, there is a requirement for documented, historical evidence illustrating that unrealized gains from derivatives reported at fair value were reversed to IMR (as a liability) and amortized as part of IMR. Reporting entities that do not have evidence of this past application are required to remove realized losses from derivatives held at fair value from the net negative (disallowed) IMR balance to determine the amount permitted to be admitted. Reporting entities that begin a new process for the use of hedging derivatives, perhaps with a theoretical process to treat derivative losses and derivative gains similarly, but do not have evidence illustrating the historical treatment of derivative gains through IMR are not permitted to include derivative losses in the net negative (disallowed) IMR permitted to be admitted. This evidence is required separately for the general account, insulated separate account and non-insulated

[12] The general account capital and surplus includes surplus reflected in the separate account; therefore, an aggregation of general account and separate account surplus is not necessary.

[13] As the separate account does not have "admitted" assets, broad reference to "admitted net negative (disallowed) IMR" throughout this interpretation includes what is admitted in the general account and what is recognized as an asset in the separate accounts.

[14] Reference to derivative termination throughout this interpretation includes all actions that close out a derivative, including, but not limited to, termination, expiration, settlement, or sale.

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separate account if losses from derivatives previously reported at fair value are currently being allocated to IMR in those accounts.

d. Reporting entities admitting any amount of net negative (disallowed) IMR pursuant to paragraphs 9.a. through 9.c. shall fully complete the data-captured disclosures described in paragraph 13. If a reporting entity does not fully complete the data-captured disclosures or provide narrative disclosures containing equivalent information in lieu of the data-capture template, it shall nonadmit all net negative (disallowed) IMR.

e. Reporting entities admitting any amount of net negative (disallowed) IMR pursuant to paragraphs 9.a. through 9.c. shall capture the admitted negative IMR in the principles-based reserving (PBR) calculation or asset adequacy testing (AAT)/cash flow testing (CFT) pursuant to Valuation Manual (VM)-20: Requirements for Principle-Based Reserves for Life Insurance, Section 7.D.7 and VM-30: Actuarial Opinion and Memorandum Requirements, Section 3.B.5. Reporting entities shall prepare a reconciliation of admitted negative IMR to the reported IMR reflected for PBR and CFT to ensure reserves are not overstated.[15]

97. On August 12, 2026, the Statutory Accounting Principles (E) Working Group heard comments supporting the elimination of the net negative IMR admittance limit. Pursuant to the discussion that occurred during that meeting, the Working Group agreed to retain the net negative IMR admittance limit as established within INT 23-01. Subsequent consideration of a change in the net negative IMR admittance limit may occur after the effective date of the guidance and after demonstrated compliance with the established SSAP No. 7 provisions for the recognition and disclosure of IMR as well as proper inclusion in actuarial reconciliations and assessments.

98. Reporting entities are permitted to admit net negative IMR in the general account and/or in each separate account to the extent net negative IMR is recognized in each account, up to the overall net admittance limit as detailed in paragraph 94. Reporting entities that follow an admittance allocation approach that is not proportionate to the recognized net negative IMR in each account shall provide rationale supporting their admittance allocation methodology upon state regulator request. (SSAP P. 26)

99. Reporting entities shall allocate an amount equal to the admitted net negative IMR from unassigned funds to an aggregate write-in for special surplus funds (line 34) (named as "Admitted Negative IMR"). Although dividends are contingent on state specific statutes and laws, the intent of this reporting is to provide transparency and preclude the ability for admitted negative IMR to be reported as funds available to dividend. (SSAP P. 27)

100. Although INT 23-01 required reporting entities to admit net negative IMR first in the general account until admittance limits were reached, with proportional recognition in insulated and non-insulated separate accounts to the extent the entity was still below admittance limits, this guidance was revised in the updated statement. This revision was considered appropriate due to the inclusion of the nonadmitted reporting revisions in the separate account, as well as to ensure that the admittance of IMR occurs consistently with the reporting entity's operations. Prior to the inclusion of nonadmitted reporting in the separate account, negative IMR was immediately charged off against surplus. With the provisions permitted under INT 23-01, reporting entities were allowed to reinstate this IMR if they were under the admittance thresholds. With the inclusion of the nonadmitted concept, net negative IMR will simply be

[15] An optional template to assist with the IMR reconciliation is available on the NAIC Principles-Based Reserving web page: https://content.naic.org/pbr_data.htm. It is available as a template to VM-31.

nonadmitted, similar to the general account, allowing for easier management and tracking of IMR balances.

101. In addition to the nonadmittance reporting in the separate accounting, Reporting revisions under the long-term IMR project is proposed to include a specific IMR reporting line on the asset page for both general and separate accounts. With the inclusion of these reporting changes, reporting entities will report net negative IMR on the dedicated asset line and identify it as admitted or nonadmitted on the balance sheet consistent with other assets. With the inclusion of these reporting changes, the guidance in INT 23-01 on how reporting entities shall report admittance will be eliminated.

Disclosures / Reporting:

102. Reporting entities are required to detail the recognized realized capital gains and losses from the sale of securities and the allocation to AVR and IMR in the Exhibit of Capital Gains and Losses. Reporting entities are required to complete the IMR rollforward and amortization schedule[16] in the annual financial statements. (SSAP P. 28)

103. Consistent with what was established in INT 23-01, reporting entities with admitted negative IMR are required to complete a note disclosure that details the following: (SSAP P. 29a)

a. Total net negative IMR in aggregate and allocated between the general account, insulated separate account and non-insulated account,

b. Amounts of negative IMR admitted in the general account and in the separate account insulated and non-insulated blank,

c. The calculated adjusted capital and surplus; and

d. Percentage of adjusted capital and surplus for which the admitted net negative IMR represents (including what is admitted in the general account and in the separate accounts).

104. Pursuant to the discussion involving excess withdrawals and the elimination of the excess withdrawal calculation, reporting entities shall include an attestation regarding known liquidity sale losses: (SSAP P. 29b)

a. The reporting entity has a documented process to identify material known liquidity sale losses, as addressed in paragraph 13~~including. But not limited to sales used to fund surrenders/withdrawals as well as other liquidity needs (e.g., derivative collateral calls or other business entity expenses)~~.

b. The reporting entity has not allocated any material realized ~~gains or~~ losses to IMR from known liquidity sales. Realized losses taken to the IMR are attributable to investment activity related to a block of recognized insurance liabilities, whereby the proceeds have been reinvested in fixed income investments.

c. The reporting entity has disclosed all known liquidity sale losses recognized in income.

[16] For reporting entities subject to paragraph 105., the annual IMR amortization schedule shall be completed after completion of the proof of reinvestment to ensure that the year-end IMR balance and amortization schedule is completed after any required modifications to eliminate losses from IMR.

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105. Reporting entities that have moved from a net positive IMR position to a net negative position or that has increased a net negative position in any account (general account or filed separate accounts) and wants to defer current year net realized losses that exceed current year realized gains allocated to IMR shall complete the proof of reinvestment template applicable to the account with a net negative balance. Reporting entities that fair the proof of reinvestment in any account shall disclose the amounts removed from IMR and recognized as immediate capital losses. (Further discussion on the proof of reinvestment is detailed in paragraphs 108-110.) (SSAP P. 29c)

106. Reporting entities that had previously allocated realized gains or losses to IMR from derivatives that did not qualify as highly effective hedges or a permitted income generation or RSAT transaction under SSAP No. 86 shall disclose the unamortized balances in IMR from these allocations separately between gains and losses. This disclosure shall include the amortization projection to eliminate these remaining unamortized balances within 10 years. (SSAP P. 29d)

a. As discussed in paragraphs 53-63, only qualifying derivative structures specified in the revised guidance shall have realized gains and losses allocated to the IMR. This is different from prior industry interpretations in which "hedging" derivatives held at fair value were taken to IMR upon termination. Transition provisions have been incorporated to allow reporting entities that have taken realized gains and losses IMR for non-qualifying derivative structures to amortize these balances over 10 years rather than an immediate impact to capital gains and losses. Reporting entities that have derivative gains and losses impacted by this guidance shall disclose the unamortized balances in IMR separately between gains and losses and the amortization projection to eliminate those remaining balances within 10 years.

107. Reporting entities are required to disclose the reconciliation of admitted IMR used for PBR and AAT. Reporting entities that are required to nonadmit net negative IMR based on the 10% unadjusted current period limit shall disclose the difference between the admitted IMR reflected in the principles-based reserving or asset adequacy~~/cash flow~~ testing reconciliation to the admitted IMR ultimately shown in the annual financial statement. Notation of this difference shall also be captured in the actuarial opinion memorandum annually. (SSAP P. 29e)

Proof of Reinvestment

108. As discussed in paragraphs 26-32, reporting entities with a net negative balance, for which current year losses exceed gains, in any general or separate account, are required to complete the "proof of reinvestment.[17]" This is a new disclosure template required in the annual financial statements that reporting entities are required to complete when their year-end IMR balance initially goes net negative, or when their year-end net negative balance has increased from their prior year net negative balance. This disclosure is required regardless of any admittance of net negative IMR. This template provides support that a reporting entity has reinvested the proceeds from sold fixed-income investments into new, higher-yielding, fixed-income investments. The concept of IMR, which defers and amortizes interest-related gains and losses into income over time, and the support for admittance for any portion of net negative IMR, is predicated on the concept that reinvestment of proceeds into fixed-income securities with higher yields has occurred. This reinvestment presumably allows reporting entities to acquire more-

[17] Separate templates exist for general accounts and separate accounts.

desirable assets that support existing liabilities for policyholder obligations. Key concepts within the proof of reinvestment calculation and the specific sources for the data as initially developed include:

a. Key Rationale: Overall calculation intends to identify whether acquisitions of fixed-income investments are greater than proceeds from fixed-income sales and investable premium. The key rationale is that maturities of fixed-income investments are expected to cover claims (if perfectly matched) and cash proceeds from fixed-income sales and premiums need to be invested.

b. Acquisitions of Investments: Investments acquired focus on bonds and mortgage loans as the primary sources of fixed-income investments that comprise IMR[18]. The cost of these investments is pulled directly from the cash flow statement Rows 13.1 and 13.3.

c. Proceeds from Investments: Include the proceeds from sales of bonds and mortgage loans. As of year-end 2025, there was no data-captured disclosure that identified the proceeds from bond sales specifically, as available information aggregated proceeds from both sales and maturities. Revisions for year-end 2026 will include new data-captured disclosures for bonds to separately detail proceeds from sales and maturities. Upon implementation of the new disclosure, the proof of reinvestment calculation will refer to the location of that specific disclosure. Company internal records will be used for mortgage loans, which are not activity traded and have limited sales occurrences. The proceeds from the sales of bonds and mortgages loans in the proof is then adjusted to ~~remove realized capital losses that were recognized directly to capital losses due to known~~the proceeds of all known liquidity sales in which a realized capital loss was recognized, where the proceeds were not reinvested into new qualifying fixed-income investments.

d. Investable Premium: Premiums are used for many purposes, therefore adjustments to total premium are necessary to determine "investable premium." Adjustments are captured in the calculation as follows:

i. Remove commissions and expenses as premiums are used to pay commissions and expenses. This subtraction should agree to the Cash Flow Statement, Row 7: Commissions, Expenses Paid and Aggregate Write-In for Deductions.

ii. Remove premiums for the company's allocation of equity and other investments, recognizing that companies do not invest all investable premium into bonds and mortgage loans. To make this adjustment, reporting entities calculate the percentage of bonds and mortgage loans to the total invested assets from their balance sheet and then reduce the investable premium by the percentage difference (invested assets not reflecting bonds or mortgage loans).

iii. Remove premiums that are allocated to the separate account. This subtraction is modified to add-back "premium" transfers to the separate accounts that reflect "assets in-kind" (non-cash asset transfers from the general account to the

[18] The proof of reinvestment only focuses on bonds and mortgage loans as they represent the majority of fixed-income items acquired and sold by reporting entities. Consideration was given to requiring an assessment of other fixed-income investments if they represented 10% or more of a reporting entity's fixed-income sales for a given year, however, with the decision to require AVR allocation for items held at fair value, this provision was eliminated. If included, it would have a required a manual adjustment to the proof by the reporting entity.

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separate account). A reporting entity is required to complete separate templates to prove reinvestment when required based on the net negative IMR position of any separate account.

iv. Remove premiums received on certain short-term accident and health (A&H) businesses (excluding premiums received for long-term care and disability) and received on "YRT – Mortality Risk Only" business. For the specific short-term business excluded, monthly premiums are largely used to pay claims as the liabilities are short-term. To the extent reserves are generated, they generally complete very quickly, with their claims reserves being more a reserve for payable items than a long-term premium retention reserve that one would expect to cause an inflow into long-term fixed investments. For these companies, the loss ratios are generally much higher year-to-year than new business written in more traditional life/annuity products, and including their gross premium far exceeds any expectation of retained profits that may cause an investable need. Therefore, these premiums are excluded from the proof of reinvestment calculation.

e. Calculated Result of Acquisitions to Sales: The cost of the mortgage loans and bonds purchased less sales and investable premium is calculated.

f. Calculated Result of Compared Weighted Average Yields: In addition to the reinvestment verification, a reporting entity shall also identify the weighted average yield of the investments purchased and sold during the year. The difference of these two weighted average yields is then calculated.

109. A reporting entity only passes the proof of reinvestment if the results from the calculated results of acquisitions to sales and investable premium and the comparison of weighted average yields are both positive. Even if one aspect is positive, and the other is negative, the company does not pass the proof of reinvestment. A reporting entity is only able to increase an IMR net negative position from current year IMR realized losses beyond what would be offset beyond current year IMR realized gains if they pass the proof of reinvestment. Reporting entities that had allocated current year negative realized losses to the IMR in any account that does not pass proof of reinvestment are required to eliminate the current year realized losses that are not offset by gains and recognize the current year realized losses as immediate capital losses. Reporting entities that fail the proof of reinvestment in any account shall disclose the amounts removed from IMR and recognized as immediate capital losses. As detailed in paragraph 28, reporting entities that fail the proof are still permitted to recognize current year net negative IMR losses resulting from transfers that occurred at fair value between the general account and separate account and from assumed reinsurance arrangements.

110. After the completion of the proof of reinvestment, and any modifications to eliminate losses from the IMR, the reporting entity shall update and recognize the full and complete IMR amortization required for the IMR balance, including the appropriate portion of amortization attributed to the realized losses and gains added to the IMR balance throughout the current year.

Effective Date and Transition

111. Revisions to SSAP No. 7, adopted month/year, that incorporate revisions reflecting a comprehensive review of the IMR, are effective January 1, 2028, and shall be applied prospectively from the effective date. With the implementation of this guidance, distinct changes from historical guidance, and transition provisions (as applicable) include the items in the following subparagraphs. (SSAP P. 31)

a. Designation Change Guidance: The NAIC designation category change guidance incorporated within this statement is based on the 20 designation categories (NAIC designation with the NAIC designation modifier) initially applied in 2020. Investments acquired prior to 2020 shall use the initial designation category attributed to the investment when the 20-granular designation approach was implemented as the beginning designation in determining whether the investment had three or less designation declines at the time of sale. These changes also revised the guidance to require allocation to the AVR for fixed-income instruments held at fair value, instead of using the NAIC 6 designation and incorporated the designation category change guidance for all investments with NAIC designations. This was a change for asset-backed securities and non-bond debt securities that previously required individual assessment and bifurcation of interest and non-interest components.

b. Disallowed IMR: Prior the effective date of this statement, IMR in the general account and the separate accounts was compared to determine whether the IMR was "disallowed." Meaning, a negative IMR in the general account was permitted to be reported as a contra-liability instead of a nonadmitted asset if the separate account IMR was in an offsetting positive balance. With the changes reflected, IMR shall be separately contained within each account and the reporting shall be based on the position of IMR in each account. The provisions of this statement do not allow reporting of the IMR as a contra-liability, and the concept of "disallowed" IMR has been eliminated.

c. IMR Amortization: Prior to the effective date of this statement, reporting entities had three options in determining IMR amortization. With the revisions, all reporting entities shall follow the standard "simplified" method in which capital gains and losses, net of capital gains tax, are grouped according to the number of calendar years to maturity and shall follow the NAIC "Grouped Amortization Schedule" published annually. Reporting entities that had elected a different amortization approach for previously recognized IMR are permitted to continue to follow that amortization schedule until the associated IMR has fully amortized. All IMR recognized after the effective date of the revised statement shall follow the simplified group method for amortization.

d. IMR from Hedging Derivatives: Although SSAP No. 86 only referenced IMR allocation for realized gains and losses from highly effective accounting hedges, an industry interpretation of the annual statement instructions resulted with some companies allocating gains and losses from non-accounting effective hedging derivatives to the IMR. With the revisions in this statement, only realized gains and losses from highly effective hedges that qualify under the "hedge accounting method" under SSAP No. 86 are permitted to be allocated to the IMR. Reporting entities that had previously allocated realized gains and losses to IMR from non-qualifying hedging derivatives shall amortize those IMR balances over a period not to exceed 10 years.

e. Hypothetical IMR: The concept of hypothetical IMR has been removed with the effective date of this statement. This was a historical concept to eliminate IMR for what would be generated if the remaining assets associated with a ceded block of business were to be sold, ultimately reflecting a ceding of IMR that had yet to be established. After assessing the theoretical basis and practical limitations, the concept of hypothetical IMR was eliminated. (Discussion of this rationale is included for historical purposes in the NAIC Proceedings – Summer 2025, Accounting Practices and Procedures (E) Task Force, Attachment One-N.)

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f. Excess Withdrawal Test: The excess withdrawal formula calculation has been eliminated. With the elimination, reporting entities shall recognize immediately realized capital gains and losses from forced sales and not defer through the IMR.

g. Market Value Adjustments: The inclusion of all MVAs in IMR is a change from historical guidance where they were only included in accordance with a materiality threshold. With the revisions, reporting of market value adjustments is separately divided between realized gains and losses om the IMR schedule.

Revisions to Other SSAPs:

112. The conclusions in this issue paper will be incorporated into a revised SSAP No. 7. Additionally, revisions to other SSAPs will be included as follows:

a. *SSAP No. 2—Cash, Cash Equivalents, Drafts and Short-Term Investments*: Revisions will clarify the AVR/IMR treatment for both cash equivalents and short-term investments. The changes indicate that non-interest-related losses shall be taken to the AVR, but other realized gains and losses shall be retained as immediate impacts to capital gain and loss.

b. *SSAP No. 21—Other Admitted Assets*: No explicit revisions are proposed to this SSAP, however, the revisions to SSAP No. 43 will impact non-bond debt securities through an existing SSAP No. 21 reference to the SSAP No. 43 guidance.

c. *SSAP No. 26—Bonds*: Revisions clarify existing guidance and reiterate the provision from SSAP No. 7 that realized losses from an other-than-temporary impairment because it is probable the reporting entity will be unable to collect all amounts due (credit-impairment) shall be fully taken to the AVR.

d. *SSAP No. 32—Preferred Stock*: Revisions 1) incorporate guidance IMR/AVR guidance for sales of redeemable preferred stock, 2) clarify AVR treatment for unrealized gains and losses, and 3) clarify the OTTI guidance for redeemable preferred stock to mirror the bond guidance.

e. *SSAP No. 37—Mortgage Loans*: Revisions incorporate guidance IMR/AVR guidance mortgage loans and the treatment of AVR for unrealized gains and losses and after a write-down.

f. *SSAP No. 41—Surplus Notes*: Revisions incorporate clarifying guidance for IMR/AVR.

g. *SSAP No. 43—Asset-Backed Securities*: Revisions eliminate prior guidance on the bifurcation of IMR and AVR and incorporate language consistent with SSAP No. 26.

h. *SSAP No*. 61—Life, Deposit-Type and Accident and Health Reinsurance: Revisions incorporate reference to SSAP No. 7 rather than the Annual Statement Instructions.

i. *SSAP No. 86—Derivatives*: Revisions are proposed to 1) eliminate the optionality for when accounting-effective hedges are taken to IMR, and 2) Incorporate updates to revise and clarify IMR and AVR guidance for RSATs.

j. *SSAP No. 105—Working Capital Finance Investments*: Revisions eliminate existing guidance for IMR and direct all realized capital gains and losses to be retained as immediate capital gains and losses.

Reporting Revisions:

113. This issue paper results supports reporting revisions to improve reporting clarity and transparency in the statutory financial statements for IMR:

a. *Asset and Liability Page*: Revisions will incorporate a distinct "interest maintenance reserve" reporting line on the asset page as well as a "deferred derivative" reporting line for both the asset and liability page. *(The intent is for the deferred derivative line to include items captured under both SSAP No. 108 and the new ALM derivative SSAP with a separate disclosure that identifies the balance under each SSAP unless there is support to have two separate reporting lines.)*

b. *Exhibit of Capital Gains & Losses:* Revisions propose to 1) expand this schedule to have the reporting categories mirror investment categories and 2) to expand columns / directions to have all realized losses be captured as "realized capital gain and loss" with columns to identify what is allocated to IMR and AVR before arriving at the net realized capital gains and losses that agrees to the Summary of Operations.

c. *Interest Maintenance Reserve – Form for Calculating the IMR*: Proposed to expand the reporting lines to separate adjustments to the reserve to include reinsurance ceded, reinsurance assumed, market value adjustment (gains) and market value adjustment (losses). This reporting change will provide more clarity and transparency as to the various items impacting the IMR.

d. *SSAP No. 7 Disclosures*: New disclosure templates, notes and general interrogatory attestations to converge with the new SSAP No. 7 disclosures.

e. *Annual Statement IMR Instructions*: Revisions are proposed to eliminate most of the prior annual statement instructions with new instructions to correspond to the reporting changes. Items proposed to remain within the instructions (with revisions accordingly) include the following:

i. Investment specific maturity timeframes for amortization purposes.

ii. Revised example for reinsurance adjustments released from reserve. (The prior example included hypothetical IMR.)

Appendix A – Examples to Determine When the Proof of Reinvestment Is Required

	1	2	3	4	5
Beginning IMR Balance	50.00	50.00	(50.00)	(50.00)	(50.00)
IMR Expected Amortization[1]	(20.00)	(20.00)	20.00	20.00	20.00
Subtotal	**30.00**	**30.00**	**(30.00)**	**(30.00)**	**(30.00)**
Current Year IMR Gains	15.00	15.00	15.00	45.00	15.00
Current Year IMR Losses	(50.00)	(30.00)	(50.00)	(30.00)	(15.00)
IMR Preliminary Balance	**(5.00)**	**15.00**	**(65.00)**	**(15.00)**	**(30.00)**
Proof	Required	Not Required	Required	Not Required	Not Required
Fail Proof: Remove from IMR:	(5.00)	N/A	(35.00)	N/A	N/A
IMR After Adjustment & Before Current Year Amortization	**-**	**15.00**	**(30.00)**	**(15.00)**	**(30.00)**

FN 1: IMR expected amortization shall be a direct pull from the prior year-end IMR amortization schedule.

Example 1: Proof is required as the entity has gone net negative with losses exceeding gains. If the entity fails the proof, the entity must remove IMR losses to either eliminate the net negative position, or to eliminate the increase of a net negative position. For this example, the removal would eliminate the net negative position, resulting with a year-end IMR position of net zero.

Example 2: Proof is not required as the entity has not gone net negative, even though the entity had more IMR losses than IMR gains.

Example 3: Proof is required as the entity has increased their prior net negative position. If the entity fails the proof, the entity must remove IMR losses to eliminate the current year increase of a net negative position. With the removal of $35 in losses, the net negative position equals the beginning balance after the expected amortization from prior year established IMR.

Example 4: Proof is not required as the entity has not increased their prior-year net negative position.

Example 4: Proof is not required as the entity has not increased their prior-year net negative position.

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Interest Maintenance Reserve
Appendix B – Proof of Reinvestment Disclosure Illustration – General Account

Line	Data Source	Description	2024 YTD
1	CF Stmt - Row 13.1	Cost of investments acquired (long-term only) - Bonds	103,056,000
2	CF Stmt - Row 13.3	Cost of investments acquired (long-term only) - Mortgage Loans	14,181,000
3	Sum of lines 1 + 2	**Cost of Fixed Income Investments Purchased**	**117,237,000**
4	Note 5D(6) – Column 1 Total	Proceeds from FI investments sold – ~~Bonds~~Debt Securities	39,861,000
5	Internal Systems	Proceeds from FI investments sold - Mortgage Loans	3,831,000
6	New Disclosure	Proceeds of ~~K~~known liquidity sales where a realized capital loss was recognized ~~as immediate capital losses~~	2,000,000
7	Sum of lines 4 + 5 - 6	**Total proceeds from Fixed Income Investments Sold**	**41,692,000**
8	CF Stmt - Row 1	Premiums collected net of reinsurance	52,020,000
9	CF Stmt - Row 7	Commissions, expenses paid and aggregate write-ins for deductions	11,062,000
10	Annual Statement - Note 35 Separate Account	Total premiums, considerations or deposits as of the end of current period	15,000,000
11	Internal Systems	Assets in kind received in line 9 above	3,000,000
12	Annual Statement - Analysis of operations by lines of business - A&H: Column 1 minus column 11^ minus column 12; plus, Annual Statement – Analysis of operations by line of business – Summary: Column 9	Premiums for accident and health contracts (short-term) and premiums for YRT – Mortality Risk Only	5,000,000
13	Line 8 -line 9 -line 10 + line 11 - line 12	**Investable Premiums Before Other Investment Adjustment**	**23,958,000**
14	B/S - Row 1	Bonds - Net Admitted	130,000,000
15	B/S - Row 3.1	First Lien Mortgages - Net Admitted	20,000,000
16	B/S - Row 3.2	Other than First Lien Mortgages - Net Admitted	10,000,000
17	Sum of lines 14, 15, & 16	**Investments Subject to Proof of Reinvestment**	**160,000,000**
18	B/S - Row 12	Subtotal, Cash and Invested Assets	200,000,000
19	Line 18 - Line 17	**Allocation for Investment for Other Assets**	**40,000,000**
20	Line 19Divided by Line 18	**Percent of Investable Premiums Allocable to Equity and Other Investments**	**20%**
21	Line 13 multiplied by Line 20	**Investable Premium Adjustment**	**4,791,600**
22	Line 13 - Line 21	**Investable Premiums**	**19,166,400**
23	Line 3 - line 7 - line 22	**Investments Purchased less Investments Sold and Investable Premiums**	**56,378,600**
24	Internal Systems	Weighted average yield of fixed income investments purchased (as reported on line 3) during the year	**4.57%**
25	Internal Systems	Weighted average yield of fixed income investments sold (as reported on line 7) during the year	**3.96%**

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26	Line 24 - line 25	**Increase (decrease) of yield of purchased fixed income investment yield over those disposed**	**0.61%**
		Sufficient evidence of reinvestment of fixed income investments	
27	**Test 1**	Is line 23 positive?	**Yes**
28	**Test 2**	Is line 26 positive?	**Yes**
	If lines 27 & 28 are both positive - current year negative IMR that exceeds positive IMR can be added to either originate a net negative IMR balance or increase an existing unamortized negative IMR balance. Admittance is subject to limitations included within SSAP No. 7.		
	^Column 11 is for disability business that includes both long and short term disability. RBC is determined based on this differentiation in LR 19 where total earned premiums are broken out between long and short term and are a close approximation of column 11 premiums in aggregate. Only the long-term premium categories (i.e., lines 21 through 26) included in LR 19 are to be subtracted for purposes of this test.		

Interest Maintenance Reserve

Appendix C – Proof of Reinvestment Disclosure Illustration – Separate Account

Line	Data Source	Description	2024 YTD
1	Internal Systems	Cost of investments acquired (long-term only) - Bonds	430,000
2	Internal Systems	Cost of investments acquired (long-term only) - Mortgage Loans	128,000
3	Sum of lines 1 + 2	**Cost of Fixed Income Investments Purchased**	**558,000**
4	Internal Systems	Proceeds from FI investments sold - Bonds	502,000
5	Internal Systems	Proceeds from FI investments sold - Mortgage Loans	14,000
6	New Disclosure	Known liquidity sales recognized as immediate capital losses	16,000
7	Sum of lines 4 + 5-6	**Total proceeds from Fixed Income Investments Sold**	**500,000**
8	Blue Book Note 35B / Internal Systems	Book value separate accounts premiums	7,000
9	Internal Systems	Assets in kind received in line 7 above	-
10	Line 8 -line 9	**Investable Premiums Before Other Investment Adjustment**	**7,000**
11	Green Book - B/S Row 1	Bonds (General Account Basis Only) - Net Admitted	2,450,000
12	Green Book - B/S Row 3	Mortgages (General Account Basis Only) - Net Admitted	570,000
13	Line 11+ line 12	**Investments Subject to Proof of Reinvestment**	**3,020,000**
14	Green Book - B/S Row 11	Subtotal, Cash and Invested Assets	3,124,000
15	Line 14 - Line 13	**Allocation for Investment for Other Assets**	**104,000**
16	Line 15 Divided by Line 14	**Percent of Investable Premiums Allocable to Equity and Other Investments**	**3%**
17	Line 10 multiplied by Line 16	**Investable Premium Adjustment**	**233**
18	Line 10- Line 17	**Investable Premiums**	**6,767**
19	Line 3 - line 7 - line 18	**Investments Purchased less Investments Sold and Investable Premiums**	**51,233**
20	Internal Systems	Weighted average yield of fixed income investments purchased (as reported on line 3) during the year	**4.00%**
21	Internal Systems	Weighted average yield of fixed income investments sold (as reported on line 7) during the year	**3.00%**
22	Line 20 - line 21	**Increase (decrease) of yield of purchased fixed income investment yield over those disposed**	**1.00%**
		Sufficient evidence of reinvestment of fixed income investments	
24	**Test 1**	Is line 19 positive?	**Yes**
25	**Test 2**	Is line 22 positive?	**Yes**
	If lines 23 & 24 are both positive - current year negative IMR that exceeds positive IMR can be added to either originate a net negative IMR balance or increase an existing unamortized negative IMR balance. Admittance is subject to limitations included within SSAP No. 7.		

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IMR Issue Paper – Proposed SSAP Revisions
2026 Fall National Meeting

Note: No content revisions have been proposed since the Summer NM Exposure. These tracked changes will be incorporated into an Appendix within the Issue Paper for historical reference. When incorporating into the SSAPs, and issue paper for the 2027 AP&P Manual publication, verification of all paragraph numbers to the most recent adopted SSAP will occur.

In addition to the rewrite of SSAP No. 7, many revisions to other SSAPs are proposed in accordance with the IMR project. These revisions are detailed in this document.

A search of "Interest Maintenance Reserve" and "IMR" was completed for the 2025 Manual. SSAP references are detailed separately by those with proposed revisions and those without proposed revisions.

SSAP's with Proposed Revisions

SSAP No. 2—Cash, Cash Equivalents, Drafts and Short-Term Investments

A. New Paragraph 7: Revisions address IMR/AVR treatment for cash equivalents:

7. For reporting entities required to maintain an interest maintenance reserve (IMR) and asset valuation reserve (AVR), the accounting for realized capital gains and losses on sales of cash equivalents shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. Pursuant to that guidance, all unrealized gains and losses shall be allocated to the AVR, however, realized capital gains and losses from the sale of cash equivalents shall not be allocated to the IMR. Any realized loss deemed to be non-interest related shall be allocated to the AVR, with interest-related realized gains or losses retained as an immediate capital gain or loss.

B. Paragraph 16: Revisions clarify IMR/AVR treatment for short-term investments:

16 All short-term investments shall be accounted for in the same manner as similar long-term investments, except for the allocation to IMR. For reporting entities required to maintain an IMR and AVR, the accounting for realized capital gains and losses on sales of short-term investments shall be in accordance with SSAP No. 7. Pursuant to that guidance, all unrealized gains and losses shall be allocated to the AVR, however, realized capital gains and losses from the sale of short-term investments shall not be allocated to the IMR. Any realized loss deemed to be non-interest related shall be allocated to the AVR, with interest-related realized gains or losses retained as an immediate capital gain or loss.

SSAP No. 21—Other Admitted Assets

No explicit revisions are proposed to this SSAP. Although the issue paper proposes to revise the way in which IMR/AVR allocations occur for non-bond debt securities, the guidance in SSAP No. 21 points to the guidance in SSAP No. 43 for application. With this pointer, no revisions are needed to SSAP No. 21 as the revisions will be reflected in SSAP No. 43 and be applicable in accordance with the existing guidance.

SSAP No. 26—Bonds

A. Paragraphs 17-18: Revisions are proposed to improve existing guidance:

17. For reporting entities required to maintain an interest maintenance reserve (IMR) and asset valuation reserve (AVR), the accounting for realized capital gains and losses on sales of bonds shall

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be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. Pursuant to SSAP No. 7, ~~For reporting entities required to maintain an asset valuation reserve (AVR), the accounting for~~all unrealized gains and losses, excluding foreign exchange gains and losses, shall be ~~in accordance with SSAP No. 7~~recognized to the AVR.

18. For reporting entities not required to maintain an IMR and AVR, realized gains and losses on sales of bonds shall be reported as net realized capital gains or losses in the statement of income. ~~For reporting entities not required to maintain an AVR, u~~ Unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).

B. Paragraph 23: Revisions are proposed to improve existing guidance:

23. An other-than-temporary(INT 06-07) impairment (OTTI) shall be considered to have occurred if it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of a debt security in effect at the date of acquisition. A decline in fair value which is other-than-temporary includes situations where a reporting entity has made a decision to sell a security prior to its maturity at an amount below its carrying value. If it is determined that a decline in the fair value of a bond is other-than-temporary, an impairment loss shall be recognized as a realized loss equal to the entire difference between the bond's carrying value and its fair value at the balance sheet date of the reporting period for which the assessment is made. The measurement of the impairment loss shall not include partial recoveries of fair value subsequent to the balance sheet date. For reporting entities required to maintain an AVR/IMR, the accounting for the entire amount of the realized capital loss shall be in accordance with SSAP No. 7. Pursuant to this guidance, realized losses from an OTTI recognized as it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of the debt security (credit impairment) shall be fully allocated to the AVR. Realized losses from an OTTI recognized as the entity has decided to sell a security prior to its maturity at an amount below its carrying value shall be fully allocated to either the IMR or AVR pursuant to the guidance in SSAP No. 7. ~~The other-than-temporary impairment loss shall be recorded entirely to either AVR or IMR (and not bifurcated between credit and non-credit components) in accordance with the annual statement instructions.~~

C. Paragraph 37: This paragraph is specific to SVO-Identified ETFs. Minor reference revisions:

37. For reporting entities required to hold an IMR and AVR reserve, realized and unrealized gains and losses for the SVO-identified bond ETF investments shall be consistent with bonds within the scope of this standard. With this guidance, recognition of gains/losses (and corresponding AVR/IMR impacts) will be based on the ETF, and not activity that occurs within the ETF (e.g., such as changes in the underlying bonds held within the ETF). Also consistent with the guidance for bonds, recognized losses from other-than temporary impairments shall be recorded entirely to either AVR or IMR (and not bifurcated between credit and non-credit components) in accordance with SSAP No. 7.~~the annual statement instructions.~~

SSAP No. 32—Preferred Stock

A. Paragraph 8: Incorporate guidance for sales of preferred stock. (This guidance is generic to apply to both redeemable and perpetual preferred stock.)

8. At acquisition, preferred stock shall be reported at cost, including brokerage and other related fees. Preferred stock received as dividends shall be recorded at fair value. Acquisitions and

dispositions shall be recorded on the trade date. Private placement stock transactions shall be recorded on the funding date. For reporting entities required to maintain an interest maintenance reserve (IMR) and asset valuation reserve (AVR) sales of preferred stock shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

B. Paragraph 12.b.iv: Clarify AVR treatment of unrealized gains and losses:

12.b.iv For preferred stocks reported at fair value, the accounting for unrealized gains and losses shall be fully to the AVR in accordance with SSAP No. 7~~—*Asset Valuation Reserve and Interest Maintenance Reserve*~~.

C. Paragraph 13: Clarify OTTI guidance for redeemable preferred stock to mirror the bond guidance:

13. An other-than-temporary[INT 06-07] impairment (OTTI) shall be considered to have occurred if it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of the preferred stock in effect at the date of acquisition. An assessment of other-than-temporary impairment shall occur whenever mandatory redemption rights or sinking fund requirements do not occur. A decline in fair value which is other-than-temporary includes situations where the reporting entity has made a decision to sell the preferred stock prior to its maturity at an amount below its carrying value (i.e., amortized cost). If it is determined that a decline in the fair value of a redeemable preferred stock is other-than-temporary, an impairment loss shall be recognized as a realized loss equal to the entire difference between the redeemable preferred stock's carrying value and its fair value, not to exceed any currently effective call price, at the balance sheet date of the reporting period for which the assessment is made. The measurement of the impairment loss shall not include partial recoveries of fair value subsequent to the balance sheet date. For reporting entities required to maintain an AVR, realized losses shall be accounted for in accordance with SSAP No. 7. Pursuant to this guidance, realized losses from an OTTI recognized as it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of the redeemable preferred stock (credit impairment) shall be fully allocated to the AVR. Realized losses from an OTTI recognized as the entity has decided to sell a redeemable preferred stock prior to its maturity at an amount below its carrying value shall be fully allocated to either the IMR or AVR pursuant to the guidance in SSAP No. 7.

SSAP No. 37—Mortgage Loans

A. New Paragraph 16: Incorporate guidance for sales of mortgage loans

16. For reporting entities required to maintain an interest maintenance reserve (IMR) and asset valuation reserve (AVR), the accounting for realized capital gains and losses on sales of mortgage loans shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

B. Renumbered Paragraph 17: Incorporate clarifying revisions:

17. A mortgage loan shall be considered to be impaired when, based on current information and events, it is probable that a reporting entity will be unable to collect all amounts due according to the contractual terms of the mortgage agreement. According to the contractual terms means that both the contractual principal payments and contractual interest payments of the mortgage loan will be collected as scheduled in the mortgage agreement. A reporting entity shall measure impairment based on the fair value (as determined by acceptable appraisal methodologies) of the

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collateral less estimated costs to obtain and sell. The difference between the net value of the collateral and the recorded investment in the mortgage loan shall be recognized as an impairment by creating a valuation allowance with a corresponding charge to unrealized loss or by adjusting an existing valuation allowance for the impaired loan with a corresponding charge or credit to unrealized gain or loss. Subsequent to the initial measurement of impairment, if there is a significant change (increase or decrease) in the net value of the collateral, the reporting entity shall adjust the valuation allowance; however, the net carrying amount of the loan shall at no time exceed the recorded investment in the loan. For reporting entities required to maintain an ~~asset valuation reserve (~~AVR~~)~~, the unrealized gain or loss on impairments shall be recognized ~~included in the calculation of~~ to the AVR. If the impairment is other than temporary (INT 06-07), a direct write down shall be recognized as a realized loss (recognized to the AVR for reporting entities maintaining an AVR), and a new cost basis is established. This new cost basis shall not be changed for subsequent recoveries in value. Mortgage loans for which foreclosure is probable shall be considered permanently impaired.

C. Paragraph 33~~2~~ – original effective date guidance – addresses previously recognized IMR related to prepayment penalties. No changes are proposed. Its historical guidance no longer applicable.

33~~2~~. This statement is effective for years beginning January 1, 2001. Initial recognition of the impairment losses resulting from the application of this statement shall apply to mortgage loans held at January 1, 2001, and be based on management's best estimates as of that date. Insurers shall release all unamortized amounts included in IMR related to prepayment penalties upon adoption of Codification and recognize such change in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3. The guidance in this paragraph related to unamortized amounts included in IMR was originally contained within INT 99-04: Recognition of Prepayment Penalties Upon Adoption of Codification and was effective March 8, 1999.

SSAP No. 41—Surplus Notes

A. Paragraph 12: Incorporate clarifying guidance, including guidance for sales:

12. For reporting entities required to maintain an AVR, ~~the accounting for~~ unrealized gains and losses shall be fully allocated to the AVR and realized capital gains and losses from the sale of capital notes or surplus notes shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. For reporting entities not required to maintain an AVR, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).

SSAP No. 43—Asset-Backed Securities

A. Paragraph 15: Directs treatment for prepayment penalties, no revisions proposed.

15. The amount of prepayment penalty and/or acceleration fees to be reported as investment income shall be calculated as follows:

a. The amount of investment income reported is equal to the total proceeds (consideration) received less the par value of the investment; and

b. Any difference between the book adjusted carrying value (BACV) and the par value at the time of disposal shall be reported as realized capital gains and losses subject to the authoritative literature in SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve.

B. Paragraph 36: Revisions to eliminate the IMR/AVR bifurcated allocation and incorporate consistent language.

36. For reporting entities required to maintain an interest maintenance reserve (IMR) and asset valuation reserve (AVR), the accounting for realized capital gains and losses shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. Pursuant to SSAP No. 7, all unrealized gains and losses shall be recognized to the AVR. Further, realized losses from an OTTI recognized under paragraph 35, as the reporting entity does not expect to recover the entire amortized cost basis even if the entity has no intent to sell and the entity has the intent and ability to hold (credit impairment) shall be fully allocated to the AVR. ~~AVR or IMR, all unrealized gains and losses shall be reported through the AVR. For realized gains and losses, an analysis is required on whether the realized loss reflects an interest or non-interest related decline[‡]. The analysis required is the same regardless of whether a realized loss results from an impairment write-down or whether there was a gain or loss upon sale. Guidance on specific scenarios resulting in realized gains and losses are as follows:~~

~~a. Unrealized Gains and Losses – Record all unrealized gains and losses through AVR. At the time an unrealized gain or loss is realized, allocation between AVR or IMR will depend on the analysis and bifurcation between interest or non-interest related declines Unrealized gains or losses that are realized shall be reversed from AVR before the recognition of the realized gain or loss within AVR and IMR.~~

~~b. Other-Than-Temporary Impairment – Non-interest related other-than-temporary impairment losses shall be recorded through the AVR and interest-related OTTI losses shall be recorded through the IMR. If the reporting entity wrote the security down to fair value due to the intent to sell or because the entity does not have the intent and ability to retain the investment for a period of time sufficient to recover the amortized cost basis, the entity shall bifurcate the realized loss between non-interest related (AVR) and interest related (IMR). The analysis for bifurcating impairment losses between AVR and IMR shall be completed as of the date when the other-than-temporary impairment is determined. Entities that recognized an OTTI based on the difference between amortized cost and the present value of expected cash flows shall recognize the full realized loss through AVR.~~

~~c. Security Sold at a Loss Without Prior OTTI – An entity shall bifurcate the loss into AVR and IMR portions depending on interest and non-interest related declines in accordance with the analysis performed as of the date of sale.~~

~~d. Security Sold at a Loss With Prior OTTI – An entity shall bifurcate the current realized loss into AVR and IMR portions depending on interest and non-interest related declines in accordance~~

~~[‡] Pursuant to INT 06-07, the term interest related includes a declining value due to both increases in the risk free interest rate and general credit spread widening. Credit spreads can widen or contract for a variety of reasons, including supply/demand imbalances in the marketplace or the perceived higher/lower risk of an entire sector. If the declining value is caused, in whole or in part, due to credit spreads widening, but not due to fundamental credit problems of the issuer, the change in credit spreads is deemed to be interest related.~~

~~with the analysis performed as of the date of sale. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.~~

~~e. Security Sold at a Gain With Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale. The bifurcation between AVR and IMR that occurs as of the date of sale may be different from the AVR and IMR allocation that occurred at the time of previous other-than-temporary impairments. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.~~

~~f. Security Sold at a Gain Without Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale.~~

C. Q&A 7 – Directs IMR/AVR based on recognized OTTI. Reference revisions proposed.

7. Question – If an impairment loss is recognized based on the "present value of projected cash flows" in one period is the entity required to get new cash flows every reporting period subsequent or just in the periods where there has been a significant change in the actual cash flows from projected cash flows?

7.1 The guidance in paragraph 38 of SSAP No. 43 indicates that a reporting entity shall continue to estimate the present value of cash flows expected to be collected over the life of the asset-backed security. This guidance is explicit that the reporting entity shall continue to estimate the present value of cash flows expected to be collected over the life of the loan-backed or structured security.

7.2 As provided in paragraph 2.2 of this Q&A, if the entity does not want to assess cash flows of an impaired security (fair value is less than amortized cost), the entity can designate the security as one the entity intends to sell, or one that the entity does not have the intent and ability to hold, providing it is reflective of the true intent and assessment of the ability of the entity. Reporting entities subject to the requirements of AVR and IMR should allocate the impairment loss between AVR and IMR in accordance with SSAP No. 7~~accordingly~~.

D. Q&A 8 – Discusses reporting in lots and the requirement to track separately for IMR/AVR allocation. No revisions proposed.

8. Question – Do ABS purchased in different lots result in a different NAIC designation for the same CUSIP? Can reporting entities use a weighted average method determined on a legal entity basis?

8.1 Under the financial modeling process (applicable to qualifying RMBS/CMBS reviewed by the NAIC Structured Securities Group), the amortized cost of the security impacts the “final” NAIC designation used for reporting and RBC purposes. As such, securities subject to the financial modeling process acquired in different lots can result in a different NAIC designation for the same CUSIP. In accordance with the current instructions for calculating AVR and IMR, reporting entities are required to keep track of the different lots separately, which means reporting the different designations. For reporting purposes, if a SSAP No. 43 security (by CUSIP) has different NAIC designations by lot, the reporting entity shall either 1) report the aggregate investment with the lowest applicable NAIC designation or 2)

report the investment separately by purchase lot on the investment schedule. If reporting separately, the investment may be aggregated by NAIC designation. (For example, all acquisitions of the identical CUSIP resulting with an NAIC 1 designation may be aggregated, and all acquisitions of the identical CUSIP resulting with an NAIC 3 designation may be aggregated.)

SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance

A. Update Reference to Guidance.

(Note – Additional revisions to SSAP No. 61 are considered under agenda item 2025-22.)

54. The interest-related gain or loss (net of taxes) associated with the sale, transfer or reinsurance of a block of liabilities must be credited or charged to the IMR in accordance with SSAP No. 7. ~~the IMR instructions contained in the NAIC Annual Statement Instructions for Life and Accident and Health Insurance Companies.~~

SSAP No. 86—Derivatives

A. Paragraph 24, with corresponding edits to Exhibit B and Exhibit C, to mandate consistent use of IMR when applicable for effective hedges and remove ambiguity on when IMR is permitted.

24. For those derivatives which qualify for hedge accounting, the change in the carrying value or cash flow of the derivative shall be recorded consistently with how the changes in the carrying value or cash flow of the hedged asset, liability, firm commitment or forecasted transaction are recorded. When the hedged item is held at amortized cost, the derivative is also recognized at amortized cost, therefore there is no recognized carrying value change over the life of the derivative. In such situations, if the settlement of the derivative results in a realized gain or loss from the derivative acquisition basis, then upon termination of a derivative that qualified for hedge accounting, the following guidance shall be followed:

    a. If the hedged item is not terminated, the derivative gain or loss shall adjust the basis of the hedged item, and amortized/accreted into income over the remaining life of the hedged item. (For example, if a bond was hedged, a realized derivative gain would be offset by a credit to the bond's book/adjusted carrying value, reducing the bond BACV as a basis adjustment. This adjustment would be accreted into income over the remaining life of the bond to bring the bond BACV to par value.)

    b. If the hedged item is terminated, the derivative gain or loss shall be recognized consistently with how the gain or loss from the hedged item is recognized. If the gain or loss from the hedged item is taken to IMR, then the derivative gain or loss shall be taken to IMR. If the hedged item gain or loss is recognized as an immediate capital gain or loss, then the derivative gain or loss shall also be recognized as an immediate capital gain or loss.

Exhibit B – Corresponding Revisions to reflect the revised paragraph 24 guidance:

An open derivative hedging a forecasted transaction or firm commitment shall be recorded at cost until the hedged transaction occurs. When the hedged forecasted transaction or firm commitment occurs, an open derivative shall be accounted for in a manner consistent with the hedged item (i.e., amortized cost or fair value).

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~~Upon termination of a derivative that qualified for hedge accounting of an existing asset or liability or a forecasted transaction or firm commitment, the resulting gain or loss shall be recognized in income in a manner that is consistent with the hedged item. If the hedged item is recorded at amortized cost, the gain or loss shall adjust, individually or in the aggregate, the basis of the hedged item subject to amortization. Alternatively, if the item being hedged is subject to IMR, the gain or loss on the terminated hedging derivative may be realized and shall be subject to IMR upon termination. For terminated derivatives, indicate on Schedule DB, Section 2, Parts A and B, the nature of the assets or liabilities so adjusted and the schedule or exhibit where they are presented.~~

Upon termination of a derivative that qualified for hedge accounting, the following guidance shall be followed:

a. If the hedged item is not terminated, the derivative gain or loss shall adjust the basis of the hedged item, and amortized/accreted into income over the remaining life of the hedged item. (For example, if a bond was hedged, a realized derivative gain would be offset by a credit to the bond's book/adjusted carrying value, reducing the bond BACV as a basis adjustment. This adjustment would be accreted into income over the remaining life of the bond to bring the bond BACV to par value.)

b. If the hedged item is terminated, the derivative gain or loss shall be recognized consistently with how the gain or loss from the hedged item is recognized. If the gain or loss from the hedged item is taken to IMR, then the derivative gain or loss shall be taken to IMR. If the hedged item gain or loss is recognized as an immediate capital gain or loss, then the derivative gain or loss shall also be recognized as an immediate capital gain or loss.

For terminated derivatives, indicate on Schedule DB, Section 2, Parts A and B, the nature of the assets or liabilities so adjusted and the schedule or exhibit where they are presented.

Consistency revisions will also be incorporated into the specific hedge accounting guidance in Exhibit B, in 1d, 2d and 3c:

1d. Gain/Loss on Termination of an option, warrant, cap or floor accounted for under hedge accounting (includes closing, exercise, maturity, and expiry):

i. Exercise of an Option: The remaining book value of the derivative shall become an adjustment to the cost or proceeds of the hedged item(s) received or disposed of individually or in aggregate;

ii. Sale, maturity, expiry, or other closing transaction of a derivative which is an effective hedge—Any gain or loss on the transaction, except for excluded components, shall ~~will~~ adjust the basis ~~(or proceeds)~~ of the hedged item(s) ~~individually or in aggregate~~, be recognized in IMR, or be recognized as an immediate capital gain or loss in accordance with paragraph 24 and the treatment of the hedged item. ~~Alternatively, if the item being hedged is subject to IMR, the gain or loss on the terminated hedging derivative may be realized and shall be subject to IMR upon termination.~~ For hedging instruments with excluded components in determining hedge effectiveness, the unrealized gain/loss from the change in fair value of the excluded component shall be realized upon the closing transaction. This gain/loss from excluded components shall not be used to adjust the basis or proceeds of the hedged item.

2d. Gain/Loss on Termination of a swap, collar or forward accounted for under hedge accounting (includes closing, exercise, maturity, and expiry):

i. Exercise – The remaining book value of the derivative shall become an adjustment to the cost or proceeds of the hedged item(s) received or disposed of individually or in aggregate;

ii. Sale, maturity, expiry, or other closing transaction of a derivative which is an effective hedge – Any gain or loss on the transaction, except for excluded components, shall~~will~~ adjust the basis (~~or proceeds)~~ of the hedged item(s)~~ individually or in aggregate~~, be recognized in IMR, or be recognized as an immediate capital gain or loss in accordance with paragraph 24 and the treatment of the hedged item. If a portfolio layer method hedging relationship is discontinued (or partially discontinued) in a voluntary dedesignation or in anticipation of a breach, the basis adjustment associated with the dedesignated amount as of the discontinuation date shall be allocated to the remaining individual assets in the closed portfolio that supported the dedesignated hedged layer using a systematic and rational method. ~~Alternatively, if the item being hedged is subject to IMR, the gain or loss on the terminated hedging derivative may be realized and shall be subject to IMR upon termination;~~

3c. Gain/Loss on Termination of a futures contract accounted for under hedge accounting:

i. Settlement at maturity of a futures contract—The remaining variation margin of the futures contract shall become an adjustment to the cost or proceeds of the hedged item(s) received, disposed of or held, individually or in aggregate;

ii. Sale, or other closing transaction of a futures contract which is an effective hedge—Any gain or loss on the transaction shall~~will~~ adjust the basis ~~(or proceeds)~~ of the hedged item(s)~~ individually or in aggregate~~, be recognized in IMR, or be recognized as an immediate capital gain or loss in accordance with paragraph 24 and the treatment of the hedged item. ~~Alternatively, if the item being hedged is subject to IMR, the gain or loss on the terminated hedging derivative may be realized and shall be subject to IMR upon termination;~~

B. Paragraphs 57-63: Revisions to clarify RSAT guidance

Derivatives Used in Replication (Synthetic Asset) Transactions

57. Replication (Synthetic Asset) (RSAT) transaction means a derivative transaction entered into in conjunction with other investments in order to reproduce the investment characteristics of otherwise permissible investments. A derivative transaction entered into by an insurer as a hedging or income generation transaction shall not be considered a RSAT ~~replication (synthetic asset)~~ transaction.

58. Any premium paid or received shall be carried as an asset or liability on the balance sheet (Derivative line on the Assets (or) Liabilities pages). Premiums paid or received on the RSAT ~~replication (synthetic asset)~~ derivative ~~should~~ shall be amortized into investment income or expense until the exercise, termination or maturity date of the derivative.

59. If the RSAT~~replication (synthetic asset)~~ transaction would be carried at amortized cost and the cash instrument used is carried at amortized cost, then the derivative used ~~should~~ shall be carried

at amortized cost. The derivative may be valued at fair value when both the replication (synthetic asset) and the cash instrument are valued at amortized cost. This is consistent with the alternative valuation methods available for hedges. If the RSAT~~replication (synthetic asset)~~ transaction would be carried at fair value and/or the cash instrument used is carried at fair value, then the derivative used ~~should~~ shall be carried at fair value.

	(a)	(b)	(c)	(d)
	If the Replication (Synthetic Asset) is Valued at:	And Cash Instrument(s) Used is (are) Valued at:	The Derivative is Valued at:	Alternative Derivative Value Basis:
1.	Amortized Cost	Amortized Cost	Amortized Cost	Fair value
2.	Fair value	Fair value	Fair value	N/A
3.	Amortized Cost	Fair value	Fair value	N/A
4.	Fair value	Amortized Cost	Fair value	N/A

60. When the derivative component is held at fair value, the change in fair value shall be recognized as an unrealized gain or loss throughout the life of the transaction and included in the AVR.

~~60.~~61. In the case of ~~No.~~example 3 in the chart ~~above~~, the fair values for the cash instrument and derivative, when added together, shall not exceed the replication (synthetic asset) statement value. If this ~~does~~ occurs, the excess shall reduce the fair value of the derivative and shall be recorded as an unrealized loss ~~gain~~. ~~separate from the Asset Valuation Reserve (AVR)~~.

62. If the ~~replication (synthetic asset)~~RSAT transaction involves a periodic settlement with the exchange of interest related cash flows (default free assets), then the cash flows on the derivative component ~~should~~shall be accrued as investment income. If the ~~replication (synthetic asset) transaction~~RSAT involves a periodic settlement with the exchange of total return or change in index cash flows, then the cash flows ~~should~~ shall be segregated between interest income and settlement of other fair value ~~(equity)~~ changes. The interest income portion ~~should~~ shall be accrued as investment income and settlement of any other fair value changes shall be recognized as gains or losses in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

~~61.~~63. Any realized gains or loss recognized at maturity, termination or reset of the derivative component of the RSAT shall be allocated to IMR or AVR in accordance with SSAP No. 7[FN]. Realized gains and losses associated with the cash component of the RSAT shall be credited or charged to the IMR or AVR in accordance with the provisions stated within the statement for the specific asset used as the cash component.

~~If the derivative is carried at fair value, the periodic change in the fair value should be recorded as an unrealized gain or loss adjustment to surplus until the transaction is~~

~~terminated. If the replication (synthetic asset) transaction involves the exchange of total return or change in index cash flows, then the cash flows should be segregated between interest income and fair value (equity) changes. The fair value (equity) change should be recognized as a deferred asset/liability until the termination of the contract. Gains or losses on the derivative at termination or sale should be recognized as realized.~~

New FN: For qualifying RSAT derivatives (held at amortized cost), upon termination, the gain or loss shall be allocated to IMR or AVR based on interest and non-interest factors. For simplicity, this IMR and AVR allocation shall be based on the designation category change guidance, applied to the RSAT designation received by the SVO.

C. Guidance for Income Generation transactions

The current references to IMR are shaded below. No revisions proposed to this section.

50. The principal features of income generation transactions are:

    a. Premium received is initially recorded as a deferred liability.

    b. The accounting of the covering asset or underlying interest controls the accounting of the derivative. The covering asset/underlying interest is accounted at either fair value (e.g., common stocks) or (amortized) cost (e.g., bonds).

    c. The gain/loss on termination of the derivative is a capital item. For life insurance companies, it shall be subject to IMR treatment if interest rate related.

    d. For options that are exercised, the remaining premium shall adjust the proceeds (cost) associated with the exercise resulting in no explicit gain or loss reported for the derivative itself.

51. The principal features of written fixed income covered call options are:

    a. The general approach is to value at cost (i.e., consideration received) without amortization over the life of the contract if the original duration is less than one year, otherwise carry at amortized cost.

    b. An alternative to the general approach combines the accounting of the written option with the covering asset and then uses standard accounting for callable bonds (yield to worst amortization) on the adjusted asset. This method prevents the possibility of future loss recognition upon exercise while at the same time providing recognition of the income feature of the option over time. This approach would appear most relevant for longer-lived covered European call options, which are in substance like callable bonds.

    c. For life insurance companies, the gain or loss flows through the IMR if the covering asset or underlying interest is subject to the IMR using callable bond rules to determine the remaining life.

    d. Reporting entities are responsible for timely recognition of any probable losses that may occur as a result of the strategy. If the exercise price is below the covering asset's

book value, the asset shall be evaluated for write down or disclosure treatment in accordance with SSAP No. 5. All relevant factors such as whether the option is currently exercisable, the fair value of the bond relative to its exercise price, to what extent the statement value of the option premium offsets any loss on the asset, or how any IMR transaction on exercise would affect unassigned funds (surplus) and income shall be considered.

52. Written fixed income covered call options shall be accounted for as follows:

Only the IMR references included in the chart below. For expired only gains are referenced.

Closed – Expired: Gain from expiration to flow through IMR, if applicable. (1)

Closed – Exercised: Gain or loss from disposition to flow through IMR, if applicable (1)

Closed – Terminated: Gain or loss from disposition to flow through IMR, if applicable (1)

NOTE (1) If premium is attached to covering asset, the accounting treatment for the covering asset applies.

53. The principal features of written covered put options are:

a. The accounting for the underlying interest instead of the covering asset governs the accounting of the written put while it is open. For example, if a reporting entity wrote a put requiring it to purchase a certain common stock (underlying interest) at a specific price, the reporting entity might cover that option by holding cash or cash equivalents (covering asset). The accounting for the common stock would govern the accounting of the option in this case.

b. As with covered call writing for life insurance companies, gain/loss on termination may be subject to IMR over the remaining life of the underlying interest.

c. As with covered call writing, entities writing put options for income generation purposes are responsible for timely recognition of any probable losses that may occur as a result of the strategy.

54. Written covered put options shall be accounted for as follows:

Only the IMR references included in the chart are below. For expired only gains are referenced.

Closed – Expired: Gain from expiration to flow through IMR, if applicable.

Closed – Exercised: No reference to IMR

Closed – Terminated: Gain or loss from disposition to flow through IMR, if applicable

55. The principal features of written fixed income caps and floors are:

a. The value of the premium received shall be amortized into income over the life of the contract. For caps and floors, where the entity is selling off possible excess interest/income, the value of the covering asset is not relevant.

b. Gain/loss may be subject to IMR. The expected maturity would be the derivative

contract's maturity.

56. Written fixed income caps and floors shall be accounted for as follows:

Only the IMR references included in the chart are below. For expired only gains are referenced.

Closed – Matured: No reference to IMR

Closed – Exercised: Included in chart as not applicable. No reference to IMR.

Closed – Terminated: Gain or loss on termination to flow through IMR, if applicable

SSAP No. 105—Working Capital Finance Investments

A. Paragraph 23: Revise guidance to eliminate allocation to IMR. This elimination is supported as these items have underlying short-term investments, that would be amortized in less than a one-year timeframe if allocated to IMR. The revisions also eliminate reference to unrealized gains/losses, as the guidance in SSAP No. 105 does not utilize a fair value measurement method. No revisions are proposed to paragraph 28 as it already specifies that all OTTI is allocated to the AVR.

23. For all reporting entities, including those required to maintain an Interest Maintenance Reserve (IMR), the accounting for realized capital gains and losses from working capital finance investments shall not be taken to the IMR and shall be retained as immediate capital gains and losses. For these entities, all unrealized gains and losses shall be allocated to the AVR. ~~be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. For reporting entities not required to maintain an IMR, realized gains and losses from working capital finance investments shall be reported as net realized capital gains or losses in the statement of income. For reporting entities not required to maintain an AVR, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).~~

B. Paragraph 26 – Proposed to remove reference to SSAP No. 7. Under SSAP No. 105, the OTTI recognized would be due to a credit impairment. However, to avoid potential confusion with the pointer to SSAP No. 7, propose to just direct to AVR in the SSAP.

28. For reporting entities required to maintain an AVR/IMR, the entire amount of the realized loss from the other-than-temporary impairment shall be recorded through the AVR~~, in accordance with SSAP No. 7~~.

SSAP's with IMR References – No Revisions Proposed

Preamble:

37. Liabilities require recognition as they are incurred. Certain statutorily mandated liabilities may also be required to arrive at conservative estimates of liabilities and probable loss contingencies (e.g., interest maintenance reserves, asset valuation reserves, and others).

56. There are instances where the Codification of Statutory Accounting Principles (E) Working Group (Statutory Accounting Principles (E) Working Group as of January 1, 2000) has established an accounting principle in a SSAP but deferred maintenance and update of the detailed guidance to other NAIC task forces and their working groups. Those instances are specifically set forth in the individual SSAPs and include specific guidance for calculation of the Interest Maintenance Reserve (IMR), the Asset Valuation Reserve (AVR), the provision for overdue reinsurance, and periodic update to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*.

SSAP No. 2—Cash, Cash Equivalents, Drafts and Short-Term Investments

8. Money market mutual funds registered under the Investment Company Act of 1940 and regulated under rule 2a-7 of the Act shall be accounted for and reported as cash equivalents for statutory accounting. Investments in money market mutual funds shall be valued at fair value or net asset value (NAV) as a practical expedient. For reporting entities required to maintain an asset valuation reserve (AVR), the accounting for unrealized capital gains and losses shall be in accordance with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve. For reporting entities not required to maintain an AVR, unrealized capital gains and losses shall be recorded as a direct credit or charge to surplus. Sales/reinvestments in money market mutual funds are excluded from the wash sale disclosure in SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.

SSAP No. 5—Liabilities, Contingencies and Impairments of Assets

41. ….This statement also adopts Accounting Principles Board Opinion No. 12, Omnibus Opinion—1967, paragraphs 2 and 3 with the modification that AVR, IMR and Schedule F Penalty shall be shown gross. Appropriation of retained earnings discussed in paragraph 15 of FAS 5 is addressed in SSAP No. 72—Surplus and Quasi-Reorganizations. *(Only last two sentences shown.)*

(Note – This reference to "gross" is referring to the IMR not being combined with the associated asset but shown separately on a dedicated line. This reference is not addressing IMR being shown net of positive and negative impacts.)

SSAP No. 21—Other Admitted Assets

25. Debt securities that do not qualify as bonds in the scope of this statement shall follow the guidance in SSAP No. 43 for calculating amortized cost, for determining and recognizing other-than temporary impairments and for allocating unrealized and realized gains and losses between the asset valuation reserve (AVR) and interest maintenance reserve (IMR).

SSAP No. 30—Unaffiliated Common Stock

10. For reporting entities required to maintain an Asset Valuation Reserve (AVR), the accounting for unrealized capital gains and losses shall be in accordance with SSAP No. 7—Asset Valuation

Reserve and Interest Maintenance Reserve. For reporting entities not required to maintain an AVR, unrealized capital gains and losses shall be recorded as a direct credit or charge to surplus.

SSAP No. 56—Separate Accounts

Note - Guidance Revised in 2026.

20. Asset sales for cash between the general account and "fair value" separate accounts:

    a. The account (either general or separate account) selling the asset shall receive cash equal to fair value and dispose of the asset from the investment schedules at fair value.

    b. Assets sold from the general account shall result in a realized gain or loss based on the difference between fair value and book adjusted carrying value (BACV). The realized gain or loss, if resulting from interest rate changes, shall be allocated to the general account IMR and amortized as if the asset had been sold to an unrelated third party. Realized gains from these transactions shall not be deferred pursuant to *SSAP No. 25—Affiliates and Other Related Parties*, paragraph 17. Realized losses from credit-related factors shall be allocated to the AVR.

21. Asset sales for cash between the general account and "book value" separate accounts:

    a. Seller – The account (either general or separate account) selling the asset shall receive cash equal to fair value and dispose of the asset from the investment schedules at fair value with recognition of a realized gain or loss. The realized gain or loss, if resulting from interest rate changes, shall be allocated to IMR and amortized in the selling account as if the asset had been sold to an unrelated third party. The transfer of an asset under this guidance that results in a gain shall not be deferred by the selling account pursuant to SSAP No. 25, paragraph 17, as such a deferral would create a mismatch in the IMR recognition between the general/separate accounts. Realized losses from credit-related factors shall be allocated to the AVR.

    b. Purchaser – The account (either general or separate account) purchasing the asset shall recognize the acquired asset at the BACV from the selling account. The difference between the asset's fair value and the BACV shall be reported to IMR in the purchasing account.

    c. The IMR activity between the selling account and the purchasing account shall be equal and offsetting resulting in a net zero impact in the IMR between the two accounts. IMR is tracked and reported separately in the general account and the separate account, but the net impact of the two accounts shall equal zero for each transfer transaction.

    d. Subsequent to initial acquisition, the purchasing account shall account for the acquired asset pursuant to the measurement method of the applicable SSAP.

22. Asset transfers that do not reflect sales for cash between the general account and separate account are subject to domiciliary state approval and shall be recorded at fair value with gains and losses offset to IMR similar to asset sales for cash guidelines as detailed in paragraphs 20 and 21. Any transfer that does not represent an asset sale for cash shall be specifically disclosed in both the general account and separate account as detailed in paragraph 34.e. This shall include, but not be limited to, the following transfers:

    a. Asset-to-asset swaps

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b. Contributions of general account assets to support separate account deficiencies

c. Dividends of assets from the separate account to the general account

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). 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 and the annual statement instructions.

49. Revisions adopted in February 2025 in agenda item 2024-10, that clarify the measurement of separate account assets, particularly for "book value separate accounts" and that prescribe the treatment for transfers between the general account and separate account with IMR and AVR recognition, are effective January 1, 2026, with early adoption permitted. The January 1, 2026, effective date intends to allow reporting entities to modify their separate account product "plans/memorandums of operation" with the state of domicile as necessary to comply with this revised statement. After January 1, 2026, reporting entities are required to have an approved permitted or prescribed practice to utilize a book value measurement method or a different approach for transfers and recognition of IMR/AVR outside of what is detailed within this statement.

SSAP No. 101—Income Taxes:

7. A reporting entity's deferred tax assets and liabilities are computed as follows:

   a. Temporary differences are identified and measured using a "balance sheet" approach whereby statutory and tax basis balance sheets are compared;

   b. Temporary differences include unrealized gains and losses and nonadmitted assets but do not include asset valuation reserve (AVR), interest maintenance reserve (IMR), Schedule F penalties and, in the case of a mortgage guaranty insurer, amounts attributable to its statutory contingency reserve to the extent that "tax and loss" bonds have been purchased;

1.4 Unique Statutory Accounting Items

- SSAP No. 101 – In addition to the exceptions provided in FAS 109, temporary differences do not include asset valuation reserve (AVR), interest maintenance reserve (IMR), Schedule F penalties and, in the case of a mortgage guaranty insurer, amounts attributable to its statutory contingency reserve to the extent that "tax and loss" bonds have been purchased.

2.1 A – An enterprise shall record a gross deferred tax liability or asset for all temporary differences and operating loss, capital loss and tax credit carryforwards. Temporary differences include unrealized gains and losses and nonadmitted assets but do not include AVR, IMR, Schedule F penalties and, in the case of a mortgage guaranty insurer, amounts attributable to its statutory contingency reserve to the extent that "tax and loss" bonds have been purchased. In general, temporary differences produce taxable income or result in tax deductions when the related asset is recovered or the related liability is settled. A deferred tax asset or liability represents the increase or decrease in taxes payable or refundable in future years as a result of temporary differences and carryforwards at the end of the current year. Additionally, gross DTAs are reduced by a statutory valuation allowance adjustment if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50%) that some portion or all of the gross DTAs will not be realized. The statutory valuation allowance adjustment, determined in a manner consistent with paragraphs 20-25 of FAS 109, shall reduce gross DTAs to the amount that is more likely than not to be realized (the adjusted gross deferred tax assets).9 This answer only addresses the recognition of adjusted gross DTAs and gross DTLs and does not address the admissibility of such amounts. See Question 4 for a discussion of the admissibility criteria of SSAP No. 101.

SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

11. Upon completion of a transfer of an entire financial asset or a group of entire financial assets that satisfies the conditions to be accounted for as a sale (see paragraph 8), the transferor (seller) shall:

    a. Derecognize the transferred financial assets;

    b. Recognize and initially measure at fair value servicing assets, servicing liabilities, and any other assets obtained (including a transferor's beneficial interest in the transferred financial assets) and liabilities incurred1 in the sale (paragraphs 60 and 62-66).

    c. For reporting entities required to maintain an Interest Maintenance Reserve (IMR), the accounting for realized and unrealized capital gains and losses shall be determined per the guidance in the SSAP for the specific type of investment, or if not specifically stated in the related SSAP, in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. For reporting entities not required to maintain an IMR, realized capital gains and losses shall be reported as net realized capital gains or losses in the statement of income, and unrealized capital gains and losses shall be reported as net unrealized gains and losses in unassigned funds (surplus).

131. The accounting guidance in this statement adopts with modification *FAS 166, Accounting for the Transfers of Financial Assets, an Amendment to FAS 140* (FAS 166), *FAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (FAS 140), as amended by FAS 166, and FAS 156, *Accounting for Servicing of Financial Assets, an amendment*

of FASB Statement No. 140, as amended by FAS 166. Statutory modifications from these adoptions include:

iv. Guidance on the accounting of sale transactions for entities required to maintain an interest maintenance reserve (IMR). This guidance requires such entities to account for realized and unrealized capital gains and losses per the guidance in the SSAP for the specific type of investment, or if not specifically stated in the related SSAP, in accordance with SSAP No. 7 (paragraph 11.c.).

Appendix C – AG XLVIII – 2019 Valuations (Page - AG43a-15)

A1.1) Projection of Accumulated Deficiencies

G) AVR/IMR. The AVR and the IMR shall be handled consistently with the treatment in the company's cash flow testing.

Appendix C-2 – Actuarial INT 39 (Page C-84)

6. For purposes of this comparison for 12/31/16 and later, the actual portfolio net investment return is adjusted by the current amortization of IMR allocated to the portfolio. This adjustment is made only for the comparison of portfolio yields to determine the appropriate portfolio to use in the development of the deterministic reserve. The reserve amount is then determined following the procedure defined in VM-20.

Appendix G – Implementation Guide – Attachment A (page G-29)

Asset Valuation Reserve ("AVR")
The AVR represents a statutory contingency reserve for life and health insurers for credit related risk on most invested assets, and is charged to surplus pursuant to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve.* No such reserve is required under GAAP/IFRS accounting.

Interest Maintenance Reserve ("IMR")
The IMR represents the deferral of interest-related realized gains and losses, net of tax, on primarily fixed maturity investments, amortized into income over the remaining life of the investment sold pursuant to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. No such reserve is required under GAAP/IFRS accounting.

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Statement of Statutory Accounting Principles No. 109

Asset Liability Management (ALM) Derivatives

STATUS

Type of Issue	Common Area
Issued	2026 Fall National Exposure Draft
Effective Date	January 1, 2028
Affects	No other pronouncements
Affected by	No other pronouncements
Interpreted by	No other pronouncements
Relevant Appendix A Guidance	None

STATUS **1**

SCOPE OF STATEMENT **1**

SUMMARY CONCLUSION **1**
Terms/Concepts (for purposes of this statement) 2
Special Accounting Provision 3
Assessing Hedge Effectiveness 5
Measurement/Recognition of Gains and Losses of Derivative Instruments 6
Derivative Income 8
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SCOPE OF STATEMENT

1. This statement allows special accounting treatment for limited derivatives hedging asset/liability duration differences subject to fluctuations as a result of interest rate sensitivity (referred to as asset liability management (ALM) derivatives). The provisions within this statement are separate and distinct from the guidance in *SSAP No. 86—Derivatives* and *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees*, as the items subject to the scope of this guidance, and the provisions within, would not qualify for hedge effectiveness under SSAP No. 86 or SSAP No. 108. The provisions provided within this statement are only permitted if all components of the statement are met and shall not be inferred as an acceptable statutory accounting approach for derivative transactions that do not meet the stated qualifications or that are not specifically addressed within this guidance.

SUMMARY CONCLUSION

2. This statement establishes statutory accounting principles to address derivative transactions hedging asset/liability duration differences subject to fluctuations as a result of interest rate sensitivity.

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3. The statutory accounting guidance within this statement is considered a special accounting provision, which permits a highly effective derivative distinction different from U.S. GAAP, and allows realized fair value gains and losses from these highly effective hedging transactions to be reported as deferred liabilities and assets and amortized into net realized gains or losses over time. Consistent with U.S. GAAP, realized losses do not represent assets under *SSAP No. 4—Assets and Nonadmitted Assets*, as they do not reflect a present right to an economic benefit. Also consistent with U.S. GAAP, realized gains do not represent liabilities under *SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets*, as they do not reflect a present obligation to transfer or provide an economic benefit to others. Reporting realized gains as deferred liabilities and realized losses as deferred assets is a statutory concept that reflects an exception to the asset and liability definitions under SSAP No. 4 and SSAP No. 5. This treatment is consistent with SSAP No. 86, which allows a basis adjustment to the hedged item when effectiveness criteria is met in order to reflect the impact of the hedge. The treatment is surplus neutral when initially recorded, followed by amortization coinciding with the hedged item.

4. Reporting entities that meet the requirements of this statement are permitted to report the recognized net deferred assets, representing realized fair value losses, as admitted assets. The net deferred liabilities, representing realized fair value gains, shall be recognized as liabilities.

Terms/Concepts (for purposes of this statement)

5. The following terms reflect concepts specific to this statement. This listing only details the key concepts. Specific guidelines are reflected throughout the guidance.

a. Derivative Instrument: An agreement, instrument or series or combination thereof: (1) To make or take delivery of, or assume or relinquish, a specified amount of one or more underlying interests, or to make a cash settlement in lieu thereof; or (2) That has a price, performance, value, or cash flow based primarily upon the actual or expected price, level, performance, value, or cash flow of one or more underlying interests. Derivatives with asymmetrical payoff profiles and/or derivative premiums at inception (e.g., options) are not eligible for the accounting provisions in this standard (i.e., swaps, forwards, and futures are typically eligible for the accounting treatment in this standard if they do not contain these features).

b. Dynamic Hedging Approach: A dynamic hedging strategy allows for the portfolio of derivatives comprising the hedging instrument to be rebalanced in accordance with changes to the hedged item to adhere to the specified, documented hedging strategy.

c. Hedged Item: The hedged item is the duration difference between the designated asset portfolio and designated product liability portfolio that are both exposed to interest rate risk (with the ultimate hedged item being the interest rate sensitivity of the liability portfolio that the assets support). The hedged item may relate to the duration of an open or flexible portfolio (e.g., group of contracts with different characteristics and liability durations) that allows for addition of newly issued contracts, subtraction of surrenders and fluctuations in balances. The portfolio of product liabilities may consist of an entire

book of business or declared components thereof[1].

d. Hedging Instrument: The hedging instrument shall reflect a specified derivative, or a portfolio of specified derivatives, that hedges the duration difference of the designated asset and liability portfolios. The hedging instrument may reflect a dynamic hedging strategy in which a portfolio of derivatives comprising the hedging instrument is rebalanced in accordance with changes to the hedged item.

Special Accounting Provision

6. The special accounting provision within this statement permits reporting entities to utilize a form of "macro-hedging" in which a portfolio of derivatives hedges the duration difference between an asset portfolio and a portfolio of product liabilities (i.e., an ALM Hedge2), which could include the entire book of business or subsections thereof, pursuant to a Clearly Defined Hedging Strategy (throughout this issue paper also referred to as "CDHS" or "hedging strategy"). This is considered a macro-hedge, as the designated hedged item is attached to a portfolio of product liability contracts with different characteristics and liability durations. Under this special accounting provision, the portfolio of contracts giving rise to the hedged item is not required to be static but can be revised to remove assets/derivatives/policies and/or include new assets/derivatives/policies to allow for continuous risk management (hedging) of the product liabilities in accordance with the specific risks being hedged and the hedge objectives of the specified, documented hedging strategy. In designating the hedged item, reporting entities are permitted to exclude specific components of the asset, derivative, and/or liability portfolios, but such exclusions must be documented at hedge inception.

7. This special accounting provision permits reporting entities to utilize a specified derivative, or a portfolio of specified derivatives, as the hedging instrument within an ALM Hedge to hedge the interest rate sensitivity, or a specific percentage[3] of the interest rate sensitivity, of the designated hedged item. Hedged items include various interest rate sensitive products where duration can be reliably measured using one of the metrics in paragraph 11. The hedging instrument may reflect a dynamic hedging strategy in which a portfolio of derivatives comprising the hedging instrument is rebalanced in accordance with changes to the hedged item to adhere to the specified, documented hedging strategy.

8. With the provisions in this standard to allow for flexibility in the hedged item coupled with a dynamic hedging approach (rebalancing of derivative hedging instruments), there is a greater risk of misrepresentation of successful risk management and achievement of a highly effective hedging relationship. Although this risk cannot be eliminated, the following provisions intend to ensure governance of the program and provide sufficient tools to allow for regulator review:

a. Prior to implementing a hedging program for application within scope of this standard, the reporting entity must obtain explicit approval from the domiciliary state commissioner

[1] Product liability contracts (e.g., PRT's) that have been signed/executed are eligible as the hedged item if highly probable of closing in the near term, include disincentives for non-performance and have historically closed at a near 100% success rate. For example, on January 1, the company signs a PRT contract that it will assume a client's portfolio assets and pension liabilities on March 31. The agreed upon portfolio assets have a different duration than the liabilities, so the company proceeds with hedging the difference on January 1. If the transaction meets the aforementioned probable criteria, the hedge can qualify for the treatment in this statement if it meets the other criteria in this statement, although the portfolio will not be assumed until March 31.

[2] As detailed in paragraph 10, these hedges are required to be highly effective in achieving the elimination of the duration mismatch between the designated asset and liability portfolios during documented hedge period.

[3] In identifying the hedged risk, reporting entities must identify whether they are hedging the full, or a portion of (e.g., 40%), the interest rate sensitivity.

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allowing use of this special accounting provision. The domiciliary state commissioner may subsequently disallow use of this special accounting provision at their discretion. Although this guidance does not restrict the state domiciliary commissioner on when to prohibit future use, disallowance should be considered upon finding that the reporting entity's documentation, controls, measurement, prior execution of strategy or historical results are not adequate to support future use.

b. Certification by a financial officer of the company (CFO, treasurer, CIO, or designated person with authority over the actual trading of assets and derivatives) that the hedging strategy meets the definition of a Clearly Defined Hedging Strategy and that the Clearly Defined Hedging Strategy is the hedging strategy being used by the company in its actual day-to-day risk mitigation efforts. This provision does not require reporting entities to use the special accounting provision within this standard.

9. Eligibility for the special accounting provision within this standard is strictly limited to highly effective ALM derivatives that follow a Clearly Defined Hedging Strategy, meeting all the required provisions of this statement allowing the reporting entity to reduce the duration differences between the designated asset and liability portfolios. In order to qualify as a Clearly Defined Hedging Strategy (which may be dynamic, static, or a combination thereof), the strategy shall at a minimum, identify:

a. The specific risks being hedged (including a measure of hedge coverage, e.g., percentage of interest rate sensitivity being hedged),

b. The hedging objectives,

c. The material risks that are not hedged,

d. The financial instruments used to hedge the risks,

e. The hedging strategy's trading rules, including permitted tolerances from hedging objectives,

f. The metrics, criteria, and frequency for measuring effectiveness,

g. The conditions under which hedging will not take place, and for how long the lack of hedging can persist,

h. The group or area, including whether internal or external, responsible for implementing the hedging strategy,

i. Areas where basis, gap, or assumption risk related to the hedging strategy have been identified, and

j. The circumstances under which hedging strategy will not be effective in hedging the risks.

10. While an initially documented hedging strategy may subsequently change, any change in hedging strategy, which includes changes in the hedged item pursuant to paragraph 5.c., shall be documented, with notification to the domiciliary state commissioner and include an effective date of the change in strategy. Reporting entities that elect to change a documented hedging strategy prior to the end of the three-month minimum timeframe shall identify the hedging strategy, and all hedging instruments executed under the strategy, as ineffective. The three-month timeframe begins with the stated effective date of the hedging strategy. Changes in a documented hedging strategy that occur after a three-month

timeframe do not necessitate an ineffective determination as long as hedged items and hedging instruments under the revised/new strategy continue to meet the requirements of a highly effective ALM hedge. Reporting entities are permitted to have more than one hedging strategy implemented, but all implemented strategies must qualify as a component of a Clearly Defined Hedging Strategy pursuant to paragraph 7.

Assessing Hedge Effectiveness

11. The provisions within this standard require the entity to use a specific method, as detailed in paragraph 13, to assess hedge effectiveness at least quarterly (e.g., at the beginning and end of each quarter) with ongoing assessment consistent with the originally documented risk management strategy.

12. Both at inception, and on an ongoing basis, the hedging relationship must be highly effective in reducing duration differences between designated asset and liability portfolios during the period that the hedge is designated. Reporting entities electing to use this special accounting provision must calculate the duration of the hedged item (liability portfolio) and compare it to the duration of the designated supporting asset portfolio with and without the designated hedging derivatives at inception and on an ongoing basis (i.e., at the beginning and end of each quarter, since asset/derivative/liability amounts may change during the normal course of business with the dynamic hedge strategy needing to remain highly effective). Only if the designated hedging derivatives are highly effective at reducing the duration difference between the asset and liability portfolios at the beginning and end of each quarter, can this special accounting provision be utilized. This comparison is specific to the designated hedged risks and exposures; therefore, if only a portion of the duration/interest rate risk is hedged or if the designated hedge only includes specific components of the hedged liabilities, for determining hedge effectiveness, the effectiveness comparisons are limited to those designated items. If an entity's defined risk management strategy for a particular hedging relationship excludes specific components of the hedging derivative from the assessment of hedge effectiveness, the excluded open components shall be reported at fair value with gains or losses recognized as unrealized gains or losses.

13. The term "highly effective" describes a reduction of the duration difference between the asset and liability portfolios that is accomplished by the hedging derivatives with between an 80%-125% effective rate. One of the following methods shall be designated as the approach for each hedging program to determine whether the program is highly effective:

a. "Modified Duration" is the effect that a 100-basis-point (1%) change in interest rates will have on the price of an instrument (e.g., if an instrument has a modified duration of 5, a 1% change in interest rates would be expected to cause a 5% change in the instrument's price in the opposite direction); so if an asset portfolio has a modified duration of 9 and a liability portfolio has a modified duration of 10, a highly effective derivative portfolio hedging this difference would place the modified duration of the assets with derivatives at between 9.8 and 10.25 (80%-125% of the modified duration difference). Alternatively, if asset portfolio duration is 9 and a liability duration is 11, an entity can elect to hedge only half the difference (between 9 and 11, i.e., 10). In which case, a duration of the assets with derivatives of between 9.8 and 10.25 would be highly effective.

b. "Macaulay Duration" is the weighted average time until cash flows are received and is measured in years; so if an asset portfolio has a Macaulay duration of 9 years and a liability portfolio has a Macauley Duration of 10 years, a highly effective derivative portfolio hedging this difference would place the Macauley Duration of the assets with derivatives at between 9.8 years and 10.25 years (80%-125% of the Macauley duration difference).

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c. "Dollar Value One (DV01)" measures the dollar change in an instrument's price for a one basis point (0.01%) change in rates; so if an asset portfolio has a DV01 of $9M and a liability portfolio has a DV01 of $10M, a highly effective derivative portfolio hedging this difference would place the DV01 of the assets with derivatives at between $9.8M and $10.25M (80%-125% of the DV01 difference).

d. "Effective Duration" measures the effect that a 100-basis-point (1%) change in interest rates will have on the price of an instrument, where expected cashflows change as interest rates change when applicable (e.g., if an instrument has an effective duration of 5, a 1% change in interest rates would be expected to cause an approximately 5% change in the instrument's price in the opposite direction); so if an asset portfolio has an effective duration of 9 and a liability portfolio has an effective duration of 10, a highly effective derivative portfolio hedging this difference would place the effective duration of the assets with derivatives at between 9.8 and 10.25 (80%-125% of the effective duration difference). Alternatively, if asset portfolio duration is 9 and liability portfolio duration is 11, an entity can elect to hedge only half the difference (between 9 and 11, i.e., 10), in which case a duration of the assets with derivatives of between 9.8 and 10.25 would be highly effective.

Measurement/Recognition of Gains and Losses of Derivative Instruments

14. All designated highly effective hedging instruments shall be reported in the financial statements at amortized cost. This includes the derivatives, including those reflected in portfolios, deemed to be highly effective in accordance with paragraph 11. If the reporting entity has excluded specific derivative components from the assessment of hedge effectiveness pursuant to paragraph 4, the excluded derivative components shall be measured and reported at fair value, with changes in fair value recognized as unrealized gains or losses.

15. Amortized cost treatment shall discontinue in the following scenarios with recognition as follows:

a. Maturities/Terminations: Derivatives that mature or are terminated while part of a highly effective program with a fair value other than zero shall be recognized as a deferred asset (loss) or a deferred liability (gain). The derivative maturity/termination fair value will initially be surplus neutral with the deferred asset/liability offset by cash received/paid at maturity/termination.

b. De-Designation - Rebalancing: For derivatives de-designated from a current highly effective hedging relationship, the derivative fair value at the time of removal shall be recognized as an asset or liability offset by a deferred asset or deferred liability, resulting with a surplus neutral impact. All subsequent (post de-designation) derivative fair value changes shall be recognized as unrealized gains/losses without deferral unless the derivative is immediately allocated (re-designated) to another highly effective derivative program in scope of this standard. Derivatives that are not immediately allocated are precluded from being subsequently used as a highly effective hedging instrument and shall follow a fair value accounting measurement method until the derivative matures or

is terminated[4]..

c. De-Designation - Ineffectiveness: For derivatives de-designated from, or captured within, a program that no longer qualifies as highly effective, the derivative shall discontinue the amortized cost treatment and be recognized at fair value, with the change in fair value recognized as an unrealized gain or loss. The derivative shall be captured in scope of SSAP No. 86, with all subsequent derivative fair value changes recognized as unrealized gains and losses. For these derivatives, no deferral of assets or liabilities is permitted.

16. The ability to recognize a deferred asset or liability under paragraph 13 is limited to only the portion of the hedging instruments attributed to the hedged risk. An amount equal to the net deferred asset and deferred liability recognized pursuant to paragraph 13 (net amount from all hedging strategies/programs captured within this guidance) shall be allocated from unassigned funds to special surplus.

17. The derivatives captured within this guidance essentially reflect quarterly hedges inside a clearly pre-defined program (with effectiveness tests at the beginning and end of each quarter). Programs that fail effectiveness at any time are not permitted to apply the provisions of this statement. If the program is revised to enable effectiveness, the revised program shall be considered a new program and shall be separately documented. The new program is required to be separate and distinct from the prior ALM derivative program and is only permitted if the required approvals are obtained. Application of this statement, with deferral of qualifying derivative gains and losses, is only permitted from the effective date of the revised program.

18. Deferred assets and deferred liabilities recognized under paragraph 13 shall be amortized using a straight-line method into net realized capital gains and losses over a finite amortization period. The amortization timeframe shall equal the weighted average life of the hedged liability portfolio but shall not exceed a period of 10 years. Amortization shall begin in the following quarter after initial recognition of a deferred asset or deferred liability under the qualifying program. Recognized deferred assets and liabilities are required to be eliminated and recognized as immediate capital gains and losses upon derecognition of the hedged liability portfolio due to a reinsurance agreement.

a. Reporting entities are required to separately track, with a schedule to show the initial deferred amount and amortization schedule, the deferred assets and deferred liabilities recognized and outstanding at each reporting date.

b. The amount reported on the financial statement at each reporting date shall reflect the net amount (net as either a deferred asset or deferred liability) for each hedging strategy captured within scope of this guidance. Reporting entities that have more than one hedging strategy could have both deferred assets and deferred liabilities in the financial statements based on the net position of the separate hedging strategies.

c. Reporting entities shall capture derivative deferred gains and losses in the principles-based reserving (PBR) calculation or asset adequacy testing (AAT)/ cash flow testing (CFT) pursuant to all relevant *Valuation Manual* calculations. Reporting entities shall prepare a

[4] For purposes of applying this provision, derivatives reallocated (re-designated) to a highly effective qualifying derivative program in the quarter following de-designation are permitted as immediate allocations. Due to operational complexities with applying different measurement methods to open derivatives (as fair value is required upon de-designation), once a derivative has been removed from a highly effective derivative program beyond this quarter timeframe, the derivative cannot be reallocated to a highly effective derivative program utilizing an amortized cost measurement method.

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reconciliation of admitted deferred derivative losses to the reported deferred amounts reflected for PBR and CFT to ensure reserves are appropriately stated.

19. For outstanding (non-expired) derivative instruments that were removed from a highly effective hedging strategy (de-designated - rebalancing), subsequent gains and losses from fair value fluctuations shall not impact previously recognized deferred assets or deferred liabilities. The deferred assets and deferred liabilities shall be "locked" and amortized under the remaining schedule. Subsequent to the removal from a highly effective strategy, fair value fluctuations from the outstanding derivative instruments are subject to the guidance in SSAP No. 86 and shall be recognized as unrealized gains or unrealized losses. Only if the derivative is immediately re-designated as part of a highly effective hedging strategy qualifying under this standard pursuant to paragraph 13.b., can the derivative retain an amortized cost measurement method, with the resulting fair value change at de-designation or termination/maturity reported as a deferred asset or deferred liability under this statement.

Derivative Income

20. Derivative income from hedging instruments in scope of this statement shall follow the recognition provision of SSAP No. 86.

21. Pursuant to the documented hedging strategy as an ALM Hedge, derivative income shall be considered as part of the overall hedging strategy and included in the assessments on whether the strategy is highly effective.

Disclosures

22. A reporting entity that has derivatives accounted for under this special accounting provision, or that has unamortized deferred assets or deferred liabilities pursuant to this guidance shall disclose the following within the financial statements:

a. For each hedge program under this statement, discussion of the hedged item, including information on the liabilities' duration sensitivity to interest rate risk, along with similar information on the assets supporting these liabilities and the designated hedging instruments being used to hedge the duration risk. Discussion of the hedging instruments shall identify whether a hedging instrument is a single instrument or portfolio, as well as information on the hedging strategy including whether there have been changes in strategy from the prior reporting period, along with detailed information on the changes), and assessment of hedging effectiveness (e.g., beginning and end of quarter asset duration without derivatives, asset duration with derivatives, liability duration, percentage of difference hedged, etc.) and compliance with the "Clearly Defined Hedging Strategy". Identification shall occur on whether the hedged item is intended to be fully hedged under the hedging strategy, or if the strategy is only focused on a portion of the asset/liability duration difference. Hedging strategies shall be identified as highly effective or not highly effective. If the strategy for a particular hedging relationship excludes a specific component of the gain or loss, or related cash flows, from the assessment of hedge effectiveness, details on the excluded components shall be disclosed.

b. Aggregate disclosure of the original cost and fair value of hedging instruments (including all instruments within a portfolio), including fair value changes during the reporting period.

c. Disclosure that details a roll-forward of deferred assets and deferred liabilities, showing the beginning balance, additions, current period amortization, and ending balance, with

a percentage comparison to total capital and surplus. This disclosure shall also identify the expected amortization for the next 10 years. This disclosure shall identify the fair value of the excluded components of the hedging instruments, and the fair value change for those components reflected in unrealized gain and unrealized loss.

d. For hedging strategies no longer identified as highly effective previously captured within scope of this standard, information on the determination of ineffectiveness, including variations from prior assessments resulting in the change from classification as a highly effective hedge. This disclosure shall also identify outstanding hedging instruments previously captured within scope of this standard and subsequently identified as no longer part of a highly effective hedging strategy. (Open derivative transactions no longer captured within the special accounting provision would be subject to the accounting and reporting guidance within SSAP No. 86.) This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy had been identified by the reporting entity as no longer highly effective.

e. For situations in which the reporting entity has elected to terminate the hedging strategy and/or discontinue the special accounting provisions permitted within this SSAP, the reporting entity shall disclose the key elements in the reporting's entity' decision to terminate, identifying changes in the reporting entity's objectives or perspectives from initial application. This disclosure shall also identify outstanding hedging instruments previously captured within scope of this standard and the accounting impact as a result of the termination/discontinuation. (Open derivative transactions no longer captured within the special accounting provision would be subject to the accounting and reporting guidance within SSAP No. 86.) This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy or the election to use the special accounting provision in this SSAP had been terminated

Effective Date and Transition

23. This statement is effective January 1, 2028. The guidance in this statement is permitted to be applied on a prospective basis for approved qualifying hedge programs in place on or after the effective date. The guidance in paragraph 25 permits a one-time transition provision for approved qualifying programs that have existing open derivatives with recognized unrealized gains and losses. After initial transition, reporting entities are not permitted to retroactively allocate recognized unrealized gains or losses to deferred assets or liabilities. The transition provisions do not permit reporting entities to reverse previously recognized realized gains and losses for recognition as deferred assets or deferred liabilities regardless of if the hedging program would have qualified in scope of the statement.

24. On the effective date, reporting entities with open derivatives in an existing approved program that qualifies as a highly effective hedge in scope of this statement are permitted to make a one-time adjustment to reclassify recognized unrealized gains and losses from derivative fair value changes to realized gains and losses in the statement of operations This is permitted even though the derivative is still open. The reported derivative asset/liability book/adjusted carrying value at the date of transition shall be amortized to income over the remaining life of the derivative instrument over a period not to exceed 10 years. Subsequent to transition, the derivative shall follow the provisions of this statement. As such, future fair value fluctuations in the derivative shall not be recognized as unrealized gains or losses unless the derivative no longer qualifies in scope of this statement. At derivative maturity or qualifying de-designation (rebalancing), the change in fair value from initial application and the maturity/de-designation date shall be recognized as a deferred asset or liability pursuant to paragraphs 15.a and 15.b.

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25. On the effective date, reporting entities with existing programs that do not qualify, or for which the reporting entity elects not to apply this guidance, shall continue to report the open derivatives in scope of SSAP No. 86, with recognition of derivative fair value changes as unrealized gains or losses. Reporting entities that make a subsequent decision to apply the concepts of this statement to the derivative program are not permitted to reclassify previously recognized unrealized gains and losses to deferred assets and liabilities. Those unrealized gains and losses shall be retained with recognition as realized gains or losses upon termination of the derivative. For these situations, reporting entities shall freeze future recognition of unrealized gains or losses from fair value fluctuations, with the then current fair value of the derivative designated as the amortized cost for subsequent treatment under this statement.

26. Realized derivative gains and losses previously allocated to the interest maintenance reserve (IMR) for programs that would qualify as effective hedges under this statement shall be retained in IMR and amortized over a remaining period not to exceed 10 years. Upon the effective date of the revised *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*, gains and losses for derivative strategies within this statement are not permitted to be allocated to the IMR.

REFERENCES

Relevant Issue Papers

- *Issue Paper No. 1XX—Asset Liability Management (ALM) Derivatives*

https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2026/11-15-26 fall national meeting/hearing/07 - 24-15 - ssap 109_2027(draft).docx

Statutory Issue Paper No. 1XX

Asset Liability Management (ALM) Derivatives

STATUS
2026 Fall National Meeting Exposure Draft

New SSAP: SSAP No. 109

Current Authoritative Guidance: None

Type of Issue:
Common Area

SUMMARY OF ISSUE

1. The guidance within this issue paper details new statutory accounting concept revisions to incorporate special accounting treatment for limited derivatives hedging asset/liability duration differences subject to fluctuations as a result of interest rate sensitivity. These derivative structures are referred to as asset liability management (ALM) derivatives.

2. The provisions within this issue paper are proposed to be separate and distinct from the guidance in *SSAP No. 86—Derivatives* and *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees*. The derivatives subject to the scope of this guidance, and the provisions within, would not qualify for hedge effectiveness under the existing standards. The provisions within this issue paper are only permitted if all the components of the issue paper are met and shall not be inferred as an acceptable statutory accounting approach for derivative transactions that do not meet the stated qualifications or that are not specifically addressed within this guidance.

3. The guidance within this issue paper is anticipated to be included as a new SSAP applicable to the limited derivative hedging transactions addressed within.

DISCUSSION

4. The discussion of ALM derivatives originally began in 2023 in accordance with the development of *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve*. That interpretation provided limited-time exception guidance to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* and the annual statement instructions that required nonadmittance of net negative (disallowed) interest maintenance reserve (IMR) as a short-term solution. With the development of the interpretation, it was identified that some reporting entities had been allocating gains and losses from non-accounting-effective derivative transactions to IMR. For these companies, the derivative had been reported at fair value when open, with unrealized gains and losses from fair value fluctuations reflected through surplus, but at termination, the reporting entity reversed the unrealized gain or loss and recognized the realized impact through IMR. Although this guidance was not in accordance with SSAP No. 86, these reporting entities referred to a "hedging" reference in the annual statement IMR instructions and had taken a position that the derivative was "economically effective" as a hedge even if it did not qualify as an accounting-effective hedge.

5. With the August 2023 issuance of INT 23-01, provisions were included to allow reporting entities that had a historical, documented practice of deferring both derivative gains and losses from these "economically effective" hedging derivatives to continue the practice over the short-term duration of the interpretation and include the derivative losses as part of the admitted net negative (disallowed) IMR.

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Reporting entities that did not have a historical, documented practice, would not be permitted to begin allocating realized gains or losses from these derivative transactions to the IMR or include these derivative losses as part of an admitted net negative (disallowed) IMR. For reporting entities eligible to continue the historical practice, the interpretation required reporting entities to include a roll-forward disclosure for the unamortized IMR balances related to these derivatives separately for derivative gains and losses.

6. Pursuant to subsequent discussions, the Statutory Accounting Principles (E) Working Group noted that the gains and losses that are not accounting-effective hedging derivatives in scope of SSAP No. 86 shall not be allocated to the IMR. The revisions to SSAP No. 7 from the long-term IMR project clarify that only specifically noted derivatives are permitted to be included in IMR:

a. Highly-effective hedging derivatives qualifying for "hedge accounting treatment" under *SSAP No. 86—Derivatives* when the realized derivative gain or loss offsets the realized gain or loss from a hedged item that was recognized in IMR.

b. Terminated income generating derivatives in scope of SSAP No. 86 (written derivatives) resulting in a realized gain or loss when the covering asset is accounted for at amortized cost. (Per SSAP No. 86, for options that are exercised, the remaining premium adjusts the cost, resulting in no gain or loss for the derivative.)

c. Replication (synthetic asset) (RSAT) transactions in scope of SSAP No. 86 when the derivative is valued at amortized cost.

7. With these discussions, industry representatives proposed new statutory accounting guidance to address asset-liability management derivatives, which hedge duration differences subject to fluctuations as a result of interest sensitivity. The industry representatives identified that these hedges, which often reflect macro-hedges, will not qualify as accounting-effective hedges under SSAP No. 86, but are key insurance company activities as they protect surplus by shielding insurance companies from negative impacts of interest rate changes.

8. On September 10, 2025, representatives from the ACLI presented an ALM derivative proposal to the Statutory Accounting Principles (E) Working Group. The ACLI highlighted their view that the proposed guidance would significantly enhance the alignment of each company's reported surplus with its actual solvency and liquidation value, as well as avoid situations where financials contain inappropriate portrayals of surplus and illusionary financial strength. The ACLI presented two versions of potential statutory guidance, one representing an amortized cost method and the other representing a mark and spread method (fair value). Although key concepts are similar between the two proposals, under the amortized cost method, the hedging derivatives would be reported at amortized cost (zero for a no-cost derivative), and when terminated (or removed from an effective hedge program), the derivative fair value would be deferred and amortized into income overtime. Under the mark and spread method, the hedging derivatives would be reported at fair value, resulting in the changes in fair value (unrealized gains and losses) being taken to deferred accounts with amortization throughout the life of the derivative. Both versions also proposed to exclude asymmetrical derivatives. At the conclusion of the call, both versions of the proposed guidance and the ACLI presentation were exposed for comment.

9. On December 9, 2025, as part of the 2025 Fall National Meeting, the Working Group considered comments on the exposed proposals, noting the ACLI strongly supported the development of guidance for ALM derivatives, as well as support for the amortized cost approach. In considering the comments, the Working Group directed NAIC staff to move forward with an issue paper and concurrent SSAP to reflect statutory accounting guidance for interest-rate hedging derivatives used for ALM under the

amortized cost approach and continuing the exclusion of asymmetrical derivatives. (Discussion of asymmetrical derivatives is captured in paragraphs 16-17.)

10. On May 18, 2026, the Working Group exposed the proposed SSAP and issue paper to establish statutory accounting guidance for interest-rate hedging derivatives used for asset liability management. The edits reflected from the prior exposure are to revise the transition guidance, to incorporate a surplus-neutral approach and clarify amortization of the derivative asset or liability. Exposure intends to provide additional time for regulators to assess the new derivative concepts prior to adoption, particularly on the broad concepts, and transition, reporting and admitted asset classification.

11. On August 12, 2026, the Working Group exposed a revised SSAP and issue paper with a modified effective date of January 1, 2028. In addition to the exposure, the Working Group directed a Life Actuarial (E) Task Force referral with a request to review and assess the proposed derivative guidance and to consider facilitating a pilot review in early 2027. The pilot proposed to focus on the specific hedge effectiveness tests and how effectiveness testing should be performed. Lastly, the Working Group directed NAIC staff to proceed with sponsoring a blanks proposal to incorporate new reporting lines for these derivatives on Schedule DB. Revisions reflected in the August 2026 exposure include:

a. Requirement to eliminate derivative deferred assets and liabilities upon derecognition of the hedged liability portfolio due to a reinsurance agreement.

b. Requirement to include derivative deferred gains and losses in actuarial projections, with a reconciliation of admitted deferred derivative losses to the reported deferred amounts reflected for principles-based reserving and cash flow testing.

c. Elimination of the elective accelerated amortization provisions.

NAIC Staff to expand with subsequent discussion dates.

Discussion of ALM Hedging Concepts and Differences from SSAP No. 86 and SSAP No. 108

12. The development of new statutory accounting guidance to address ALM derivatives, which hedge duration differences subject to fluctuations as a result of interest sensitivity, utilized existing concepts in SSAP No. 86 and SSAP No. 108 to the extent possible to allow for consistent concepts and ease of application. New derivative guidance was deemed appropriate as the proposed macro-hedging derivative structures would not qualify as highly effective hedges under SSAP No. 86 and the guidance is SSAP No. 108 is specific to hedges for variable annuity guarantees. Consideration was given to expanding SSAP No. 86, but as that standard utilizes U.S. GAAP guidance for effective-hedge determination, separating guidance for ALM derivative programs into a new statement was considered most appropriate.

13. Consistent with SSAP No. 108, the provisions of the new ALM derivative guidance permit the recognition and admittance of deferred assets and deferred liabilities, with amortization of the deferred amounts into net realized capital gains and losses over a period not to exceed 10 years. Although SSAP No. 86 does not use the concept of deferred assets and deferred liabilities, deferral of gains and losses from accounting-effective hedges is also a consistent concept, it is just completed through an adjustment to the basis of the hedged item or allocation to IMR. The existing statutory accounting guidance to recognize fair value gains and losses as deferred liabilities and assets, as well as use of an amortized cost approach in SSAP No. 86 for accounting-effective hedges, is inconsistent with U.S. GAAP. Under U.S. GAAP, and under *SSAP No. 4—Assets and Nonadmitted Assets,* realized losses do not represent assets as they do not reflect a present right to an economic benefit. Also, under U.S. GAAP and *SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets*, realized gains do not represent liabilities as they do not reflect

a present obligation to transfer or provide an economic benefit to others. Reporting realized gains and losses as deferred liabilities and assets for certain derivative structures and for qualifying fixed-income investment sales is a statutory concept that reflects an exception to the asset and liability definitions under SSAP Nos. 4 and 5. These provisions result from the different accounting measurement concepts between statutory accounting and U.S. GAAP.

14. Under SSAP No. 108, recognized deferred assets are permitted to be admitted without limitation. Although net negative IMR currently has a 10% admittance limit, with the offsetting of gains and losses that occur between a SSAP No. 86 hedged item and hedging derivative, there is limited net amount recognized in the IMR for accounting-effective hedges. The provisions within this new statement propose full admittance of deferred assets in order to not disincentivize prudent hedging activities. Items are only permitted to be recognized as deferred assets or deferred liabilities if they qualify under the effective hedge provisions of the new statement. The guidance requires an amount equal to the net deferred asset and deferred liability to be allocated from unassigned funds to special surplus.

Terms and Concepts

15. The terms and concepts for the new ALM statement are consistent with SSAP No. 108. These items permit macro-hedges in a dynamic hedging strategy. This means that the derivative instruments and hedged items can reflect a flexible portfolio, rebalanced as needed to permit an ongoing effective hedging strategy. Macro-hedges and dynamic hedging strategies are not permitted under SSAP No. 86. These characteristics are key reasons why these hedging programs do not qualify as accounting-effective hedge programs under SSAP No. 86 or under U.S. GAAP.

16. A specific restriction incorporated into the ALM derivative standard prevents use of derivatives with asymmetrical payoff profiles and/or derivative premiums at inception (e.g., options). Programs with these derivatives are not eligible to apply the special accounting provision within the standard and are required to follow the guidance in SSAP No. 86, with fair value measurement. Swaps, forwards and futures are expected to typically be eligible for the provisions within the ALM standard as long as they do not have asymmetrical payoff profiles or derivative premiums at inception.

17. Asymmetrical derivatives refer to the payment profile of the derivative. A typical swap (symmetrical) has no upfront payment or receipt, and at inception has an equal chance of resulting with a gain or loss. Conversely, an option has an asymmetrical payoff profile. If a reporting entity buys an option, the purchase price paid is the maximum loss amount, while resulting gains can be much more than the maximum loss. Other asymmetrical derivatives include swaps with ceilings/floors and other non-standard derivatives. Asymmetrical derivatives are excluded as permissible derivatives within the standard to avoid the possibility that companies that buy options that mature out of the money would defer the “loss” although it was the upfront purchase price. The exclusion also limits the ALM derivative concept to standard derivatives for ease of application and review.

18. The requirements a reporting entity shall follow in order to utilize the special accounting provisions in the new ALM statement, including explicit approval by the domiciliary state, certification by a financial officer, as well as the requirements for a clearly defined hedging strategy are all consistent with SSAP No. 108.

Assessing Hedge Effectiveness

19. The ALM derivative standard was developed for highly effective hedges that reduce duration differences between designated asset and liability portfolios during the period when the hedge is designated. With this specific focus, which is different from both SSAP No. 86 and SSAP No. 108, specific

methods have been developed to determine whether the hedging program is highly effective. One of the three noted methods detailed below is required to be designated by the reporting entity for each hedging program and used as the constant measurement of effectiveness. Each method requires use of the standard 80-125% derivative threshold (used in SSAP No. 86 and U.S. GAAP) in determining hedge effectiveness.

a. "Modified Duration" is the effect that a 100-basis-point (1%) change in interest rates will have on the price of an instrument. (For example, if an instrument has a modified duration of 5, a 1% change in interest rates would be expected to cause a 5% change in the instrument's price in the opposite direction). As such, if an asset portfolio has a modified duration of 9 and a liability portfolio has a modified duration of 10, a highly effective derivative portfolio hedging this difference would place the modified duration of the assets with derivatives at between 9.8 and 10.25 (80%-125% of the modified duration difference). Alternatively, if asset portfolio duration is 9 and a liability duration is 11, an entity can elect to hedge only half the difference (between 9 and 11, i.e., 10). In that case, a duration of the assets with derivatives between 9.8 and 10.25 would be highly effective.

b. "Macaulay Duration" is the weighted average time until cash flows are received and is measured in years. As such, if an asset portfolio has a Macaulay duration of 9 years and a liability portfolio has a Macauley duration of 10 years, a highly effective derivative portfolio hedging this difference would place the Macauley duration of the assets with derivatives at between 9.8 years and 10.25 years (80%-125% of the Macauley Duration difference).

c. "Dollar Value One (DV01)" measures the dollar change in an instrument's price for a one basis point (0.01%) change in rates. As such, if an asset portfolio has a DV01 of $9M and a liability portfolio has a DV01 of $10M, a highly effective derivative portfolio hedging this difference would place the DV01 of the assets with derivatives at between $9.8M and $10.25M (80%-125% of the DV01 difference).

d. "Effective Duration" measures the effect that a 100-basis-point (1%) change in interest rates will have on the price of an instrument, where expected cashflows change as interest rates change when applicable (e.g., if an instrument has an effective duration of 5, a 1% change in interest rates would be expected to cause an approximately 5% change in the instrument's price in the opposite direction); so if an asset portfolio has an effective duration of 9 and a liability portfolio has an effective duration of 10, a highly effective derivative portfolio hedging this difference would place the effective duration of the assets with derivatives at between 9.8 and 10.25 (80%-125% of the effective duration difference). Alternatively, if asset portfolio duration is 9 and liability portfolio duration is 11, an entity can elect to hedge only half the difference (between 9 and 11, i.e., 10), in which case a duration of the assets with derivatives of between 9.8 and 10.25 would be highly effective.

Measurement / Recognition of Gains and Losses of Derivative Instruments

20. Consistent with SSAP No. 86, but different from SSAP No. 108, the provisions of the ALM standard requires use of an amortized cost measurement method for highly effective hedging instruments, with excluded components measured and reported at fair value. (Under SSAP No. 108, the derivatives follow a fair value measurement, which is in line with the assessment of effectiveness under that standard. Under SSAP No. 108 effectiveness is determined based on fair value comparisons to the hedged item.)

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21. The amortized cost approach was supported for ALM derivatives as that approach would mirror SSAP No. 86 for highly effective hedges, where derivatives would be reported at cost (zero, if there is no upfront cost), without the reporting of surplus valuation changes from fair value fluctuations throughout the life of the derivative. With the amortized cost approach, if the derivative continues to be highly effective, there would be no unrealized gains or losses recognized until termination (or removal from the program), meaning that there would be no need to track or recognize deferred assets or losses while the derivative is part of an effective program. At termination (or removal from a highly effective program), the resulting gain or loss would be recognized with a deferred gain or loss as permitted under the guidance. If a fair value approach had been supported, fair value fluctuations would be recognized as unrealized gains and losses, resulting in the need to recognize and adjust deferred assets and liabilities throughout the derivative duration and not just at termination (removal). As the deferred balance would be captured in cash flow testing (CFT) and principle-based reserving (PBR), including these unrealized fair value changes in the deferred balance would create an inconsistency in the amount used as an adjustment for CFT and PBR. Use of the amortized cost approach would result with only realized gains and losses being captured in these assessments. In addition to mirroring the SSAP No. 86 approach for highly effective hedges, the amortized cost method is perceived to be the simpler approach for both application and regulator review.

22. The ALM derivative standard provides guidance for discontinuation of the amortized cost approach based on whether the derivative terminates/matures, is de-designated (removed) from a qualifying highly effective program and when de-designated or captured within a program that no longer qualifies as highly effective. For derivatives that terminate or are removed from a highly effective program, the fair value at the time of termination/de-designation shall be recognized as a deferred asset (loss) or as a deferred liability (gain), which would be surplus neutral to the amount received/paid or as an offset to the current fair value recognition of the derivative. Open derivatives removed from a qualifying program are permitted to be immediately allocated to another highly effective derivative program. If this occurs, the fair value at the time of removal shall be recognized as a deferred asset/liability and shall reflect the amortized cost basis for the subsequent program. Allocation to another program is required within the quarter to be considered an immediate allocation. The reason for this time restriction is that once a derivative is removed from a qualifying program, it is required to be reported at fair value with fluctuations in fair value recognized as unrealized gains and losses. By requiring an immediate reallocation, a reporting entity would not have a period of time in which the derivative is reported at fair value with unrealized gains and losses recognized. Such re-allocations are not expected to be common and would be expected only in situations in which derivative programs are being combined, which can be achieved with an immediate reallocation of the derivative.

23. For derivatives that are de-designated from, or captured within, a program that no longer qualifies as highly effective, the derivative no longer qualifies for the ALM derivative standard. The derivative shall be captured in scope of SSAP No. 86, which would require a fair value measurement method with fair value fluctuations reflected as unrealized gains and losses.

Amortization of Deferred Assets and Liabilities

24. The provisions of the ALM standard require amortization of deferred assets and liabilities over a timeframe that equals the weighted average life of the hedged liability portfolio, not to exceed 10 years. This 10-year amortization limit is consistent with SSAP No. 108. Provisions for a reporting entity to accelerate amortization, ensuring consistency in any accelerations to both deferred assets and liabilities, is a provision within SSAP No. 108 that has not been duplicated within the new ALM standard. Although provisions are incorporated within SSAP No. 108 to ensure consistent application to deferred gains and losses, even if more than one hedging strategy is utilized, concerns were noted that reporting entity could

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still elect to accelerate amortization when in a net deferred liability (gain) position and not make the same election when in a net deferred asset (liability) position. With these concerns, the ability to accelerate amortization has not been captured in the ALM standard.

25. Although SSAP No. 108 has provisions that require a shortened 5-year amortization period for deferred assets and liabilities when programs no longer qualify, the ALM standard does not require a similar shortened 5-year amortization timeframe. SSAP No. 108 requires a shortened timeframe as it uses a fair value approach, and deferred assets and liabilities are recognized as derivative fair value fluctuations occur. Meaning, a deferred asset could be recognized for an open derivative, and while the derivative is still open, the program could be identified as no longer a qualifying program. Under the ALM standard, and the amortized cost approach, deferred assets and liabilities are only recognized when terminated/de-designated from a highly effective program. As such, there is no risk that a deferred asset or liability would be recognized prior to confirming that the program is highly effective. As the hedging benefit would have been achieved prior to the recognition of the deferred asset or liability, allowing amortization over the stated timeframe, not to exceed 10-years, is permitted even if a program is subsequently identified as no longer highly effective. Open derivatives in a program that no longer qualifies as highly effective are not permitted to be recognized as deferred assets or liabilities and are required to follow SSAP No. 86 with a fair value measurement method.

26. The provisions to the ALM standard include a requirement for deferred gains and losses to be recognized as immediate capital gains and losses upon derecognition of the hedged liability portfolio due to a reinsurance agreement. This guidance is similar to the concept in IMR, in which the deferred derivative deferred gains and losses should no longer exist when the related policyholder obligations to which they were attributed have been derecognized.

ALM Derivative Reporting

27. The ALM derivative reporting in the statutory financial statements is largely consistent with the provisions of SSAP No. 108, with discussion of the hedging program, including the hedging instruments and strategy, the assessment of hedging effectiveness, compliance with the clearly defined hedging strategy, and if there are excluded components. The disclosures also include information on cost, fair value, and a roll-forward of the deferred assets and liabilities, with a percentage comparison to total capital and surplus, as well as the expected amortization over the next 10 years.

28. The disclosures capture information on programs that no longer qualify as highly effective, or that a reporting entity elects to discontinue the ALM guidance, along with information on the outstanding hedging instruments that will be reclassified to a fair value measurement method.

29. For reporting, it is proposed that new subtotals be added to Schedule DB to segregate the derivatives under the ALM derivative standard.

30. Reporting entities are required to capture derivative deferred gains and losses in the principles-based reserving (PBR) calculation or asset adequacy (AAT)/cash flow testing (CFT) pursuant to all relevant Valuation Manual calculations. This provision requires reporting entities to prepare a reconciliation of admitted deferred derivative losses to the reported deferred amounts reflected for PBR and CFT to ensure reserves are appropriately stated.

Transition and Effective Date

31. The transition guidance proposes an effective date of January 1, 2028 to be applied on a prospective basis for approved, qualifying hedge programs in place on or after the effective date. The guidance includes a one-time transition provision for approved qualifying programs that have existing

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open derivatives with recognized unrealized gains and losses. After initial transition, reporting entities are not permitted to retroactively allocate unrealized gains or losses to deferred assets or liabilities. The transition provisions do not permit reporting entities to reverse previously recognized realized gains and losses for recognition as deferred assets or deferred liabilities regardless of if the program would have qualified in scope of the statement.

32. A one-time transition provision has been included for approved, open qualifying programs to reclassify recognized unrealized gains and losses from derivative fair value changes to realized gains and losses in the statement of operations. This is proposed to prevent situations in which reporting entities terminate and re-establish derivative programs as of the effective date. If the provision was not incorporated, then reporting entities that have previously established programs to allocate realized gains and losses from such hedging derivatives to IMR would be permitted to allocate the realized impacts from termination to IMR for future amortization. Reporting entities that had followed guidance in line with SSAP No. 86 and have not historically reclassified realized impacts from non-accounting effective hedging derivatives to the IMR would be at a disadvantage.

33. With the transition provision, unrealized gains and losses recognized for approved, qualifying programs would be reclassified as realized gains and losses even though the derivative is still open. The reported book/adjusted carrying value of the derivative asset or liability at the date of transition shall then begin amortization to income over the remaining life of the derivative instrument over a period not to exceed 10 years. At the time of transition, the current fair value of the derivative would be established as the amortized cost basis. With this approach, future fair value fluctuations will not be recognized until derivative termination or removal from a highly effective program. At that time, assuming the program still qualified as an effective hedge, the derivative fair value would be recognized as a deferred asset and liability and follow the amortization provisions in the statement.

34. The transition guidance is explicit that if there are open programs that will not qualify as an effective hedge under the statement, or for which the company will not elect to apply, then the open derivatives shall continue to be in scope of SSAP No. 86, reported at fair value, with fair value fluctuations reported as unrealized gains or losses.

35. The transition guidance also reiterates provisions expected in SSAP No. 7, where if a reporting entity had realized gains and losses from derivatives previously allocated to the IMR, those balances shall be amortized over a period not to exceed 10 years. Upon the effective date of SSAP No. 7, realized gains and losses attributed to derivatives that do not qualify as effective hedges under SSAP No. 86 are not permitted to be taken to the IMR.

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Exhibit A – Example

Under the accounting provisions within this issue paper, all designated highly effective hedging instruments shall initially be reported in the financial statements at amortized cost. Amortized cost treatment will discontinue upon derivative maturity/termination or with de-designation (rebalancing) from a current highly effective program; at which time, the derivative fair value will be recognized as an asset or liability offset by a deferred asset (admitted) or deferred liability (i.e., fair value recognition is initially surplus neutral).

Under this statement, the ability to recognize a derivative at amortized cost, with recognition of the resulting fair value as a deferred asset or liability is limited to only the portion of the fair value fluctuation in the hedging instruments that is attributed to the hedged risk and meets the highly effective criteria. As detailed in this standard, the hedged risk may be designated as a specific component of the hedged item. For example, an entity may designate the duration difference between a portfolio of fixed income investments and a group of future annuity payments in a pension risk transfer (PRT) and/or structured settlements block of liabilities.

Reporting entities shall designate and utilize one of the permitted tests for determining whether the program is highly effective detailed in paragraph 19. For example:

- Clearly Defined Hedging Strategy (CDHS) characteristics:
    - Hedged item – Structured settlement liability net cash flows
    - Hedged risk – Duration difference between hedged item and designated fixed income asset portfolio supporting the hedged item
- On July 1, 202x, the company's documented defined hedged liability item had a modified duration of 10 (i.e., a 1% change in interest rates will cause a 10% change in fair value in the opposite direction), while the documented defined supporting asset portfolio had a modified duration of 9.
    - The company designates a portfolio of derivatives to eliminate 100% of this duration difference (i.e., a highly effective derivative portfolio hedging this difference would place the modified duration of the fixed income assets with derivatives at between 9.8 and 10.25, which is 80%-125% of the modified duration difference). The company measures the effectiveness on July 1, 202x, and determines the hedge is highly effective (modified duration of supporting fixed income asset portfolio with derivatives = 10; modified duration of hedged liability = 10).
- On September 30, 202x, the company measures the effectiveness of the hedge program. Note: throughout the 3-month period, the company may have added various supporting fixed income assets, derivatives, and liability cash flows to this hedging relationship (all of which were clearly identified and classified as part of this linked portfolio at each inception). The hedge effectiveness is determined to be highly effective (e.g., modified duration of supporting fixed income asset portfolio with derivatives = 10; modified duration of hedged liability = 10).
- Example journal entries related to the above are as follows:

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SSAP109 Example

Amortized Cost Method

July 1, 202x:

Fixed Income Assets = $100 (Modified Duration = 9)
Hedged Liabilities = $100 (Modified Duration = 10)
Fixed Income Assets Modified Duration With Derivatives = 10
Fixed Income Assets & Liabilities' Amortized Cost = Fair Value
Derivatives Amortized Cost & Fair Value = 0

Sept. 30, 202x:

Example Entries

Change in Value

N/A

Derivative Maturity/Termination *(if applicable)*

DR-CR: Cash
DR-CR: Deferred Asset/Liability
} *surplus neutral*

Amortization *(subsequent quarters for maturities/terminations, as applicable)*

DR-CR: Deferred Asset/Liability
DR-CR: Net Investment Income
} *surplus impact over amort period*

Liquidation Value *(amounts rounded for simplicity)*

Liquidation Value *(fair value realization via asset sales, derivative settlement, reinsurance)*:

	Assets	Liabilities	
BOP Fair Value (Liquidation Value)	100	100	*Net Flat Liquidation Value*
Value Change *(ex-derivatives)*	9	10	*Interest rates decrease 1%*
EOP Fair Value (Liquidation Value) *(ex-derivatives)*	109	110	*Net Liquidation Value changes due to duration difference (pre-hedging); also, bond reinvestment interest rates may not cover liabilities*
ALM Derivatives	1		*ALM derivatives (e.g., receive-fixed swaps in this scenario) will increase in value when rates fall (which offsets the above difference)*
EOP Liquidation Value *(w/derivatives)*	110	110	*BOP net flat Liquidation Value remains intact due to highly effective hedges*

Balance Sheet Value			
BOP	100	100	*Net flat*
EOP *(amort cost-ex derivatives)*	100	100	
EOP *(derivative maturities)*	1	1	*per above journal entry (DR-CR: Cash; DR-CR: Deferred)*
EOP Balance Sheet Total	101	101	*Net flat (reflects highly effective hedge); deferral of asset/ liability brings balance sheet surplus equal to liquidation value*

De-Designation Example Entries, if applicable (using SSAP No. 86 as a guide):

De-designation

DR-CR: Derivative Asset/Liability	*current value*
DR-CR: Deferred Asset/Liability	*(surplus neutral)*
Start amortizing	

Subsequent Accounting (MTM)

DR-CR: Derivative Asset/Liability	*(prospective MTM in URGL)*
DR-CR: URGL (Surplus)	

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

Issue: Fair Value Disclosures

Check (applicable entity):

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

Description of Issue: This agenda item has been prepared to eliminate the disclosure exclusion for "equity method investments" from the aggregate disclosure on financial instruments captured in *SSAP No. 100—Fair Value*. With this current scope exclusion, investments in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, and investments in scope of *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, which are reported under an equity method, are not being captured.

As background, the disclosure requirements in SSAP No. 100 were predominantly adopted to match U.S. GAAP when *FAS 157, Fair Value Measurements* was first adopted in SSAP No. 100 for statutory accounting in 2009. Since the December 31, 2010, effective date of SSAP No. 100, there have not been significant revisions to the original fair value disclosure requirements.

The U.S. GAAP financial instrument fair value disclosure has an exclusion for "investments accounted for under the equity method." This exclusion was initially adopted for statutory accounting to match the U.S. GAAP disclosure, but has recently been questioned, as these investments are required to be disclosed with a fair value on Schedule BA (for SSAP No. 48 investments) and on D-2-2 (for SSAP No. 97 investments). There was also a question received on whether equity investments should be required to complete the fair value components on the new public/private security disclosure since they are not required to be disclosed under the SSAP No. 100 aggregate financial instrument fair value disclosure. Regardless of the financial instrument exclusion, for these, and all reported investments, fair value is required to be disclosed in the investment schedules in accordance with the fair value definition in SSAP No. 100:

> Fair Value Definition: Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For investments reported under the equity method, the calculated equity method may not reflect an exit price fair value. If reporting entities are not using observable market inputs in the determination of fair value, which would include using the equity method as a proxy for fair value, then the reported fair value shall be identified as a level 3 fair value.

To eliminate questions, ensure consistency in reporting, and ensure that regulators have complete disclosures on financial instruments held as investments, including aggregate information on equity investments backed by level 3 fair values, this agenda item proposes to remove the "investments accounted for under the equity method" disclosure exclusion from the financial instrument fair value disclosure. This will create a U.S. GAAP to SAP disclosure mismatch in guidance requirements, but due to measurement method differences (e.g., investments held at fair value under U.S. GAAP may be held under a different standard under SAP), existing fair value disclosures already do not agree between U.S. GAAP and SAP.

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This disclosure revision is proposed to be in effect for December 31, 2026. The existing disclosure illustration allows for variable lines; therefore, it is not required to revise the disclosure to implement this change. With adoption, a blanks proposal will be sponsored to capture the references to SSAP No. 48 and SSAP No. 97 investments within the disclosure illustration.

Although the focus of this agenda item is the current "investments accounted for under the equity method" exclusion from the financial instrument disclosure, NAIC staff has included the SSAP No. 100, paragraph 50 disclosure for review. This disclosure, which was also adopted from U.S. GAAP in 2009, is limited to assets measured and reported at fair value. This disclosure has historically generated numerous questions, as there are few investments routinely measured and reported at fair value under statutory accounting (e.g., common stock and derivatives), therefore only limited information is captured in this disclosure. The fair value level 3 roll-forward is captured within this disclosure scope. As such, it's not possible for regulators to quickly assess the aggregate change in level 3 fair values from this disclosure, and regulators that would like to have that detail would need to complete an aggregation of the per investment reporting that occurs on the investment schedules.

If desired by regulators, a subsequent agenda item could occur to reconsider the fair value disclosures captured for investments that are measured and reported at fair value. With the limited scope, NAIC staff is uncertain how regulators use these disclosures and requests comments on their use and if they are beneficial.

Existing Authoritative Literature:
The entire disclosure section from SSAP No. 100 has been included below. As noted, the focus of this agenda item is the elimination of the exclusion for "investments accounted for under the equity method" from the aggregate disclosure on financial instruments captured in paragraph 57f. This is shaded for ease of reference.

The disclosures are organized as follows:
Paragraph 49 – Objective
Paragraph 50 – Investments Measured and Reported at Fair Value
Paragraph 53 – Requirement to Disclosure in Investment Schedules
Paragraph 54 – Requirements on the Use of Net Asset Value (NAV)
Paragraph 55 – Disclosure on Fair Value of Financial Instruments
Paragraph 58 – Not Practicable to Estimate Fair Value

SSAP No. 100—Fair Value

Disclosures

49. The objective of the disclosure requirements is to provide information about assets and liabilities measured at fair value in the financial statements as well as fair value amounts disclosed in the notes to financial statements or reporting schedules. To meet these objectives, the reporting entity shall disclose the information in paragraphs 50 through 59.

50. For each class of assets and liabilities measured and reported[1] at fair value or NAV in the statement of financial position after initial recognition. The reporting entity shall determine appropriate classes of assets and liabilities in accordance with the annual statement instructions.

[1] The term "reported" is intended to reflect the measurement basis for which the asset or liability is classified within its underlying SSAP. For example, a bond with an NAIC designation of 2 is considered an amortized cost measurement and is not included within this disclosure even if the amortized cost and fair value measurement are the same. An example of when such a situation may occur includes a bond that is written down as other-then-temporarily impaired as of the date of financial position. The amortized cost of the bond after the recognition

a. The fair value/NAV measurements at the reporting date.

b. The level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3). Investments reported at NAV shall not be captured within the fair value hierarchy, but shall be separately identified.

c. For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in the valuation technique (for example, changing from a market approach to an income approach or the use of an additional valuation technique), the reporting entity shall disclose that change and the reason(s) for making it.

d. For fair value measurements categorized within Level 3 of the fair value hierarchy a reconciliation from the opening balances to the closing balances disclosing separately changes during the period attributable to the following:

i. Total gains or losses for the period recognized in income or surplus.

ii. Purchases, sales, issues, and settlements (each type disclosed separately).

iii. The amounts of any transfers into or out of Level 3 and the reasons for those transfers. Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.

e. A reporting entity shall consistently follow its policy for determining when transfers between levels are recognized. The policy about the timing of recognizing transfers shall be the same for transfers into Level 3 as that for transfers out of Level 3. Examples of policies for when to recognize the transfers are as follows:

i. The actual date of the event or change in circumstances that caused the transfer.

ii. The beginning of the reporting period.

iii. The end of the reporting period.

51. For derivative assets and liabilities, the reporting entity shall present both of the following:

a. The disclosures required by paragraphs 50.a. and 50.b. on a gross basis.

b. The reconciliation disclosures required by paragraph 50.c., 50.d. and 50.e. on either a gross or net basis.

52. The quantitative disclosures required in paragraphs 50-51 of this standard shall be presented using a tabular format.

53. The reporting entity shall disclose the fair value hierarchy and the method used to obtain the fair value measurement, or the use of NAV, for all items in which fair value is disclosed within the annual statement

of the other-than-temporary impairment may agree to fair value, but under SSAP No. 26 this security is considered to still be reported at amortized cost.

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investment schedules. This disclosure is satisfied by the completion of the investment schedules in the Annual statement and is not required quarterly.

54. For investments measured using the NAV practical expedient pursuant to paragraph 41, a reporting entity shall disclose information that helps users of its financial statements to understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value per share. A reporting entity shall disclose the following information for instances in which the investment may be sold below NAV, or if there are significant restrictions in the liquidation of an investment held at NAV:

a. The NAV along with a description of the investment/investment strategy of the investee.

b. If the investment that can never be redeemed with the investees, but the reporting entity receives distributions through the liquidation of the underlying assets of the investees, the period of time over which the underlying assets are expected to be liquidated by the investees if the investee has communicated the timing to the reporting entity or announced the timing publicly. If the timing is unknown, the reporting entity shall disclose that fact.

c. The amount of the reporting entity's unfunded commitments related to investments in the class.

d. A general description of the terms and conditions upon which the investor may redeem the investment.

e. The circumstances in which an otherwise redeemable investment in the class (or a portion thereof) might not be redeemable (for example, investments subject to a lockup or gate). Also, for those otherwise redeemable investments that are restricted from redemption as of the reporting entity's measurement date, the reporting entity shall disclose when the restriction from redemption might lapse if the investee has communicated that timing to the reporting entity or announced the timing publicly. If the timing is unknown, the reporting entity shall disclose that fact and how long the restriction has been in effect.

f. Any other significant restriction on the ability to sell investments in the class at the measurement date.

g. If a group of investments would otherwise meet the criteria in paragraph 47 but the individual investments to be sold have not been identified (for example, if a reporting entity decides to sell 20% of its investments in private equity funds but the individual investments to be sold have not been identified), so the investments continue to qualify for the practical expedient in paragraph 41, the reporting entity shall disclose its plans to sell and any remaining actions required to complete the sale(s).

55. The reporting entity is encouraged, but not required, to combine the fair value information disclosed under this standard with the fair value information disclosed under other accounting pronouncements (for example, disclosures about fair value of financial instruments) in the periods in which those disclosures are required, if practicable. The reporting entity also is encouraged, but not required, to disclose information about other similar measurements, if practicable.

Disclosures about Fair Value of Financial Instruments

56. A reporting entity shall disclose in the notes to the financial statements, as of each date for which a statement of financial position is presented in the quarterly or annual financial statements, the aggregate fair value or NAV for all financial instruments and the level within the fair value hierarchy in which the fair value measurements in their entirety fall. This disclosure shall be summarized by type of financial instrument, for which

it is practicable to estimate fair value, except for certain financial instruments identified in paragraph 57. Fair value disclosed in the notes shall be presented together with the related admitted values in a form that makes it clear whether the fair values and admitted values represent assets or liabilities and to which line items in the Statement of Assets, Liabilities, Surplus and Other Funds they relate. Unless specified otherwise in another SSAP, the disclosures may be made net of encumbrances, if the asset or liability is so reported. A reporting entity shall also disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. If it is not practicable for an entity to estimate the fair value of the financial instrument or a class of financial instruments, and the investment does not qualify for the NAV practical expedient, the aggregate carrying amount for those items shall be reported as "not practicable" with additional disclosure as required in paragraph 50.

57. The disclosures about fair value prescribed in paragraph 56 are not required for the following:

a. Employers' and plans' obligations for pension benefits, other postretirement benefits including health care and life insurance benefits, postemployment benefits, employee stock option and stock purchase plans, and other forms of deferred compensation arrangements, as defined in *SSAP No. 12—Employee Stock Ownership Plans*, *SSAP No. 92—Postretirement Benefits Other Than Pensions*, *SSAP No. 102—Pensions* and *SSAP No. 104—Share-Based Payments*.

b. Substantively extinguished debt subject to the disclosure requirements of *SSAP No. 103—Transfer and Servicing of Financial Assets and Extinguishments of Liabilities*.

c. Insurance contracts, other than financial guarantees and deposit-type contracts.

d. Lease contracts as defined in *SSAP No. 22—Leases.*

e. Warranty obligations and rights.

f. Investments accounted for under the equity method.

g. Equity instruments issued by the entity.

h. Deposit liabilities with no defined or contractual maturities.

58. If it is not practicable for an entity to estimate the fair value of a financial instrument or a class of financial instruments, and the investment does not qualify for the NAV practical expedient, the following shall be disclosed:

a. Information pertinent to estimating the fair value of that financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity; and

b. The reasons why it is not practicable to estimate fair value.

59. In the context of this standard, practicable means that an estimate of fair value can be made without incurring excessive costs. It is a dynamic concept: what is practicable for one entity might not be for another; what is not practicable in one year might be in another. For example, it might not be practicable for an entity to estimate the fair value of a class of financial instruments for which a quoted market price is not available because it has not yet obtained or developed the valuation model necessary to make the estimate, and the cost of obtaining an independent valuation appears excessive considering the materiality of the instruments to the entity. Practicability, that is, cost considerations, also may affect the required precision of the estimate; for example, while in many cases it might seem impracticable to estimate fair value on an individual instrument basis, it may be practicable for a class of financial instruments in a portfolio or on a portfolio basis. In those cases,

the fair value of that class or of the portfolio should be disclosed. Finally, it might be practicable for an entity to estimate the fair value only of a subset of a class of financial instruments; the fair value of that subset should be disclosed.

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):

The Investment Analysis (E) Working Group (INVAWG) is currently conducting a review of level 3 fair values and reviewing the results of Note 20.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing categorized as a SAP clarification and expose revisions to *SSAP No. 100—Fair Value Disclosures* to eliminate the disclosure exclusion for "investments accounted for under the equity method" from the fair value financial instrument disclosure. This disclosure revision is proposed to be effective Dec. 31, 2026, as the disclosure illustration can accommodate this change without an annual statement instruction or template change. It is recommended that the Working Group sponsor a blanks proposal to include reference to SSAP No. 48 and SSAP No. 97 investments within the disclosure illustration to provide further clarity that those investments should be included. Additionally, it is recommended that this blanks proposal complete a review of the Annual Statement Instructions to ensure that all references to fair value refer to the determination under SSAP No. 100, and any remaining references to use of the "SVO or NAIC published market value when available" be removed. Values obtained from the SVO reflect a mix of Level 2 and Level 3 fair values, and should not be used if Level 1 fair value information is available.

With the exposure of this agenda item, comments are requested on the other disclosures in SSAP No. 100, particularly the disclosures limited to items measured and reported at fair value, and how those disclosures are utilized by regulators, and if further revisions would provide enhanced benefits to regulators.

Note: It is anticipated that the Invested Assets (E) Working Group may propose further revisions to Note 20C to ensure consistent reporting across reporting entities. (Currently, with the variable reporting lines, companies are reporting their financial instruments with different reporting captions, making comparisons and assessments difficult to complete.)

Proposed Revisions to *SSAP No. 100—Fair Value*

Disclosures about Fair Value of Financial Instruments

56. A reporting entity shall disclose in the notes to the financial statements, as of each date for which a statement of financial position is presented in the quarterly or annual financial statements, the aggregate fair value or NAV for all financial instruments and the level within the fair value hierarchy in which the fair value measurements in their entirety fall. This disclosure shall be summarized by type of financial instrument, for which it is practicable to estimate fair value, except for certain financial instruments identified in paragraph 57. Fair value disclosed in the notes shall be presented together with the related admitted values in a form that makes it clear whether the fair values and admitted values represent assets or liabilities and to which line items in the Statement of Assets, Liabilities, Surplus and

Other Funds they relate. Unless specified otherwise in another SSAP, the disclosures may be made net of encumbrances, if the asset or liability is so reported. A reporting entity shall also disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. If it is not practicable for an entity to estimate the fair value of the financial instrument or a class of financial instruments, and the investment does not qualify for the NAV practical expedient, the aggregate carrying amount for those items shall be reported as "not practicable" with additional disclosure as required in paragraph 50.

57. The disclosures about fair value prescribed in paragraph 56 are not required for the following:

a. Employers' and plans' obligations for pension benefits, other postretirement benefits including health care and life insurance benefits, postemployment benefits, employee stock option and stock purchase plans, and other forms of deferred compensation arrangements, as defined in *SSAP No. 12—Employee Stock Ownership Plans*, *SSAP No. 92—Postretirement Benefits Other Than Pensions*, *SSAP No. 102—Pensions* and *SSAP No. 104—Share-Based Payments*.

b. Substantively extinguished debt subject to the disclosure requirements of *SSAP No. 103—Transfer and Servicing of Financial Assets and Extinguishments of Liabilities*.

c. Insurance contracts, other than financial guarantees and deposit-type contracts .

d. Lease contracts as defined in *SSAP No. 22—Leases.*

e. Warranty obligations and rights.

f. Equity instruments issued by the entity.

g. Deposit liabilities with no defined or contractual maturities.

Staff Review Completed by: Julie Gann, April 2026.

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 revisions to *SSAP No. 100—Fair Value* to eliminate the exclusion for investments accounted for under the equity method from the fair value financial instrument disclosure, as illustrated above. With this exposure, comments were requested on the other disclosures in SSAP No. 100, particularly the disclosures limited to items measured and reported at fair value.

On August 12, 2026, the Statutory Accounting Principles (E) Working Group received a referral from the Investment Analysis (E) Working Group on the Note 20C fair value disclosure and re-exposed this agenda item with a specific request for industry to propose guidance and reporting categories that could be established to differentiate equity-method investments by "operating entities" and structures that hold investments ("holding entities").

Updated Recommendation – September 2026:
In response to the Investment Analysis (E) Working Group referral on the format and contents of Note 20C, and comments received on the deletion of the fair value financial instrument equity method investment exclusion, the recommendation has been revised to address the equity method exclusion within the SSAP No. 48 equity project and incorporate a prescribed format for Note 20C. Additionally, revisions have been proposed to paragraphs 56 and 58 of S*SAP No. 100—Fair Value* to remove guidance and disclosure for when it is not

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practicable to estimate fair value. This disclosure, reflected in Note 20D, was originally included to mirror U.S. GAAP, but it was deleted in *ASU 2016-01: Recognition and Measurement of Financial Assets and Financial Liabilities*.

As shown in the proposal for the prescribed Note 20C format, there are situations in which NAIC staff has proposed to consolidate investment schedule reported information, as well as situations in which the information is proposed to mirror the investment schedule reporting lines.

In addition to the proposed revisions related to the financial instrument fair value disclosure in Note 20C, NAIC staff has included the current illustrations for note 20D for when it is not practicable to obtain fair value with a proposal to delete this disclosure and the related column in Note 20C.

Updated Proposed Revisions to *SSAP No. 100—Fair Value:*

Disclosures about Fair Value of Financial Instruments

56. A reporting entity shall disclose in the notes to the financial statements, as of each date for which a statement of financial position is presented in the quarterly or annual financial statements, the aggregate fair value or NAV for all financial instruments and the level within the fair value hierarchy in which the fair value measurements in their entirety fall. This disclosure shall be summarized by type of financial instrument, ~~for which it is practicable to estimate fair value,~~ except for certain financial instruments identified in paragraph 57. Fair value disclosed in the notes shall be presented together with the related admitted values in a form that makes it clear whether the fair values and admitted values represent assets or liabilities and to which line items in the Statement of Assets, Liabilities, Surplus and Other Funds they relate. Unless specified otherwise in another SSAP, the disclosures may be made net of encumbrances, if the asset or liability is so reported. A reporting entity shall also disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. ~~If it is not practicable for an entity to estimate the fair value of the financial instrument or a class of financial instruments, and the investment does not qualify for the NAV practical expedient, the aggregate carrying amount for those items shall be reported as "not practicable" with additional disclosure as required in paragraph 50.~~

57. The disclosures about fair value prescribed in paragraph 56 are not required for the following:

a. Employers' and plans' obligations for pension benefits, other postretirement benefits including health care and life insurance benefits, postemployment benefits, employee stock option and stock purchase plans, and other forms of deferred compensation arrangements, as defined in SSAP No. 12—Employee Stock Ownership Plans, SSAP No. 92—Postretirement Benefits Other Than Pensions, SSAP No. 102—Pensions and SSAP No. 104—Share-Based Payments.

b. Substantively extinguished debt subject to the disclosure requirements of *SSAP No. 103—Transfer and Servicing of Financial Assets and Extinguishments of Liabilities*.

c. Insurance contracts, other than financial guarantees and deposit-type contracts .

d. Lease contracts as defined in *SSAP No. 22—Leases.*

e. Warranty obligations and rights.

f. Investments accounted for under the equity method.

g. Equity instruments issued by the entity.

h. Deposit liabilities with no defined or contractual maturities.

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~~58. If it is not practicable for an entity to estimate the fair value of a financial instrument or a class of financial instruments, and the investment does not qualify for the NAV practical expedient, the following shall be disclosed:~~

~~a. Information pertinent to estimating the fair value of that financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity; and~~

~~b. The reasons why it is not practicable to estimate fair value.~~

Current illustration for Note 20C

This is included to show the current free form schedule used to satisfy Note 20C, with the examples of financial instrument groupings shown below. Companies have taken different approaches on how to report financial instruments, with some companies reporting with broad categories, and others including various financial statement reporting lines.

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Net Asset Value (NAV)	Not Practicable (Carrying Value)
Issuer Credit Obligations	$	$	$	$	$	$	$ .....
Asset-Backed Securities	.....	.....	.....	.....	.....	.....	.....
Common Stock	.....	.....	.....	.....	.....	.....	.....
Perpetual Preferred Stock	.....	.....	.....	.....	.....	.....	.....
Mortgage Loans	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....

Proposed illustration for Note 20C

This illustrates the proposed set illustration for which all companies will be required to follow to ensure consistent and comparable reporting. Notes are included with specific requests for comment. **Tracked changes are not shown as the reporting lines have been completely revised, but the proposed deletion of the not practicable column is shown as tracked.**

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Net Asset Value (NAV)	~~Not Practicable (Carrying Value)~~
Schedule B: Mortgage Loans							
Commercial							
Residential							
Other							
Schedule B Total							
Note: There is no fair value column or hierarchy reporting of FV on Schedule B.							
Schedule BA: Oter Invested Assets							
Debt Securities That Do Not Qualify as Bonds							
Surplus Notes / Capital Notes							
Collateral Notes / Non-Collateral Loans							
Tax Credit Investments							
Working Capital Finance Investments							
Residual Tranches or Interests with Underlying Assets Having Characteristics of							
Bonds							
Preferred Stock							
Common Stock							
Real Estate							
Mortgage Loans							
Other							
Any Other Class of Assets							
Schedule BA Total							

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Total should agree to Schedule BA, Column 11, less the amounts in reporting lines 1399999 through 2699999. These excluded lines reflect interests in joint ventures, partnerships or limited liability companies in scope of SSAP No. 48 and reported under the equity method.

Note: The above Schedule BA categories have been consolidated, including the breakouts for non-bond debt securities, tax credit investments and affiliated and unaffiliated distinctions. The residual broad categories have remained. Comments are requested on whether this presentation will provide needed information, and/or if categories should be divided to match reporting lines and/or if further consolidation could occur.

Schedule DA: Short-Term Investments – Total							
Schedule E2: Cash Equivalents – Total							

Note: There is no fair value column or hierarchy reporting of FV on Schedule DA or E2.

D-1-1: Issuer Credit Obligations							
US Government - RBC Exempt							
Other US Government							
Non-US Sovereign Jurisdictions							
Municipal Bonds – General Obligation							
Municipal Bonds – Special Revenue							
Project Finance - Unaffiliated							
Project Finance - Affiliated							
Corporate Bonds - Unaffiliated							
Corporate Bonds - Affiliated							
Mandatory Convertible Bonds - Unaffiliated							
Mandatory Convertible Bonds - Affiliated							
Single-Entity Backed - Unaffiliated							
Single-Entity Backed - Affiliated							
SVO Identified Bond ETFs – Fair Value							
SVO Identified Bond ETFs – Systematic Value							
Issued by Funds – Unaffiliated							
Issued by Funds – Affiliated							
Bank Loans Issued – Unaffiliated							
Bank Loans Issued - Affiliated							
Bank Loans Acquired - Unaffiliated							
Bank Loans Acquired - Affiliated							
SVO Identified CTLs - Unaffiliated							
SVO Identified CTLs - Affiliated							
Certificate of Deposits – Unaffiliated							
Certificate of Deposits - Affiliated							
Other ICO – Unaffiliated							
Other ICO - Affiliated							
Schedule D-1-1 Total							

Note: The total should agree to Schedule D-1-1, Column 7. For Schedule D-1-1, all reporting lines have been included, therefore all totals should also agree to the subtotals captured on the investment schedule. Comments are requested on whether all reporting lines shall be retained.

D-1-2: Asset-Backed Securities							
Agency RMBS - RBC Exempt							
Agency CMBS - RBC Exempt							
Agency RMBS - Not RBC Exempt							
Agency CMBS - Not RBC Exempt							
Non-Agency RMBS - Unaffiliated							
Non-Agency RMBS - Affiliated							
Non-Agency CMBS - Unaffiliated							
Non-Agency CMBS - Affiliated							
CLOs, CBOs, CDO - Unaffiliated							
CLOs, CBOs, CDO - Affiliated							
Other Financial ABS - Unaffiliated							
Other Financial ABS - Affiliated							
Total Financial ABS - Self Liquidating							
Equity Backed - Unaffiliated							
Equity-Backed Affiliated							
Other Non-Self Liquid - Unaffiliated							
Other Non-Self Liquid - Affiliated							
Total Financial ABS – Non-Self Liquidating							
Lease-Backed - PE - Unaffiliated							
Lease-Backed - PE - Affiliated							
Other ABS - PE - Unaffiliated							
Total Other ABS - PE - Affiliated							
Schedule D-1-2 Total							

Note: The total should agree to Schedule D-1-2, Column 7. For Schedule D-1-2, all reporting lines have been included, therefore all totals should also agree to the subtotals captured on the investment schedule. Comments are requested on whether all reporting lines shall be retained.

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Schedule D-2-1: Preferred Stocks								
Industrial and Miscellaneous (Unaffiliated):								
Perpetual Preferred								
Redeemable Preferred								
Parent, Subsidiaries and Affiliates:								
Perpetual Preferred								
Redeemable Preferred								
Schedule D-2-1 Total								

Note: The total should agree to Schedule D-2-1, Column 8. For Schedule D-2-1, all reporting lines have been included, therefore all totals should also agree to the subtotals captured on the investment schedule. Comments are requested on whether all reporting lines shall be retained.

Schedule D-2-2: Common Stocks								
Industrial and Miscellaneous (Unaffiliated)								
Publicly Traded								
Other								
SEC Registered Funds - Total								
Parent, Sub & Affiliates – Market Value (8a)								
Schedule D-2-2 Total								

Total should agree to Schedule D-2-2, Column 8, less the amounts in the SCA subtotal line 597999999, plus the SCAs valued under SSAP No. 97, paragraph 8a as they follow the market value method. The other SCAs subject to SSAP No. 97 are excluded as they are reported under an equity method. FHLB common stock shall be included, but the reported fair value shall equal par value as an NAIC Level 1.

Note: The SEC registered funds lines have been consolidated. Separate breakouts exist on Schedule D-2-2 for mutual funds, unit investment trusts, closed-end funds, and ETFs. Comments are requested on whether these should be divided within this disclosure.

Contract / Policy Loans – Total

Note: There is no schedule for contract / policy loans. These items are reported on line 6 of the balance sheet.

Schedule DB: Derivative Assets - Total

Schedule DB: Derivative Liabilities - Total

Note: The Schedule DB reporting lines are extensive and are not proposed to be separated for this disclosure. The sum of the totals reported should agree to Schedule DB – Part A, Section 1, column 16, Schedule DB – Part B, Section 1, column13

Other Financial Instrument – Assets - Total

Other Financial Instrument – Liabilities - Total

Note: The above reporting lines shall only be used for any other aspects not captured in an investment schedule detailed above. It is uncertain what these would be but the "other" options have been captured to ensure completeness.

20D Current Illustrations

As noted in the 2026 updated Fall National Meeting recommendation, the recommendation is to delete Note 20D.

Note 20D – This current note is supposed to include individual security detail for items that a company has identified as not practicable to estimate fair value. The total from the corresponding column in Note 20C should agree to the total carrying value for all individually reported securities. The note illustration includes the broad classes to show the types of financial instruments that should be included, but the instructions are clear that it is to include individual securities. For the investment schedules in which fair value is captured, there is no option to identify that it was not practicable to estimate fair value. There is also no option to classify a security with that distinction in the fair value hierarchy / method to obtain fair value column. Under the level 3 fair value provisions of SSAP No. 100, in situations in which there are no observable inputs, fair value is to be determined by the entity based on their own assumptions about the assumptions market participants would use in pricing the asset. This disclosure was deleted for U.S. GAAP in ASU 2016-01.

~~Note 20D. Not Practicable to Estimate Fair Value~~

~~Type or Class of Financial Instrument~~		~~Carrying Value~~	~~Effective Interest Rate~~	~~Maturity Date~~	~~Explanation~~
~~Issuer Credit Obligations~~	~~$~~	.....	.....	.....	.....
~~Asset-Backed Securities~~		.....	.....	.....	.....
~~Common Stock~~		.....	.....	.....	.....
~~Perpetual Preferred Stock~~		.....	.....	.....	.....
~~Mortgage Loans~~					
~~Description 1~~		.....	.....	.....	.....

~~Description 2~~				

~~NOTE: Type or Class of Financial Instrument Column shows examples of types or classes of financial instruments that can be disclosed. Each individual security should be listed and not just an aggregate for the type or class of financial instrument.~~

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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).

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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:

> **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

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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.

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.

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Column 13 – Other

(Drafting Note - no instructions are provided for this column)

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;

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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.

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.**

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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 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

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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 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.

[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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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 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.

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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:

~~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

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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

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

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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.

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.

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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

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.

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~~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.

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.

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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.

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.

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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.)

For Fall 2026 National Meeting discussion, the following revisions to SSAP No. 61 are proposed for adoption. The additional minor revisions suggested by interested parties to paragraphs 22.e. and 22.f. are shown as gray shaded text below:

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.

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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 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.)

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https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/11-15-26 Fall National Meeting/Hearing/10 - 26-02 - Valuation of Funds Withheld.docx

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Maintenance Agenda Submission Form
Form A

Issue: ASU 2025-10, Accounting for Government Grants Received by Business Entities

Check (applicable entity):

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

Description of Issue:
In December 2025, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update* (ASU) *2025-10, Accounting for Government Grants Received by Business Entities* which establishes a new topic to provide accounting for a government grant received by a business entity, including guidance for (1) a grant related to an asset and (2) a grant related to income. Under ASU 2025-10, a grant related to an asset is a government grant, or part of a government grant, which is conditioned on the purchase, construction, or acquisition of an asset (for example, a long-lived asset or inventory). A grant related to income is a government grant, or part of a government grant, other than a grant related to an asset (for example, a grant that reimburses a business entity for operating expenses).

ASU 2025-10 continues to utilize the existing U.S GAAP disclosures in Topic 832: Government Grants, which were initially established through ASU 2021-10, Government Assistance and applied to government grant/assistance transactions accounted for by analogy using either the grant accounting model (IAS 20) or the contribution accounting model (Topic 958). ASU 2025-10 revised the scope of these disclosures so that they apply to a government grant received by a business entity and adopt many of the same accounting principles used under the grant accounting model. The Statutory Accounting Principles (E) Working Group previously addressed and rejected ASU 2021-10 and determined that neither the grant nor contribution methods of accounting for government grant/assistance transactions were permitted under SAP. Rather, government grants/assistance are to be recorded in accordance with gain contingency guidance per *SSAP No. 5—Liabilities, Contingencies and Impairments of Asset*s (recognition allowed once realized), and are subject to the reporting disclosure requirements of both SSAP No. 5 and *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items*.

NAIC staff's recommendation is that adoption of ASU 2025-10 is not necessary, as the guidance would be rarely utilized by insurance entities and the Working Group has already rejected the grant or contribution accounting models. Outside of the COVID-19 era programs such as the Paycheck Protection Program (PPP), Economic Injury Disaster Loans (EIDL), and Employee Retention Credits (ERC), government grant/assistance revenues are unusual and infrequent occurrences for insurers and existing guidance in SSAP No. 5 and SSAP No. 24 is sufficient to address such transactions.

Existing Authoritative Literature:

SSAP No. 5— Liabilities, Contingencies and Impairments of Assets:

Gain Contingencies

15. A gain is defined as an increase in surplus which results from peripheral or incidental transactions of a reporting entity and from all other transactions and other events and circumstances affecting the reporting entity except those that result from revenues or investments by owners. If, on or before the balance

sheet date, (a) the transaction or event has been fully completed, and (b) the amount of the gain is determinable, then the transaction or event is considered a gain, and is recognized in the financial statements. The definition of a gain excludes increases in surplus that result from activities that constitute a reporting entity's ongoing major or central operations or activities. Because investment activities are central to an insurer's operations, increases in surplus that result from such investment activities are excluded from the definition of gains. Revenues are inflows or other enhancements of assets of a reporting entity or settlements of its liabilities (or a combination of both) from providing products, rendering services, or other activities that constitute the reporting entity's ongoing major or central operations. Investments by owners include any type of capital infused into the surplus of the reporting entity.

16. A gain contingency is defined as an existing condition, situation, or set of circumstances involving uncertainty as to possible gain (as defined in the preceding paragraph) to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur (e.g., a plaintiff has filed suit for damages associated with an event occurring prior to the balance sheet, but the outcome of the suit is not known as of the balance sheet date). Gain contingencies shall not be recognized in a reporting entity's financial statements. However, if subsequent to the balance sheet date but prior to the issuance of the financial statements, the gain contingency is realized, the gain shall be disclosed in the notes to financial statements and the unissued financial statements should not be adjusted to record the gain. A gain is generally considered realizable when noncash resources or rights are readily convertible to known amounts of cash or claims to cash.

SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items (grey shading added from emphasis):

Unusual/Infrequent Items

16. The nature, including a general description of the transactions, and financial effects of each unusual or infrequent event or transaction shall be disclosed in the notes to the financial statements. Gains or losses of a similar nature that are not individually material shall be aggregated. This disclosure shall include the line items which have been affected by the event or transaction considered to be unusual and/or infrequent. If the unusual or infrequent item is as the result of government assistance, disclosure shall additionally include the form in which the assistance has been received (for example, cash or other assets), and information regarding significant terms and conditions of the transaction, with items including, to the extent applicable, the duration or period of the agreement, and commitments made by the reporting entity, provisions for recapture, or other contingencies.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): Agenda item 2022-04: ASU 2021-10, Government Assistance adopted ASU 2021-10 with modification on August 10, 2022.

Agenda item 2023-06: ASU 2021-10, Government Assistance was reassessed ASU 2021-10 at the recommendation of NAIC staff. On August 13, 2023, ASU 2021-10 was rejected for statutory accounting purposes, but general disclosures were incorporated into SSAP No. 24 for insurance companies which received government assistance.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None.

Convergence with International Financial Reporting Standards (IFRS): None.

Staff Review Completed by: William Oden – NAIC Staff

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Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items* to reject *ASU 2025-10, Accounting for Government Grants Received by Business Entities*. NAIC staff recommend updating SSAP No. 24 to change the term "government assistance" to "government grants" as the term "government assistance" is no longer used within U.S. GAAP and add an additional sentence to clarify that government grants are to be recorded in accordance with gain contingency guidance.

Recommended Revisions to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items*:

Unusual/Infrequent Items

16. The nature, including a general description of the transactions, and financial effects of each unusual or infrequent event or transaction shall be disclosed in the notes to the financial statements. Gains or losses of a similar nature that are not individually material shall be aggregated. This disclosure shall include the line items which have been affected by the event or transaction considered to be unusual and/or infrequent. If the unusual or infrequent item is ~~as~~ the result of government ~~assistance~~grants, the disclosures shall ~~additionally~~ include the form in which the ~~assistance~~ grant has been received (for example, cash or other assets), and information regarding significant terms and conditions of the transaction, with items including, to the extent applicable, the duration or period of the agreement, and commitments made by the reporting entity, provisions for recapture, or other contingencies. Government grants are to be treated as gain contingencies and shall be recognized and disclosed in accordance with *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets*.

Relevant Literature

24. This statement rejects *ASU 2021-10, Government Assistance: Disclosure by Business Entities about Government Assistance*. However, it does incorporate general disclosures about government assistance for all reporting entity types. This statement also rejects *ASU 2025-10, Accounting for Government Grants Received by Business Entities*.

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 revisions to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items* to reject ASU 2025-10, Accounting for Government Grants Received by Business Entities. This exposure also included updates to SSAP No. 24 to change the term "government assistance" to "government grants" as the term "government assistance" is no longer used within U.S. GAAP and to add an additional sentence to clarify that government grants are to be recorded in accordance with gain contingency guidance.

On August 12, 2026, the Statutory Accounting Principles (E) Working Group exposed a revised draft of the proposed revisions to SSAP No. 24 which incorporates interested parties' recommendation to include additional guidance for asset-related grants.

Summer National Meeting Recommended Revisions to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items*:
Drafting Note: New revisions to the Summer National Meeting exposure are shown tracked with grey highlighting.

Unusual/Infrequent Items

16. The nature, including a general description of the transactions, and financial effects of each unusual or infrequent event or transaction shall be disclosed in the notes to the financial statements. Gains or losses of a

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similar nature that are not individually material shall be aggregated. This disclosure shall include the line items which have been affected by the event or transaction considered to be unusual and/or infrequent. If the unusual or infrequent item is ~~as~~ the result of government ~~assistance~~grants, the disclosures shall ~~additionally~~ include the form in which the ~~assistance~~ grant has been received (for example, cash or other assets), and information regarding significant terms and conditions of the transaction, with items including, to the extent applicable, the duration or period of the agreement, and commitments made by the reporting entity, provisions for recapture, or other contingencies. Government grants are to be treated as gain contingencies and shall be recognized and disclosed in accordance with *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets*.

17. If a government grant, or any component of the grant, is conditioned on the purchase, construction, or acquisition of an asset ("grants related to an asset)," the reporting entity shall recognize grants receivable and deferred grant income as the related costs are incurred, provided the grant has met the criteria for recognition as a gain contingency (the government grant has been awarded, it is probable that the reporting entity will comply with the conditions attached to the government grant, and the amount of the grant is determinable). Deferred grant income shall be recognized as other income on a systematic and rational basis over the periods in which the entity recognizes as expenses the related costs for which the government grant is intended to compensate. If a government grant becomes repayable, the reporting entity shall immediately recognize a liability for the amount repayable; for grants related to assets the repayment liability shall represent the amount in excess of any unamortized deferred grant income. Any grant receivable that will be used to acquire a nonadmitted asset shall be nonadmitted. Subsequent to acquisition, the acquired asset shall follow the applicable statutory accounting guidance for measurement and admittance.

Relevant Literature

25. This statement rejects *ASU 2021-10, Government Assistance: Disclosure by Business Entities about Government Assistance*. However, it does incorporate general disclosures about government assistance for all reporting entity types. This statement also rejects *ASU 2025-10, Accounting for Government Grants Received by Business Entities*.

Fall National Meeting Recommended Revisions:
Drafting Note: New revisions to the Fall National Meeting exposure are shown tracked with grey highlighting.

***SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items*:**

Unusual/Infrequent Items

16. The nature, including a general description of the transactions, and financial effects of each unusual or infrequent event or transaction shall be disclosed in the notes to the financial statements. Gains or losses of a similar nature that are not individually material shall be aggregated. This disclosure shall include the line items which have been affected by the event or transaction considered to be unusual and/or infrequent. If the unusual or infrequent item is ~~as~~ the result of government ~~assistance~~grants, the disclosures shall ~~additionally~~ include the form in which the ~~assistance~~ grant has been received (for example, cash or other assets), and information regarding significant terms and conditions of the transaction, with items including, to the extent applicable, the duration or period of the agreement, and commitments made by the reporting entity, provisions for recapture, or other contingencies. Government grants are to be treated as gain contingencies and shall be recognized and disclosed in accordance with *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets*.

17. If a government grant, or any component of the grant, is conditioned on the purchase, construction, or acquisition of an asset ("grants related to an asset)," the reporting entity shall recognize grants receivable and deferred grant income as the related costs are incurred, provided ~~the grant has met the criteria for recognition as~~

~~a gain contingency (~~the government grant has been awarded, it is probable that the reporting entity will comply with the conditions attached to the government grant, and the amount of the grant is determinable~~)~~. Deferred grant income shall be recognized as other income on a systematic and rational basis over the periods in which the entity recognizes as expenses the related costs for which the government grant is intended to compensate (e.g. depreciation, gain or loss on sale, or impairment of the acquired asset). If a government grant becomes repayable, the reporting entity shall immediately recognize a liability for the amount repayable; for grants related to assets the repayment liability shall represent the amount in excess of any unamortized deferred grant income. Any grant receivable that will be used to acquire a nonadmitted asset shall be nonadmitted. Subsequent to acquisition, the acquired asset shall follow the applicable statutory accounting guidance for measurement and admittance.

Relevant Literature

26. This statement rejects *ASU 2021-10, Government Assistance: Disclosure by Business Entities about Government Assistance*. However, it does incorporate general disclosures about government assistance for all reporting entity types. This statement also rejects *ASU 2025-10, Accounting for Government Grants Received by Business Entities*.

SSAP No. 67—Other Liabilities

Relevant Literature

~~13. This statement adopts FASB Statement No. 116, Accounting for Contributions Received and Contributions Made and AICPA Statement of Position 96-1, Environmental Remediation Liabilities. This statement is consistent with FASB Statement No. 5, Accounting for Contingencies as discussed in SSAP No. 5.~~

Drafting Note: NAIC staff noted that FAS No. 116 was previously adopted by reference within SSAP No. 67. Upon further review, NAIC staff determined that this adoption was intended to establish that donations and grants made by the reporting entity were other liabilities within the scope of SSAP No. 67. As the original adoption did not adopt any of the accounting guidance related to either a promise to give or an environmental remediation liability, NAIC staff recommend rejecting both FAS No. 116 and SOP No. 65-1. Specifically calling out either of these liabilities for inclusion as an Other Liability is not considered necessary and application of the definition of a liability per SSAP No. 5 is sufficient for determining whether a liability should be recorded for promises to give or an environmental remediation.

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

Issue: SSAP No. 21 – ICOLI

Check (applicable entity):

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

Description of Issue: This agenda item has been prepared to reconsider the reporting guidance in *SSAP No. 21—Other Admitted Assets*, paragraph 9, for the amounts that could be realized on life insurance where the reporting entity is owner and beneficiary or otherwise has obtained rights to control the policy, (often referred to as Company Owned Life Insurance (COLI) or Insurance Company Owned Life Insurance (ICOLI)). Under existing guidance, the amount that can be realized from life insurance policies in compliance with Internal Revenue Code (IRC) §7702 where the reporting owner is the owner and beneficiary or otherwise has rights to control the policy, is considered similar to a cash deposit that is realizable on demand. These amounts are reported under the following provisions:

- Policies in scope of SSAP No. 21, paragraph 9, are to be acquired with the primary consideration of costs related to employee benefit obligations or the loss of a key person.
- Amounts realizable are reported as admitted "other-than-invested" assets.
- The cash surrender value (CSV), adjusted for contractual terms that limit or provide for additional amounts, is the realizable value. If the amount is realizable beyond one year, discounting is required.
- Disclosure is required of the CSV that is within an investment vehicle, by broad investment category. These categories include:
    - Cash and Short-Term Investments
    - Bonds
    - Stocks
    - Mortgages
    - Real Estate
    - Derivatives
    - Other Invested Assets (e.g., Schedule BA-type assets)

With the reporting as an "other-than-invested" asset, the amounts captured under SSAP No. 21, paragraph 9 are reported outside of the balance sheet investment categories and are reported on line 25 of the asset page as an "aggregate write-in." The description of the aggregate write-in varies by company but is often detailed as Insurance Company Owned Life Insurance (abbreviated often as ICOLI) or "Company Owned Life Insurance (abbreviated often as COLI). By reporting as an "other-than-invested" asset, the amount is excluded fully from RBC for life entities. This occurs for all amounts reported, even if the company has identified an amount that is held within an investment vehicle. For P/C and health entities, there is an existing 5% RBC charge for all amounts reported as "other-than-invested assets." This charge falls into the R3 component, which is the smallest component of the covariance calculation, so it carries considerably less weight than other asset types.

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From a review of the 2025 year-end disclosure of the CSV within an investment vehicle, of the 143 entities that completed the disclosure, 59 entities reported that over 40% of the CSV was captured in an investment vehicle holding other-invested assets (e.g., investments that would be captured on Schedule BA if held directly). Of these 59 entities, 35 entities reported that over 70% of the investment vehicle amount was in a Schedule BA type investment, and 21 entities reported over 90%. Additionally, it has been observed that there has been a rapid increase in ICOLI holdings over the past several years. Individual companies indicate that ICOLI assets make up a significant portion of surplus assets (with one company over 100% and others over 50%). Footnote 6 of SSAP 21 effectively precludes the use of ICOLI to back policyholder reserves.

Aggregate Data Increase – Amounts in Millions:
The amount of CSV in investment vehicles has more than doubled in 4 years since 2021.

	2025	2024	2023	2022	2021
Life	$29,557	$23,066	$15,152	$16,415	$14,336
Property/Casualty	$9,223	$6,508	$6,262	$8,232	$2,460
Health	$1,831	$1,731	$1,400	$1,247	$1,194
Total	**$40,611**	**$31,305**	**$22,814**	**$25,894**	**$17,990**
% Change from P/Y	29.73%	37.22%	(11.90%)	43.93%	

It has also been observed that the marketing of ICOLI products has featured them as a way for insurers to invest in private markets without holding RBC. One manager of ICOLI funds noted in a recent publication that, "Capital efficiency is the core value proposition: ICOLI assets carry RBC charges of just 0–5% versus 20%+ for direct private fund holdings."

Accounting and reporting of ICOLI products were previously raised in agenda item 2018-08, at which time the working group adopted the IRC §7702 criteria for determining whether a product qualifies to be in scope of SSAP 21. Also adopted at that time were the disclosures that were used to derive the above data. At the time of the previous working group discussion, both NAIC staff and working group members expressed concern that ICOLI premiums could be invested into underlying investment products that would expose the insurer to investment risk. Since ICOLI receives no RBC charge, this could be used to circumvent RBC requirements that would otherwise apply to such investments. The Working Group did consider whether to exclude ICOLI containing investment risk from the scope of SSAP 21. However, the working group ultimately decided against such an exclusion.

With the increase in the use of these products and the significant allocations to Schedule BA-type investment vehicles, NAIC staff have received a regulator request to reconsider the reporting of these amounts recognized under SSAP No. 21, paragraph 9. This item is not intended to revisit the scope of SSAP No. 21 as concluded upon in 2018 and it is recognized that ICOLI products are a common tool used to manage employee benefit costs and key man risk with material tax advantages. Specifically, the question is whether ICOLI products, particularly those containing investment risk, should be reported as invested assets, which would in turn result in assessment of appropriate risk-based capital requirements. Accordingly, **this agenda item requests regulator comments on whether the amounts reported under SSAP No. 21, paragraph 9, should be captured on Schedule BA with a new reporting category for "Realizable Amounts Under ICOLI Policies", with reporting lines to capture the amount outside of an investment vehicle, and the amounts within an investment vehicle, divided by investment category.** Including all amounts would capture those that were not identified to be in an investment vehicle. The Working Group could also consider only including those ICOLI that contain investment risk.

NAIC staff have completed a life-entity comparison to the data-captured disclosure to the amount reported as an aggregate "other-than invested asset" write-in and have identified that the majority of companies have amounts that agree in both reporting locations. Meaning, the full CSV reported as an aggregate write-in is reported as in

an investment vehicle. For the life companies that reported amounts which did not match, in most cases, the variations between the disclosure and the amount reported on the balance sheet are not significantly different. (As the disclosure only captured companies that use an investment vehicle for the CSV, the population of impacted companies could be greater, as they are not currently completing the disclosure.)

Existing Authoritative Literature:

SSAP No. 21—Other Admitted Assets

The Amount That Could Be Realized on Life Insurance Where the Reporting Entity is Owner and Beneficiary or Has Otherwise Obtained Rights to Control the Policy

9. The provisions in this paragraph are for life insurance policies, which are in compliance with Internal Revenue Code (IRC) §7702[FN1], in which the reporting entity is the owner and beneficiary[FN2]. For these owned products, the amount that could be realized on life insurance policies where the reporting entity is the owner and beneficiary or has otherwise obtained the rights to control the policy, is similar to a cash deposit that is realizable on demand. As such, the amount that could be realized on a life insurance policy as of the date to which premiums have been paid shall be reported as an admitted asset. In determining the amount that could be realized, reporting entities shall consider the cash surrender value as well as other contractual terms which limit or provide for additional realizable amounts. If any of these contractual terms which limit or provide for additional realizable amounts allow the owner to pay variable premium (reducing or increasing the premium based on the increase or decrease of a variable investment vehicle of the policy), the life insurance policies must always remain compliant with IRC §7702 to be an admitted asset under this paragraph. Amounts recoverable by the reporting entity at the discretion of the issuing company shall not be included. Amounts realizable beyond one year from the surrender date shall be discounted. For group policies or a group of individual life policies, reporting entities shall assume surrender on a policy-by-policy or certificate-by-certificate basis, unless contractual terms only allow for surrender of all policies or certificates as a group, in which case the amount that could be realized shall be determined on a group basis. Disclosure is required of the amount of the cash surrender value that is within an investment vehicle by investment category (e.g., bonds, common stock, joint ventures, derivatives, etc.)

[FN1] In order to be in compliance with IRC §7702:

1. The contract must be considered "life insurance" under applicable state insurance law. This is a contractual definition that includes:
    - The contract must be filed and approved as life insurance.
    - It must be regulated as life insurance under applicable laws and regulations (such as variable life insurance regulation and non-forfeiture laws).
    - There must be an insurable interest in the continued life of the insured (federal and state law also require the consent of the insured to the coverage).
    - There must be a significant transfer of mortality risk between the policyholder and the insurance company.
2. The contract must meet one of two actuarial tests of the policy's cash value relation to its death benefit to assure that, prior to death/maturity, the policy cash value does not exceed the net single premium required to fund the death benefit.

[FN2] These life insurance products shall be acquired with the primary consideration of the costs related to employee benefit obligations or the loss of a key person.

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): The Statutory Accounting Principles (E) Working Group previously considered this topic in agenda item 2018-08. Prior to the adopted revisions of 2018-08, the term "life insurance" used for company-owned policies was not limited to the IRC

provisions. With the discussion of 2018-08, NAIC was made aware that products were being structured to be captured in scope with very limited death benefits as a way for companies to invest in alternative assets without RBC charges. The revisions adopted in 2018-08 included the following:

- Required policies in scope to be considered life insurance under IRC §7702. This provision requires actuary tests to verify the cash value does not exceed the net single premium required to fund the death benefit.

- Required that the life insurance policies are acquired with the primary consideration of the costs related to employee benefit obligations of the loss of a key person.

- Required disclosure of the amount of the CSV that is within an investment vehicle by investment category.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation:
NAIC staff recommend that the Working Group expose this agenda item with a request for comment on whether the amounts reported under SSAP No. 21, paragraph 9, should be captured on Schedule BA with a new reporting category for "Realizable Amounts Under ICOLI Policies," with reporting lines to capture the amount outside of an investment vehicle, and the amounts within an investment vehicle, divided by investment category.

Consideration of comments is proposed before formally moving this item to the SAPWG active agenda.

With initial exposure of this agenda item, NAIC staff recommend that the Working Group send a referral to the Capital Adequacy (E) Task Force to inform them of this exposure and request initial feedback on the potential inclusion of these items as an invested asset, with assessment of RBC factors.

Staff Review Completed by: Julie Gann, April 2026.

Status:
On August 12, 2026, the Statutory Accounting Principles (E) Working Group exposed this as a concept agenda item with a request for comments on whether the amounts reported under SSAP No. 21, paragraph 9, should be captured on Schedule BA with a new reporting category for "Realizable Amounts Under ICOLI Policies," with reporting lines to capture the amount outside of an investment vehicle, and the amounts within an investment vehicle, divided by investment category. Consideration of comments will occur before formally moving this item to the SAPWG active agenda. The Working Group also directed a referral to the Capital Adequacy (E) Task Force to notify of this exposure and request initial feedback on the potential inclusion of these items as an invested asset, with assessment of RBC factors.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/11-15-26 Fall National Meeting/Hearing/12 - 26-08 - SSAP No. 21 - ICOLI.docx

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

Issue: SSAP No. 86 - RSATs

Check (applicable entity):

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

Description of Issue: This agenda item has been prepared to review and potentially consider revisions to the accounting and reporting of Replication Synthetic Asset Transactions (RSATs) in *SSAP No. 86—Derivatives*. This agenda item originated from information received from the SVO on a noted increase in RSAT filings, questions on whether there are parameters for when an RSAT is permitted or should be restricted, and from the review of SSAP No. 86 that occurred with the IMR project. The IMR project resulted in proposed revisions to SSAP No. 86 to clarify when realized gains and losses can be allocated to IMR from the RSAT derivative and the cash component, but the review resulted in questions on RSAT arrangements that would results in a fair value measurement method (resulting in AVR reporting) and whether the SSAP No. 86 RSAT guidance is clear to ensure consistent application.

The guidance in SSAP No. 86 for RSATs is limited to a broad definition and then guidance for reporting in the financial statements, with provisions for determining whether the derivative shall be reported at amortized cost or fair value. The guidance in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) provides more detail describing RSATs that are within "safe harbor" parameters (which always involve a bond) and the documentation required for RSATs that are not structured as a "safe harbor." The P&P Manual includes requirements to be "effective" and a basic definition on the cash component, with further details when the cash component is satisfied through a basket (grouping of instruments). All RSATs, including those considered to be safe harbored and those that are not, are required to be filed with the SVO for an NAIC designation.

In terms of reporting, detail of open RSATs is required in Schedule DB, Part C – Section 1, in the annual and quarterly statutory filings. Additionally, in the annual filing, there is also a roll-forward that shows the number of positions and statement value for RSATS in each quarter, with a year-to-date accumulation.

For RBC reporting, the replicated asset value is included in the formula with an RBC factor calculated based on the corresponding NAIC designation to increase the RBC impact. Then, for situations in which the transaction reduces the risk exposure to the associated cash component, the determined RBC from the cash components are reflected as a decrease to the RBC. In reviewing specific company filings, instances have been noted in which a singular RSAT may result in a reduction of RBC for that particular transaction (negative impact for a particular RSAT, but positive increase to RBC for all RSAT transactions), as well as instances in which the overall net RBC impact from all RSAT transactions results in a reduction to RBC.

Pursuant to the SVO and the P&P Manual, the RBC impact depends on the type of RSAT. For certain RSATs, such as those involving interest rate swaps or currency swaps, the NAIC designation assigned to the RSAT is based on the designation assigned to the cash component. In contrast, for RSATs involving credit default swaps, the RSAT designation is based on the designation attributed to the referenced entity or referenced credit risk. In other words, if a company is entering an RSAT to replicate a 30-year Ford Bond, the assigned designation would be the credit rating attributed to Ford. NAIC has noted that a specific entity may not be named in such designs, and the designation instead reflects what would occur for a long-term bond with a specific investment / credit profile (e.g.,

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replicating an investment that has an NAIC designation of 1.f). If the reference entity was an index or a basket of entities, then the SVO would assign a designation based on a weighted-average rating factor (WARF) methodology of the constituent entities or credit risks. As a result, an RSAT involving a credit default swap for a referenced entity that has a higher NAIC designation than its cash component could currently result with an RBC benefit. (The derivative is still included in the formula with a separate RBC impact.) It's important to highlight that there are no current provisions that limit the "cash component" that can be used for RSAT transactions. Although discussions most often refer to the use of treasuries as an example cash component, **the guidance currently allows for any investment, or portfolio of investments, to be identified as the cash component.**

References in SSAP No. 86, the P&P Manual and historical minutes identify that RSATs are only permitted to replicate "permissible investments." This term is not well-defined in existing guidance, but the historical minutes indicate that the replicated investment would be one that would qualify as an admitted invested asset according to the state of domicile. NAIC staff presumes this to mean that the replicated asset would qualify within an investment SSAP as an admitted asset, and be within the state's investment limits, if it was held directly.

In accordance with NAIC staff's review of RSAT transactions, NAIC staff proposes revisions as well as the incorporation of key guidance into *SSAP No. 86—Derivatives* as summarized below. A key theme in the proposed edits is that the dedicated cash component shall reflect a high-quality, liquid asset as support towards a replicated asset that has investment-grade characteristics.

1. **Inclusion in SSAP No. 86 of key definitions and the requirements for an RSAT to be effective**. These edits propose to clarify the effectiveness test involving the RSAT assessment of maximum potential loss to detail that this is satisfied through a comparison of the derivative notional to the BACV of the cash components. The effectiveness test would be met if the derivative notional (as an indicator of the risk of loss) does not exceed the BACV of the cash components.

2. **New guidance that restricts cash components used in RSATs to high-quality securities reported as U.S. Government investments, municipals, or corporate bonds on Schedule D-1-1: Issuer Credit Obligations with an overall NAIC 1 or NAIC 2 designation**. (This provision will allow NAIC investments with an 1A through 1G or 2A through 2C designation to be used as cash components.) This change will require an RSAT to be backed by a high-quality ICO bond and eliminate the possibility to use lower-quality bonds, an asset-backed security (ABS) or other invested assets as cash components supporting the replication. The guidance will also specify that if the cash component is downgraded below an NAIC 2 or has experienced an other-than-temporary impairment, then the cash component is no longer permitted in the transaction. In such instances, companies shall designate a new, qualifying cash component. Whenever there is a change in a cash component, the reporting entity would need to file a material change with the SVO for assessment on whether the RSAT arrangement with the revised cash component still qualifies as effective, whether the maturity of the cash component exceeds the maturity of the derivative, and to confirm the prior NAIC designation or obtain a revised NAIC designation for the RSAT transaction.

3. **New guidance that requires RSATs to replicate investment grade (NAIC 1-2) long-term Schedule D-1-1: Issuer Credit Obligation bonds as the "permissible investment."** NAIC staff believe this is the most common use of RSATs but the explicit restriction would prevent the use of RSAT transactions that would replicate non-investment grade bonds, and non-bond structures that could be subject to state investment limits or other statutory accounting provisions that may hinder qualification as a "permissible investment". As previously noted, all the safe-harbor provisions within the P&P Manual reference bond replications.

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4. **Revisions to assess and potentially eliminate the accounting guidance from SSAP No. 86 for situations that result with the fair value measurement of the derivative.** With the edits to restrict cash components and replicated assets, the prior fair value measurement guidance will not be applicable. Based on the provisions, the default accounting for the derivative based on accounting of an investment grade ICO bond as the cash component and an investment-grade replicated asset will be amortized cost, which is believed to be consistent with common operations. The option to report the derivative at fair value will be retained.

5. **Lastly, guidance is recommended to prescribe how the RSAT and RBC reporting schedule should be completed, particularly for situations in which the CUSIP for the RSAT has yet to be received and/or when a single derivative is used with a basket of cash components or that covers many RSAT credit profiles.** Although it is common for transactions to be grouped together (e.g., cash component and RSAT) in reporting, instances have been noted where all RSATs increasing RBC have been reported, followed by all cash components decreasing RBC. This reporting eliminates the ability to match the cash component to the specific RSAT or to tie back the RBC reporting to Schedule DB-Part C. These edits are proposed to include a referral to the Capital Adequacy (E) Task Force requesting this guidance inclusion and to prohibit net reduction of RBC from RSAT transactions. ***(Meaning, the overall RBC impact from replicated assets and the cash component should be either a net increase to RBC or floored at zero.)*** The intent of RSAT transactions is to provide reporting entities exposure to other investments with specific characteristics. The intent is not to enable a reduction of RBC by allocating higher-risk held assets as the cash component to an RSAT transaction. Although NAIC staff has observed those dynamics within RBC reporting (net reduction with RSAT and cash components), such situations are not expected to be the common impact of RSAT transactions, therefore is not expecting significant revisions as a result of this change.

Existing Authoritative Literature:

SSAP No. 86—Derivatives
(The guidance shown below includes the tracked changes proposed to be adopted as part of the IMR project.)

Derivatives Used in Replication (Synthetic Asset) Transactions

57. Replication (Synthetic Asset) (RSAT) transaction means a derivative transaction entered into in conjunction with other investments in order to reproduce the investment characteristics of otherwise permissible investments. A derivative transaction entered into by an insurer as a hedging or income generation transaction shall not be considered a RSAT ~~replication (synthetic asset)~~ transaction.

58. Any premium paid or received shall be carried as an asset or liability on the balance sheet (Derivative line on the Assets (or) Liabilities pages). Premiums paid or received on the RSAT ~~replication (synthetic asset)~~ derivative ~~should~~ shall be amortized into investment income or expense until the exercise, termination or maturity date of the derivative.

59. If the RSAT~~replication (synthetic asset)~~ transaction would be carried at amortized cost and the cash instrument used is carried at amortized cost, then the derivative used ~~should~~ shall be carried at amortized cost. The derivative may be valued at fair value when both the replication (synthetic asset) and the cash instrument are valued at amortized cost. This is consistent with the alternative valuation methods available for hedges. If the RSAT~~replication (synthetic asset)~~ transaction would be carried at fair value and/or the cash instrument used is carried at fair value, then the derivative used ~~should~~ shall be carried at fair value.

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	(a)	(b)	(c)	(d)
	If the Replication (Synthetic Asset) is Valued at:	And Cash Instrument(s) Used is (are) Valued at:	The Derivative is Valued at:	Alternative Derivative Value Basis:
1.	Amortized Cost	Amortized Cost	Amortized Cost	Fair value
2.	Fair value	Fair value	Fair value	N/A
3.	Amortized Cost	Fair value	Fair value	N/A
4.	Fair value	Amortized Cost	Fair value	N/A

60. When the derivative component is held at fair value, the change in fair value shall be recognized as an unrealized gain or loss throughout the life of the transaction and included in the AVR.

~~60.~~61. In the case of ~~No.~~example 3 in the chart ~~above~~, the fair values for the cash instrument and derivative, when added together, shall not exceed the replication (synthetic asset) statement value. If this ~~does~~ occurs, the excess shall reduce the fair value of the derivative and shall be recorded as an unrealized loss ~~gain~~. ~~separate from the Asset Valuation Reserve (AVR)~~.

62. If the ~~replication (synthetic asset)~~RSAT transaction involves a periodic settlement with the exchange of interest related cash flows (default free assets), then the cash flows on the derivative component ~~should~~shall be accrued as investment income. If the ~~replication (synthetic asset) transaction~~RSAT involves a periodic settlement with the exchange of total return or change in index cash flows, then the cash flows ~~should~~ shall be segregated between interest income and settlement of other fair value ~~(equity)~~ changes. The interest income portion ~~should~~ shall be accrued as investment income and settlement of any other fair value changes shall be recognized as gains or losses in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

~~61.~~63. Any realized gains or loss recognized at maturity, termination or reset of the derivative component of the RSAT shall be allocated to IMR or AVR in accordance with SSAP No. 7[FN]. Realized gains and losses associated with the cash component of the RSAT shall be credited or charged to the IMR or AVR in accordance with the provisions stated within the statement for the specific asset used as the cash component.

New FN: For qualifying RSAT derivatives (held at amortized cost), upon termination, the gain or loss shall be allocated to IMR or AVR based on interest and non-interest factors. For simplicity, this IMR and AVR allocation shall be based on the designation category change guidance, applied to the RSAT designation received by the SVO.

~~64. If the derivative is carried at fair value, the periodic change in the fair value should be recorded as an unrealized gain or loss adjustment to surplus until the transaction is terminated. If the replication (synthetic asset) transaction involves the exchange of total return or change in index cash flows, then the cash flows should be segregated between interest income and fair value (equity) changes. The fair value (equity) change should be recognized as a deferred asset/liability until the termination of the contract. Gains or losses on the derivative at termination or sale should be recognized as realized.~~

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Guidance for Replication (Synthetic Asset) Transactions from the P&P Manual

Approved RSATs

Safe Harbor – Defined RSATs

30. Any transaction that meets either of the following conditions:

- Any transaction structured according to the following defined transaction types shall be presumed to be an Approved RSAT and should be submitted to the SVO pursuant to this paragraph. Transactions that are structured to contain elements of risk other than those normally associated with the Defined RSAT descriptions below, and transactions involving assets that would not normally qualify for an NAIC Designation, are not eligible for safe harbor treatment and must be submitted to the SVO pursuant to the paragraph titled "Transactions Subject to RSAT Approval Review" below. If the SVO receives a transaction that does not qualify for an NAIC Designation but would otherwise qualify as an Approved RSAT, the SVO will bring the transaction to the attention of the VOS/TF and await instructions on how to proceed with it.
    - *Bond with Interest Rate Swap* – In this RSAT, the insurer enters into a swap agreement to exchange a floating interest rate for a fixed interest rate, or vice versa.
    - *Bond with Credit Default Risk Swap* – In this RSAT, the insurer enters into a credit default swap to exchange the credit default risk of a bond for that of another bond.
    - *Bond with Total Return Swap* – In this RSAT, the insurer enters into a total return swap to exchange the return of one Basket or Index of bonds for the return of another Basket or Index of bonds.
    - *Bond with Foreign Currency Swap* – In this RSAT, the insurer enters into a currency swap to exchange the right to receive principal and/or interest in the currency of one country for that of another. A foreign currency swap can be structured on a fixed or floating rate bond. The swap can involve any currency.
    - *Bond with Equity Option* – In this RSAT, the insurer holds a bond and enters into a call option to purchase common stock or a call on an equity index
    - *Convertible Bond with Sale of Equity Option* – In this RSAT, the insurer holds a convertible bond and enters into an agreement to sell the equity conversion rights connected with the bond to another party.
    - *Bond with Index Amortizing Interest Rate Swap* – In this RSAT, the insurer enters into an agreement to exchange fixed interest rate payments for floating interest rate payments or vice versa. The notional amount of the swap, and therefore the size of the interest rate swap, amortizes by reference to an index, usually also tied to interest rates.
    - *Bond with Interest Rate Swap and Swaption Agreement* – In this RSAT, the insurer enters into two agreements. The first agreement is to exchange a fixed interest rate for a floating interest rate or vice versa. In the second agreement, the insurer enters into a swaption agreement by which it allows itself the option of transferring its obligations under the swap agreement.
    - *Bond with Interest Rate Swap and Interest Rate Cap/Floor* – In this RSAT, the insurer

enters into two agreements. The first agreement is to exchange a fixed interest rate for a floating interest rate or vice versa. In the second agreement, the insurer limits its exposure above or below a certain interest rate level by entering into a cap or floor agreement.

Transactions Subject to RSAT Approval Review

31. Transactions that are not structured according to one of the transaction types defined above must be submitted to the SVO for a determination of whether or not the transaction is an Approved RSAT. This determination shall be made through a review of the submitted documents that describe the characteristics of the derivative and cash components of the transaction. The description submitted shall include the following:

- An identification of the cash flows in the transaction; both from the insurer to other parties and from other parties to the insurer.
- An identification of the resulting synthetic
- A demonstration of how the cash flows serve to produce the synthetic asset.

32. The documentation should demonstrate that the combined cash flows will achieve the economic performance sought to be produced by the insurer and, therefore, qualify the transaction as an Approved RSAT. If the SVO receives a transaction that does not qualify for an NAIC Designation but would otherwise qualify as an Approved RSAT, the SVO will bring the transaction to the attention of the VOS/TF and await instructions on how to proceed with it.

- **Basket** – A composite of specific financial instruments that are determined by agreement between two parties to be used as a statistical benchmark.
- **Cash Component** – The instrument, or portfolio of instruments, owned by the insurance company that is identified by the insurer as the cash instrument component of the RSAT. In an RSAT, the credit quality of the Cash Component may differ from the credit quality of the reference securities.
- **Change in Investment Profile** – An RSAT where the investment risk denoted by NAIC Designation and/or credit risk of the NAIC CRP rating, of the Cash Component is different from the investment risk of the replicated (synthetic) asset. Examples of transactions that constitute a change in credit profile may include:
  - *A Bond with Credit Default Risk Swap* – Where the risk of loss of principal results from the potential of default by an obligor different from the Cash Component obligor. This RSAT can also be structured to use the same obligor for the Cash Component and the replicated (synthetic) asset, but where the replicated (synthetic) asset is in a different position in the capital structure of the obligor. For example, the swap may result in a change from senior creditor's status to one of a subordinated debt holder.
  - *A Bond with Total Return Swap* – Where the obligors in the Cash Component portfolio are different from those in the derivative instrument component. Examples of transactions that do not, on their own, constitute a change in credit profile include:
    - A Bond with Interest Rate Swap.
    - A Bond with Foreign Currency Swap.

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- **Effective RSAT** – A reported transaction that meets the following conditions:
  - The transaction is determined to be an Approved RSAT.
  - The Replicated (Synthetic) Asset is an otherwise permissible investment.
  - At the time the RSAT is entered into, the insurer's investment in the cash and derivative components have a market value that is not materially different from the market value ascribed to the RSAT.
  - The insurer's maximum potential loss in the Replicated (Synthetic) Asset does not exceed the sum of the book/adjusted carrying value of the Cash Component, and the derivative component.
  - The RSAT consists of a fixed income Cash Component and a derivative component and the term of the derivative component does not exceed the term to maturity of the Cash Component.
  - At no time is there exposure to a derivative transaction without a corresponding Cash Component assigned exclusively to the Replicated (Synthetic) Asset.
- **Identical RSAT** – An RSAT entered into by multiple, yet legally separate and distinct, insurance companies of the same insurance company group through separate derivative contracts, but utilizing the same type of derivative transaction, Cash Component, counterparty, transaction effective date, scheduled termination date and assigned a single CUSIP Identifier.
- **Index** – A composite of financial instruments whose composition is determined by application of objective, pre-defined rules to be used as a statistical benchmark. Financial instruments may be added to or deleted from the index universe.
- **Reference Security** – A financial instrument or instruments whose creditworthiness is referenced in a derivative agreement (typically, a credit default risk swap) and that serves as the instrument by which a credit event is determined or triggered.
- **Replication (Synthetic Asset) Transaction (RSAT)** – A derivative transaction entered into in conjunction with other investments in order to reproduce the investment characteristics of otherwise permissible investments. Notwithstanding the exemption of short-term investments from filing with the SVO, the term RSAT includes long-term transactions (i.e., those with a when-issued maturity of a year or more) and short-term transactions (i.e., those with a when issued maturity of a year or less). Although transactions structured with a futures or forward equity contract may not exactly reproduce a specific asset, these transactions are permitted to the extent such RSATs are permissible investments according to the insurer's state of domicile. A derivative transaction entered into by an insurer as a hedging or income generation transaction shall not be considered to be a replication (synthetic asset) transaction. The insurer shall be responsible for determining that a derivative transaction is considered to be either a hedging, income generation or replication (synthetic asset) transaction prior to filing the transaction with the SVO.
- **RSAT Form –** The Replication (Synthetic Asset) Transaction Form used to report RSATs.

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- **RSAT-CCA Form –** The Replication (Synthetic Asset) Transaction – Credit Change Annex Form used to report transactions where the RSAT results in a Change in Credit Profile from that of the Cash Component.
- **RSAT Basket Form –** The Replication (Synthetic Asset) Transaction Form used to Report RSATs using Baskets.
- **RSAT Fixed Income Index Form –** The Replication (Synthetic Asset) Transaction Form used to report RSATs using Indices discussed and defined in this Section.
- **RSAT Index List Application –** The Replication (Synthetic Asset) Transaction Form used to apply for inclusion on the NAIC Approved RSAT Index List.

Instruction to Report Replication (Synthetic Asset) Transactions

33. Instruction – Insurance companies shall report all RSAT transactions, including RSAT transactions of duration less than 365 days, to the SVO and the SVO shall apply the instructions in this section to all reported RSATs including Baskets and Indices.

34. Special Instruction Regarding Identical RSATs – Only one insurance company that is a member of an insurance company group that has engaged in an Identical RSAT is required to file the RSAT with the SVO. All of the rules and procedures specified in this section shall be applicable to that filing.

35. Notwithstanding this special instruction, all of the members of the insurance company group that have entered into an Identical RSAT shall nevertheless fully report their holdings as required by annual statement instructions for Schedule DB, Part C.

36 Any state insurance regulator who questions whether the RSAT entered into by members of an insurance company group meets the definition of an Identical RSAT may require the members of the group to file relevant information with the SVO so that the SVO may verify whether transactions claimed to be identical are identical within the meaning of the definition and/or whether the insurance companies have otherwise appropriately reported the RSAT transaction.

37. The SVO shall have authority to make inquiries of insurance companies and to request insurance companies to file relevant information with it so it may verify whether transactions claimed to be identical are identical within the meaning of the definition and/or whether the insurance companies have otherwise appropriately reported the RSAT transaction.

38**. Counterparty Risk-Based Capital** – The NAIC Designation assigned to a RSAT does not capture any counterparty risk associated with any derivative component of the RSAT. The credit risk of any particular counterparty is captured in the risk-based capital charge of the counterparty reported in Schedule DB, Part D, Section 1.

Initial Reporting of Replication (Synthetic Asset) Transactions

Informational Requirements – General

39. Each reporting insurance company is required to file the information listed below for every RSAT filing. Additionally, for those RSATs exhibiting a Change in Credit Profile, the reporting insurance company shall be required to file the information listed under the paragraph titled "Additional Instructions for RSATs with a Change in Credit Profile" below.

40. General Filing Instructions:

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- RSAT Form.
- If any Cash Component is required to be filed with the SVO and is not on the VOS Process with a current year Designation, the reporting insurance company is required to follow the reporting conventions and file the required documents.
- The reporting insurance company is required to file the prospectus, offering circular, detailed term sheet, trade confirmation, swap agreement, call option agreement, foreign currency agreement or other agreement or document, as appropriate to the transaction, corresponding to each derivative component of the reported Approved RSAT.
- If the derivative component of the Approved RSAT relies on a counterparty that is not on the List of Counterparties Designated by the SVO refer to that section for a description of analytical procedures and informational requirements.

41. Additional Instructions for RSATs with a Change in Credit Profile:

- RSAT-CCA Form.
- If the transaction is one that involves securities, including Reference Securities that require an NAIC Designation, the reporting insurance company is required to follow the reporting conventions and file the required documents for such securities.

Procedures Applied to Initial Reports of Replication (Synthetic Asset) Transactions

42. **Effective RSAT** – The SVO shall verify that the reported RSAT meets those standards of effectiveness set forth in this section. The reporting insurance company shall have responsibility for ensuring that the standards of effectiveness set forth in section titled Effective RSAT have been met.

43. **Credit Assessment** – The SVO shall apply the procedures listed under the paragraph titled "General Procedures" below for every filing. Additionally, for those RSATs exhibiting a Change in Credit Profile, the SVO shall apply the procedures set forth in the paragraph titled "Additional Procedures for RSATs with a Change in Credit Profile" below.

44. General Procedures:

- If the Cash Component is of a type that is required to be filed with the SVO and is not on the VOS Process with a current year designation, the SVO shall apply the methodologies set forth in this Manual.
- If any counterparty involved in the RSAT is not currently listed on the SVO's List of Counterparties Designated by the SVO, the SVO shall apply the procedures set forth in this Manual.
- The SVO shall review the documents corresponding to each derivative component of the reported Approved RSAT to verify that the relationships and identities of the parties to the agreement(s) are as reported on the RSAT Form.
- If the SVO determines that the documentation provided comports with the reported RSAT, then the analyst shall assign the NAIC Designation of the Cash Component to the RSAT.

45. Additional Procedures for RSATs with a Change in Credit Profile – If the transaction involves securities, including Reference Securities, which are on the VOS Process with a current year designation, the SVO shall assign that Designation associated with the Reference Securities to the RSAT.

- If the transaction involves securities, including Reference Securities that are not on the VOS Process with a current year designation, the SVO shall apply the methodologies in this Manual to the securities. Upon determination of an NAIC Designation for such securities, the SVO shall apply that Designation associated with the Reference Securities to the RSAT.

Subsequent Reporting of Replication (Synthetic Asset) Transactions

Informational Requirements – General

46. Each reporting insurance company is required to file the information listed below for every RSAT filing. Additionally, for those RSATs exhibiting a Change in Credit Profile, the reporting insurance company shall be required to file the information listed under the paragraph titled "Additional Instructions for RSATs with a Change in Credit Profile" below.

47. General Filing Instructions:

- For the Cash Component, file the required documentation.
- There are no additional subsequent reporting requirements if there are no changes in any of the components of the RSAT. Any sale, termination or modification of the component pieces of an Approved RSAT must be reported to the SVO within 30 days. This can be done by submitting to the SVO either a Material Change ATF Form or a Renumbering Request for the affected RSAT. Any such sale, termination or modification that results in the RSAT ceasing to be effective pursuant to the section titled "Effective RSAT" will immediately terminate the replication (synthetic asset) transaction.

48. **Additional Instructions for RSATs with a Change in Credit Profile** – File the required documentation required by this Manual for securities, including Reference Securities, on the VOS Process. If a security is no longer listed on the VOS Process, file the documentation required by this Manual.

Procedures Applied to Subsequent Reports of Replication (Synthetic Asset) Transactions

49. **Credit Assessment** – The SVO shall apply the procedures listed below for every filing. Additionally, for those RSATs exhibiting a Change in Credit Profile, the SVO shall apply the procedures set forth in the paragraph titled "Additional Instructions for RSATs with a Change in Credit Profile" below.

50. General Procedure:

- The SVO shall monitor the NAIC Designation assigned to the Cash Component.
- The SVO shall monitor the NAIC Designation assigned to the counterparties to the derivative component of the RSAT.
- The reporting insurance company must report a change in the documentation relating to any derivative component to the SVO. The SVO shall assess the significance of such change.

51. **Additional Procedures for RSATs with a Change in Credit Profile** – The SVO shall monitor the NAIC Designation assigned to any security, including Reference Securities, involved in the RSAT.

Additional Procedures for RSATs Using Baskets

Initial Reporting

52. **Informational Requirements** – Reporting insurance companies are required to file the information listed below for each replication they enter into using a Basket:

- RSAT Basket Form.
- If any of the component instruments in a Basket are not on the VOS Process with a current year Designation, the reporting insurance company is required to follow the reporting conventions and file the required documents set forth in this Manual.
- If the derivative component of the RSAT relies on a counterparty that is not on the List of Counterparties Designated by the SVO the informational requirements identified above apply.

Procedures Applied to Initial Reports of Baskets

53. **Effectiveness Testing** – The SVO shall verify that the reported RSAT meets those standards of effectiveness set forth in the section titled Effective RSAT. The reporting insurance company shall have responsibility for ensuring that the standards of effectiveness set forth in the section titled Effective RSAT above have been met.

54. **Credit Assessment** – If any component instrument of a Basket is not on the VOS Process with a current year Designation, the SVO shall apply the methodologies in Part Three of this Manual.

55. **Counterparty** – If any counterparty named in the RSAT is not currently listed on the SVO's List of Counterparties Designated by the SVO, the SVO shall the corresponding procedures in this Manual.

Subsequent Reporting

56. **Informational Requirements** – Reporting insurance companies are required to file the information listed below for each replication they enter into using a Basket on an annual basis.

- If there are additions or deletions to the component instruments in a Basket, the SVO should be notified within 30 days. If any new component instrument in a basket is not on the VOS Process, the reporting insurance company is required to follow the reporting conventions and file the required documents for each of those instruments.
- If any of the existing or new component instruments in a Basket are on the VOS Process, but do not have a current year Designation, the reporting insurance company is required to follow the reporting conventions and file the required documents for each of those instruments.

57. Procedures Applied to Subsequent Reports of Baskets:

- The SVO shall monitor the NAIC Designation of those Basket components with NAIC Designations.
- The SVO shall monitor the NAIC Designation assigned to the counterparty to the derivative component of the RSAT.

Additional Procedures for RSATs Using Indices

Initial Reporting

58. **Informational Requirements** – Reporting insurance companies are required to file an RSAT Fixed Income Index Form with the SVO for each replication they enter into using an equity or fixed income Index. An insurance company may only enter into an RSAT using a fixed income Index if the Index is listed on the SVO's RSAT Index List Equity Indices are not required to be on the SVO's RSAT Index List as no credit quality evaluation is performed on equity investments.

59. Procedures Applied to Initial Reports of Indices:

- **Effectiveness Testing** – The SVO shall verify that the reported RSAT meets those standards of effectiveness set forth in the section titled Effective RSAT. The reporting insurance company shall have responsibility for ensuring that the standards of effectiveness set forth in the section titled Effective RSAT have been met.
- **Counterparty** – If any counterparty named in the RSAT Form is not currently listed on the SVO's List of Counterparties Designated by the SVO, the SVO shall apply the corresponding procedures.
- **Verification** – The SVO will verify that any fixed income Index named in the RSAT Form is on the SVO's current RSAT Index List.

Subsequent Reporting

60. Informational Requirements:

- Reporting insurance companies are not required to file any annual information with the SVO for RSATs using an Index as long as the Index, if it is a fixed income Index, remains on the SVO's RSAT Index List. If a fixed Income index is removed from the list, any RSAT utilizing such Index will no longer qualify as an Approved RSAT.
- The SVO shall monitor the NAIC Designation assigned to the counterparty to the derivative component of the RSAT.

Procedures for Compilation of the RSAT Index List

61. **Compilation of List** – The staff is instructed to compile and maintain a list of fixed income indices that meet the standards identified in the RSAT Index List. The RSAT Index List may be used by reporting insurance companies when filing fixed income Index RSATs with the SVO. If the SVO determines that an Index does not meet the eligibility requirements set forth below, the Index will not be included on the list. Publication of an Index on the RSAT Index List does not imply an opinion of the quality of such Index or of the Index vendor.

62. **Eligibility Requirements** – A fixed income Index may be eligible for listing on the RSAT Index List if the Index meets the following requirements:

- **Rule-Based** – The Index is composed and valued based on the application of objective, pre-defined criteria. Additions to or deletions from the list must be made based on the application of such criteria.
- **Information Available** – Rating information about the components is, or can be made available, to the SVO.
- **Components Rated** – All, or substantially all, of the Index components are rated, or have obligors that are rated, by an NAIC CRP or have received a current year NAIC Designation from the SVO. In the event that not all of the Index components are NAIC CRP-rated or have a current year NAIC Designation, the reporting insurance company may either: (a) file the component with the SVO to obtain a Designation; or (b) assign an **NAIC 5*** Designation to the unrated instrument, as long as it is current on principal and interest or an **NAIC 6*** Designation if it is not or if the status is not determinable. Instruments assigned an **NAIC 5*** Designation or **NAIC 6*** Designation, on a combined basis, can represent no more than 5% of the Index's total value.

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- **Independent** – The Index is predominantly composed of instruments whose issuers are unaffiliated with the Index vendor.

63. **Initial Reporting** – In order to apply for listing of a fixed income Index on the RSAT Index List, a reporting insurance company should submit the following to the SVO:

- A listing of all Index components.
- The ratings of all NAIC CRP-rated Index components from all NAIC CRPs that have rated the component.
- The actual NAIC Designation for each Index component with an NAIC Designation or an equivalent NAIC Designation for each component rated by an NAIC CRP using the conversion instructions and the rating equivalents, if rated and monitored by one NAIC CRP, the equivalent NAIC Designation; if rated and monitored by two NAIC CRPs, then the lowest rating and if rated and monitored by three or more NAIC CRPs, then the second lowest rating. In the case of a security rated and monitored by three or more NAIC CRPs, the NAIC CRP ratings for a security are ordered according to their NAIC Designation equivalents and the rating that is second lowest will be selected, even if that rating is equal to that of the first lowest.
- A demonstration and certification by the insurance company, as evidenced by an executed certificate by an officer of the insurance company, that the eligibility requirements set forth in the "Eligibility Requirements" paragraph in the "Procedures for Compilation of the RSAT Index List" section above have been met.

64. **Subsequent Reporting** – The reporting insurance company shall annually submit to the SVO the items listed in the "Initial Reporting" paragraph of the "Procedures for Compilation of the RSAT Index List" section above for each fixed income Index it desires to maintain on the RSAT Index List. Any Index on the RSAT Index List for which the required documents are not submitted, or any Index that no longer meets the eligibility requirements set forth in section above, shall be deleted from the RSAT Index List.

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): The Statutory Accounting Principles (E) Working Group has proposed revisions as part of the IMR project (agenda item #2023-14: *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*) to the RSAT guidance in *SSAP No. 86—Derivatives* to incorporate limited clarifications mostly related to the allocation of IMR

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing categorized as a SAP change and expose the proposed concept changes detailed within this agenda item for the accounting and reporting guidance for RSATs. In addition to the concept changes reflected, comments are requested from industry and state regulators on whether further clarifications or limitations to RSAT transactions should be incorporated. After consideration of the proposed revisions and comments received, NAIC staff would recommend a blanks proposal and referral to the Capital Adequacy (E) Task Force to clarify reporting components in Schedule DB-Part C and incorporate improved reporting instructions for the RBC formula, with a recommended restriction to floor the net RBC impact for cash components and RSATs at zero. Additionally, after adoption, a referral is

proposed to the Investment Designation (E) Working Group to incorporate comparable edits into the P&P Manual.

Proposed concept changes would include the following summarized changes as detailed in the agenda item:

1. Inclusion in SSAP No. 86 of key definitions and the requirements for an RSAT to be effective.

2. New guidance that restricts cash components used in RSATs to high-quality securities reported as U.S. Government investments, municipals, or corporate bonds on Schedule D-1-1: Issuer Credit Obligations with an overall NAIC 1 or NAIC 2 designation.

3. New guidance that requires RSATs to replicate investment grade (NAIC 1-2) long-term Schedule D-1-1: Issuer Credit Obligation bonds as the "permissible investment."

4. Revisions to assess and potentially eliminate the accounting guidance from SSAP No. 86 for situations that result with the fair value measurement of the derivative. (This guidance will not be applicable with the proposed edits restricting the cash component and replicated asset.) The option to report the derivative at fair value will be retained.

5. Lastly, guidance is recommended to prescribe how the RSAT and RBC reporting schedule should be completed, particularly for situations in which the CUSIP for the RSAT has yet to be received and/or when a single derivative is used with a basket of cash components or that covers many RSAT credit profiles. These edits are proposed to include a referral to the Capital Adequacy (E) Task Force requesting this guidance inclusion and to prohibit net reduction of RBC from RSAT transactions. *(Meaning, the overall RBC impact from replicated assets and the cash component should be either a net increase to RBC or floored at zero.)* The intent of RSAT transactions is to provide reporting entities exposure to other investments with specific characteristics. The intent is not to enable a reduction of RBC by allocating higher-risk held assets as the cash component to an RSAT transaction.

Staff Review Completed by: Julie Gann, April 2026.

Status:
On August 12, 2026, the Statutory Accounting Principles (E) Working Group exposed this as a concept agenda item to assess potential revisions to SSAP No. 86 and the overall accounting and reporting guidance for RSATs. Comments were requested from industry and state regulators on whether further clarifications or limitations to RSAT transactions should be considered.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/11-15-26 Fall National Meeting/Hearing/13 - 26-09 - SSAP No. 86 - RSATs.docx

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

Issue: SSAP No. 26 – Embedded ALM Risk

Check (applicable entity):

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

Description of Issue: This agenda item has been prepared in response to regulator identification of an emerging asset class that is quickly growing among life insurers, referred to as multi-collateral structured credit investments. The primary difference between these structures and other common types of structured credit investments is that, while most structured credit investments are supported by a homogenous collateral type, multi-collateral structured credit investments contain a much more diverse array of underlying collateral. For example, RMBS are uniformly supported by residential mortgages, CLOs by corporate loans, and student loan ABS by student loans. Multi-collateral structured credit can be supported by effectively any asset class.

The structures that have been observed mostly contain a broad spectrum of fixed income investments, including allocations to both investment grade and non-investment grade bonds and direct loans, smaller allocations to unrated loans and debt securities, mortgage loans, as well as allocations to equity investments. Some also include tranches of other securitizations. These structures generally qualify under the Principles Based Bond Definition (PBBD), as the fixed income investments provide the cash flows to service and repay the debt and there is a residual tranche that provides substantive credit enhancement for the debt tranches.

A subset of these multi-collateral structures also contain a significant amount of asset-liability duration mismatch within the structure, whereby the duration of the debt tranches is significantly longer than the duration of the assets supporting them. While it is not uncommon for other types of structured credit to have reinvestment periods to accommodate prepayments, manage deployment of cash and other purposes prior to reaching the amortization phase, these periods are typically 5 years or less and contain provisions to end the reinvestment phase early if certain triggers are breached. In some of the noted multi-collateral structures, the duration of the debt tranches have been observed to be up to 40 years while the assets inside the structure are significantly shorter with a weighted average duration of 8 years or in some cases, significantly less. This can create significant reinvestment risk whereby the ability to pay contractual principal and interest is reliant upon the ability to reinvest at sufficient yields over several decades.

Regulators have raised several concerns as it relates to multi-collateral structured credit investments. The first concern is around complexity, transparency and interconnectedness. While it is often the case that the credit quality and diversity of the collateral as well as the capital structure of the vehicle support that the credit risk is comparable or even lower than that of equivalently rated structured finance, this diversity has greater potential to create interconnectedness between and within insurance company portfolios than structures that are limited to a single collateral type. For example, without a robust control framework to prevent it, it is possible that a multi-collateral structure could invest in an asset that in turn holds an investment in the multi-collateral structure, creating circular ownership. It also makes the tracking of economic exposures much more difficult, wherein an insurer may be exposed to the same asset both directly, as well as indirectly through the multi-collateral structure. To the extent that this asset class grows to be a significant insurer asset class being originated by multiple

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unaffiliated asset originators this complexity could be significantly compounded as independent vehicles invest in the same assets, or potentially in each other.

Additionally, for the subset of multi-collateral structures that contain significant asset-liability duration risk within the structure, regulators have raised several additional concerns. The appeal of this investment is that there is significant demand within the life insurance industry for longer-dated assets to match with the long duration of the insurance liabilities, thus the ability to produce more assets with durations up to 40 years is appealing. However, as the assets supporting the structure are far shorter, the structure produces more of an appearance of longer duration than is supported by substance. It moves an asset-liability management (ALM) risk that exists on the insurer's balance sheet and moves it inside an investment structure, but the risk is still present. There may also be certain mitigating structural features that reduce this risk. One example includes the use of hedging instruments within the structure, though it is unlikely to be able to fully hedge all components of ALM risk (i.e., rate and spread). There also may be accelerated amortization triggers, and importantly, there is typically a subordinated equity tranche. Any tightening of reinvestment yields is first absorbed by the equity tranche before it starts impacting the debt tranches, thus reducing the ALM risk to the debt holders. However, unmitigated ALM risk may remain a significant risk to the debt tranches.

Regulators have concerns about whether investors in these structures understand the ALM risk that they contain, whether they have the modeling capability to incorporate this embedded risk into their asset adequacy testing and stress testing frameworks and whether regulators have the transparency to identify structures that contain this degree of ALM risk. Additionally, the PBBD did not contemplate embedded ALM risk when it was developed. The substantive credit enhancement concept contemplates subordinated positions that absorb credit losses on the underlying assets to support the transformation of underlying risk to bond risk. However, it did not contemplate this subordination to also be used to absorb significant ALM risk. **Therefore, this agenda item proposes to add a provision to the PBBD in *SSAP No. 26—Bonds* that addresses embedded ALM risk and precludes structures containing significant embedded ALM risk from being classified as bonds.**

While this agenda item is limited to addressing the treatment of embedded ALM risk under the PBBD, a separate project to consider reporting refinements related to several asset classes that have gained prominence since the finalization of the PBBD will likely follow. These include but are not limited to multi-collateral credit structures, feeder funds and other forms of fund finance.

Existing Authoritative Literature:

SSAP No. 26—Bonds
(The respective guidance for ABS is in paragraphs 8-9. Paragraph 6 has been included due to the reference to this guidance in the proposed revisions.)

> 6. Determining whether a security represents a creditor relationship should consider its substance, rather than solely the legal form of the instrument. The analysis of whether a security represents a creditor relationship should consider all other investments the reporting entity owns in the investee as well as any other contractual arrangements. A security that in substance possesses equity-like characteristics or represents an ownership interest in the issuer does not represent a creditor relationship. While not intended to be all-inclusive, paragraphs 6.a.-6.d. discuss specific elements that may introduce equity-like characteristics:
>
> a. Determining whether a debt instrument represents a creditor relationship in substance when the source of cash flows for repayment is derived from underlying equity interests inherently requires significant judgment and analysis. Unlike a debt

instrument collateralized by assets with contractual cash flows, debt instruments collateralized by equity interests are dependent on cash flow distributions that are not contractually required to be made and are not controlled by the issuer of the debt. As a result, there is a rebuttable presumption that a debt instrument collateralized by equity interests does not represent a creditor relationship in substance. Notwithstanding this rebuttable presumption, it is possible for such a debt instrument to represent a creditor relationship if the characteristics of the underlying equity interests lend themselves to the production of predictable cash flows and the underlying equity risks have been sufficiently redistributed through the capital structure of the issuer. Factors to consider in making this determination include but are not limited to:

i. Number and diversification of the underlying equity interests;

ii. Characteristics of the underlying equity interests (vintage, asset-types, etc.);

iii. Liquidity facilities;

iv. Overcollateralization;

v. Waiting period for distributions/paydowns to begin;

vi. Capitalization of interest;

vii. Covenants (e.g., loan-to-value trigger provisions); and

viii. Reliance on ongoing sponsor commitments.

b. While reliance of the debt instrument on sale of underlying equity interests or refinancing at maturity does not preclude the rebuttable presumption from being overcome, it does require that the other characteristics mitigate the inherent reliance on equity valuation risk to support the transformation of underlying equity risk to bond risk. As reliance on sale or refinancing increases, the more compelling the other factors needed to overcome the rebuttable presumption become.

c. Analysis of whether the rebuttable presumption for underlying equity interests is overcome shall be conducted and documented by a reporting entity at the time such an investment is acquired. The level of documentation and analysis required will vary based on the characteristics of the individual debt instrument, as well as the level of third-party and/or non-insurance company market validation to which the issuance has been subjected. For example, a debt instrument collateralized by fewer, less diversified equity interests would require more extensive and persuasive documented analysis than one collateralized by a larger diversified portfolio of equity interests. Likewise, a debt instrument that has been successfully marketed to unrelated and/or non-insurance company investors, may provide enhanced market validation of the structure compared to one held only by related party and/or insurance company investors where capital relief may be the primary motivation for the securitization.

d. In order for a debt instrument to represent a creditor relationship in accordance with

paragraph 6, it must have pre-determined principal and interest payments (whether fixed interest or variable interest) with contractual amounts that do not vary based on the appreciation or depreciation (i.e., performance) of any underlying collateral value or other non-debt variable. For example, an issued security that has varying principal and interest payments based on the appreciation of referenced equity, real estate or other non-debt variable is precluded from bond treatment. This exclusion is not intended to restrict variables that are commonly related to debt instruments such as, but not limited to, plain-vanilla[1] inflation or benchmark interest rate adjustments (such as with U.S. TIPs or SOFR-linked coupons, respectively), scheduled interest rate step-ups, or credit-quality related interest rate adjustments. This exclusion is also not intended to encompass nominal interest rate adjustments[2]. For clarification purposes, all returns from a debt instrument in excess of principal are required to be considered as interest. Therefore, investments with "stated" interest and then "additional returns" to which the holder of the debt instrument is entitled are collectively considered as interest and shall be assessed together in determining whether the investment has variable principal or interest due to underlying referenced non-debt variables. Examples of securities excluded from the bond definition under this guidance:

i. Structured Notes, which are securities that otherwise meet the definition of a bond, but for which the contractual amount of the instrument to be paid at maturity (or the original investment) is at risk for other than the failure of the borrower to pay the principal amount due, are excluded from the bond definition. These investments, although in the form of a debt instrument, incorporate the risk of an underlying variable in the terms of the agreement, and the issuer obligation to return the full principal is contingent on the performance of the underlying variable. These investments are addressed in SSAP No. 86. Mortgage-referenced securities issued by a government sponsored enterprise are explicit inclusions in scope of SSAP No. 43. Foreign-denominated bonds subject to variation as a result of foreign currency fluctuations are not structured notes.

ii. Principal-protected securities, as defined in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* are excluded from the bond definition as they have a performance component whose payments originate from, or are determined by, non-fixed income securities. These investments shall follow the guidance for non-bond securities in SSAP No. 21.

7. An issuer credit obligation is a bond, for which the general creditworthiness of an operating entity

[1] Inflation or benchmark interest rate adjustment mechanisms are considered plain-vanilla if based on widely recognized measures of inflation or interest rate benchmarks and excludes those that involve either leverage (such as a multiplier) or an inverse adjustment relationship.

[2] Nominal interest rate adjustments are those that are too small to be taken into consideration when assessing the investment's substance as a bond. Nominal adjustments are not typically influential factors in an investors' evaluation of investment return and are often included to incentivize certain behavior of the issuer. An example would include sustainability-linked bonds where failure to achieve performance metrics could cause interest rate adjustments. In general, interest rate adjustments that adjust the total return from interest by more than 10% (e.g., >0.4% for a 4% yielding bond), would not be considered nominal. Further, any such adjustments that cause an investment to meet the definition of a structured note would not be considered nominal.

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or entities through direct or indirect recourse, is the primary[3] source of repayment. Operating entity or entities includes holding companies with operating entity subsidiaries where the holding company has the ability to access the operating subsidiaries' cash flows through its ownership rights. An operating entity may be any sort of business entity, not-for-profit organization, governmental unit, or other provider of goods or services, but not a natural person or "ABS Issuer" (as defined in paragraph 8). Examples of issuer credit obligations include, but are not limited to:

a. U.S. Treasury securities, including U.S. Treasury Inflation-Indexed Securities;(INT 01-25)

b. U.S. government agency securities;

c. Municipal securities issued by the municipality or supported by cash flows generated by a municipally-owned asset or entity that provides goods or services (e.g., airport, toll roads, etc.);

d. Corporate bonds issued by operating entities, including Yankee bonds and zero-coupon bonds;

e. Corporate bonds, issued by holding companies that own operating entities;

f. Project finance bonds issued by operating entities;

g. Investments in the form of securities for which repayment is fully supported by an underlying contractual obligation of a single operating entity (e.g., credit tenant loans (CTLs), equipment trust certificates (ETCs), other lease backed securities, funding agreement backed notes (FABNs), etc.). For purposes of applying this principal concept, repayment is fully supported by the underlying operating entity obligation if it provides cash flows for the repayment of all interest and at least 95% of the principal of the security;

h. Bonds issued by real estate investment trusts (REITs) or similar property trusts;

i. Bonds issued by funds representing operating entities as described in paragraph 12;

j. Convertible bonds issued by operating entities, including mandatory convertible bonds as defined in paragraph 21.b.

8. An asset-backed security[4] is a bond issued by an entity (an "ABS Issuer") created for the primary

[3] "Primary" refers to the first in order of repayment source, not to a majority of the sources of repayment. For example, an issuer obligation may have secondary recourse to collateral upon default of the operating entity but would otherwise be expected to be fully repaid with cash flows of the operating entity. This differs from an asset-backed security for which the primary source of repayment is from cash flows of the collateral.

[4] The underlying collateral supporting an asset-backed security shall meet the definition of an asset by the ABS Issuer. Certain forms of collateral, such as rights to future cash flows, may not be recognized as assets by the selling entity but may be recognized as assets when sold to an ABS Issuer. These assets are permitted as the collateral supporting an asset-backed security, although they may not represent an asset that can be liquidated to provide payment toward the issued debt obligations (i.e., if the future cash flows do not materialize). The limited ability to liquidate the underlying collateral supporting an asset-backed security does not impact the structural determination of whether an issued security meets the definition of an asset-backed security but may impact the recoverability of the investment, as well as the consideration of whether there is sufficient credit enhancement.

purpose of raising debt capital backed by financial assets[5] or cash generating non-financial assets owned by the ABS Issuer, for which the primary source of repayment is derived from the cash flows associated with the underlying defined collateral rather than the cash flows of an operating entity[6]. In most instances, the ABS Issuer is not expected to continue functioning beyond the final maturity of the debt initially raised by the ABS Issuer. Also, many ABS Issuers are in the form of a trust or special purpose vehicle ("SPV"), although the presence or lack of a trust or SPV is not a definitive criterion for determining that a security meets the definition of an asset-backed security. The provisions in paragraphs 9-10 detail the two defining characteristics that must be present for a security to meet the definition of an asset-backed security.

9. The assets owned by the ABS Issuer are either financial assets or cash-generating non-financial assets. Cash-generating non-financial assets are defined as assets that are expected to generate a meaningful level of cash flows toward repayment of the bond through use, licensing, leasing, servicing or management fees, or other similar cash flow generation. For the avoidance of doubt, there must be a meaningful level of cash flows to service the debt, other than through the sale or refinancing of the underlying assets held by the ABS Issuer. Reliance on cash flows from the sale or refinancing of cash generating non-financial assets does not preclude a security from being classified as an asset-backed security so long as the conditions in this paragraph are met.

a. *Meaningful Level of Cash Flows*: Determining what constitutes a "meaningful" level of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral pursuant to paragraph 9 is specific to each transaction, determined at origination, and shall consider the following factors:

   i. The price volatility in the principal market for the underlying collateral;

   ii. The liquidity in the principal market for the underlying collateral;

   iii. The diversification characteristics of the underlying collateral (i.e., types of collateral, geographic location(s), source(s) of cash flows within the structure, etc.);

   iv. The overcollateralization of the underlying collateral relative to the debt obligation; and

   v. The variability of cash flows, from sources other than sale or refinancing, expected to be generated from the underlying collateral.

   The factors for price variability and the variability of cash flows are directly related to the "meaningful" requirement. That is, as price volatility or variability of cash flows increase, the required percentage of cash flows generated to service the debt from sources other

[5] *SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* defines a financial asset as cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right (a) to receive cash or another financial instrument from a second entity or (b) to exchange other financial instruments on potentially favorable terms with the second entity. As a point of clarity, for the purposes of this standard, financial assets do not include assets for which the realization of the benefits conveyed by the above rights depends on the completion of a performance obligation (e.g., leases, mortgage servicing rights, royalty rights, etc.). These assets represent non-financial assets, or a means through which non-financial assets produce cash flows, until the performance obligation has been satisfied.

[6] Dedicated cash flows from an operating entity can form the underlying defined collateral in an asset-backed security. This dynamic, perhaps noted in a whole-business securitization, still reflects an asset-backed security and is not an issuer credit obligation.

than the sale or refinancing of the underlying collateral must also increase. The factors for liquidity, diversification and overcollateralization are inversely related to the "meaningful" concept. That is, as liquidity, diversification or overcollateralization increase, the required percentage of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral may decrease.

b. As a practical expedient to determining whether a cash generating non-financial asset is expected to produce meaningful cash flows, a reporting entity may consider an asset for which less than 50% of the original principal relies on sale or refinancing to meet the meaningful criteria. In applying this practical expedient, only contractual cash flows of the non-financial assets may be considered. This practical expedient should not be construed to mean that assets cannot meet the meaningful criteria if they rely on sale or refinancing to service greater than 50% of the original principal or if they rely on cash flows that are not contracted at origination. Rather, such instances would require a complete analysis of the considerations described within the meaningful level of cash flows definition in paragraph 9.

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

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing categorized as a SAP change and expose revisions to *SSAP No. 26—Bonds* to expand on the requirements that asset-backed securities are required to meet to qualify for bond reporting. NAIC staff has classified this revision as a SAP change as the proposed revisions reflect a change from the original PBBD concepts. However, due to the limited scope and focus of this change, a separate issue paper is not planned.

Proposed Revisions to *SSAP No. 26—Bonds*

(Current footnotes have been removed for brevity as no revisions are proposed to those aspects.)

8. An asset-backed security is a bond issued by an entity (an "ABS Issuer") created for the primary purpose of raising debt capital backed by financial assets or cash generating non-financial assets owned by the ABS Issuer, for which the primary source of repayment is derived from the cash flows associated with the underlying defined collateral rather than the cash flows of an operating entity. In most instances, the ABS Issuer is not expected to continue functioning beyond the final maturity of the debt initially raised by the ABS Issuer. Also, many ABS Issuers are in the form of a trust or special purpose vehicle ("SPV"), although the presence or lack of a trust or SPV is not a definitive criterion for determining that a security meets the definition of an asset-backed security. The provisions in paragraphs 9-10 detail the two defining characteristics that must be present for a security to meet the definition of an asset-backed security.

9. The assets owned by the ABS Issuer are either financial assets or cash-generating non-financial assets. Cash-generating non-financial assets are defined as assets that are expected to generate a meaningful level of cash flows toward repayment of the bond through use, licensing, leasing, servicing or management fees, or other similar cash flow generation. For the avoidance of doubt, there must be a

meaningful level of cash flows to service the debt, other than through the sale or refinancing of the underlying assets held by the ABS Issuer. Reliance on cash flows from the sale or refinancing of cash generating non-financial assets does not preclude a security from being classified as an asset-backed security so long as the conditions in this paragraph are met.

a. *Meaningful Level of Cash Flows*: Determining what constitutes a "meaningful" level of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral pursuant to paragraph 9 is specific to each transaction, determined at origination, and shall consider the following factors:

i. The price volatility in the principal market for the underlying collateral;

ii. The liquidity in the principal market for the underlying collateral;

iii. The diversification characteristics of the underlying collateral (i.e., types of collateral, geographic location(s), source(s) of cash flows within the structure, etc.);

iv. The overcollateralization of the underlying collateral relative to the debt obligation; and

v. The variability of cash flows, from sources other than sale or refinancing, expected to be generated from the underlying collateral.

The factors for price variability and the variability of cash flows are directly related to the "meaningful" requirement. That is, as price volatility or variability of cash flows increase, the required percentage of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral must also increase. The factors for liquidity, diversification and overcollateralization are inversely related to the "meaningful" concept. That is, as liquidity, diversification or overcollateralization increase, the required percentage of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral may decrease.

b. As a practical expedient to determining whether a cash generating non-financial asset is expected to produce meaningful cash flows, a reporting entity may consider an asset for which less than 50% of the original principal relies on sale or refinancing to meet the meaningful criteria. In applying this practical expedient, only contractual cash flows of the non-financial assets may be considered. This practical expedient should not be construed to mean that assets cannot meet the meaningful criteria if they rely on sale or refinancing to service greater than 50% of the original principal or if they rely on cash flows that are not contracted at origination. Rather, such instances would require a complete analysis of the considerations described within the meaningful level of cash flows definition in paragraph 9.

c. Financial assets of an ABS issuer can either be self-liquidating or not. Self-liquidating means that the assets convert themselves to cash over a defined period in accordance with their contract terms, as is the case with most types of receivables. If the assets of the ABS issuer are not self-liquidating, the rebuttable presumption detailed in paragraphs 6.a.-6.d. must be overcome in order for the security to meet the definition of a bond.

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d. If the financial assets are self-liquidating, they must produce cash flows that are sufficient to pay all contractual amounts due in order to be considered meaningful. To the extent that the contractual terms permit cash flows of the financial assets to be reinvested rather than used to repay the debt security, the reporting entity should evaluate whether the debt security is subject to significant embedded asset-liability management (ALM) risk. Embedded ALM risk is to be considered significant if the ability to pay contractual cash flows of the debt security as scheduled could be impacted by changes in reinvestment interest rates or investment spreads. Securities that include significant embedded ALM risk do not meet the definition of a bond.

Staff Review Completed by: Julie Gann, July 2026.

Status:
On August 12, 2026, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 26—Bonds*, as illustrated above, to expand on the requirements for asset-backed securities to qualify for bond reporting.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/11-15-26 Fall National Meeting/Hearing/14 - 26-10 - SSAP No. 26 - Embedded ALM Risk.docx

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

Issue: Residential Mortgage Loan Definition

Check (applicable entity):

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

Description of Issue:
This agenda item is in response to a referral dated May 26, 2026, from the Investment Analysis (E) Working Group to consider whether additional clarification or refinement within *SSAP No. 37—Mortgage Loans* is warranted to better define residential mortgage loans and improve reporting consistency in application. As detailed in the referral, potential areas for consideration may include:

- Clarification of the characteristics that distinguish residential mortgage loans from commercial, commercial-like or other mortgage loan types, including consideration of property type, scale, and risk attributes.
- Consideration of whether certain large multi-unit, development-stage, or transitional properties should be subject to different classification or disclosure considerations.
- Evaluation of whether enhancements to reporting guidance or disclosures to identify more granular individual loan characteristics within Schedule B may improve transparency, comparability across reporting entities, and individual loan risk-assessment usability by state insurance regulators and users of statutory financial statements.
- Evaluation of whether aggregation of individual loans is appropriate for reporting purposes, including guidance on which loans can be aggregated to retain benefits of disclosure based on certain key risk characteristics.

In short, the Investment Analysis (E) Working Group noted a lack of a clearly defined boundary between traditional residential and other loan types currently being classified as residential mortgage loans by some reporting entities that may exhibit significantly different risk characteristics, introduces potential inconsistency in reporting and may result in classification outcomes that do not fully align with the underlying economic risk of the exposure anticipated by regulators in this particular reporting categories. Certain large multi-unit or development-type properties, while potentially meeting informal or structural interpretations of residential mortgages, may exhibit risk characteristics more consistent with commercial real estate lending, including higher vacancy risk, reliance on projected cash flows, and sensitivity to market conditions.

These classification considerations may also have implications for risk-based capital (RBC), because residential mortgage loans are subject to materially lower RBC factors than the majority of commercial mortgage loans. Accordingly, classification as residential may result in lower capital requirements for exposures that may present elevated or differing risk profiles. This dynamic may introduce opportunities for inconsistent treatment or unintended capital outcomes if not addressed through refined guidance.

For loans that are clearly residential in nature, the current investing spectrum could introduce specific risks that may warrant additional disclosure and RBC considerations, including varying loan-to-value (LTV) levels, varying

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borrower credit quality (FICO scores), whether owner occupied or for investment purposes, non first-lien loans, construction loans, HELOCs, bridge loans, among others.

A secondary, but related issue, is whether residential mortgage reporting should identify and separately capture certain risk factors on residential mortgages, and whether additional guidance is needed on the types of debt that should be considered a residential mortgage loan. Potential risk factors could include lien position (1st lien vs 2nd lien), Loan-to-Value (LTV) ratios, etc. In addition, certain types of residential mortgage debt may warrant separate identification or exclusion from residential mortgage loan reporting for statutory accounting purposes, including mortgages backed by ADUs (Accessory Dwelling Units), constructions loans of individual one-to-four family properties, fix and flip loans, lines of credit, home equity loans, non-owner occupied one-to-four family properties (e.g., fixed term rentals, short-term rentals, etc.), and transitional properties (mortgages backed by intermediate stage property where the risk profile is driven more by a future business plan than by a stabilized residential use; for example undergoing major redevelopment or renovation, newly constructed multifamily properties still in lease-up, condominium projects, or similar development-stage properties).

NAIC staff recommend that incorporating a principles definition of residential mortgage loans would promote consistent reporting. Though *SSAP No. 58—Mortgage Guaranty Insurance*, NAIC Model Law 280, and the Annual Statement Instructions all include references that describe residential mortgage loans as one-to-four family properties, there is no explicit definition in SSAP No. 37, and the existing references do not go any farther in explaining what that "one-to-four family properties" means. This lack of clarity has led to inconsistent reporting of mortgages within the residential mortgage loan category on Schedule B. Research indicates that the "one-to-four family properties" term likely originated from Code of Federal Regulations (CFR) Title 12 and may have been relied indirectly by using this term, albeit at best this would be considered Level 5 guidance under the statutory hierarchy.

NAIC staff recommend that the one-to-four family property and multifamily property definitions from the CFR Definitions be utilized as the starting point for defining these terms in SSAP No. 37 to ensure that the definition is clear and falls within Level 1 of the statutory hierarchy. The term "one-to-four family property" is a widely utilized industry term, and as such NAIC staff recommend that the term be explicitly defined in SSAP No. 37. Based on regulator discussions, the intent of this project is not to redefine residential mortgage but to include the definition in SSAP No. 37 and formally define what constitutes a "one-to-four family property". Additionally, it should be noted that if use of the term "one-to-four family property" is replaced this would require updates to other existing statutory guidance, including Model Law 280.

Assuming that adding definitions to SSAP No. 37 is supported by regulators, some initial modifications that NAIC staff recommend would include:

(1) Establish a threshold for determining when a mixed-use property with both residential and commercial units can be considered either a one-to-four family or multifamily property. (e.g., 60% residential to commercial square footage, 50% of loan value related to residential, or some other appropriate measure.)

(2) Should one-to-four family properties and multifamily properties both be classified as residential mortgage loans with separate reporting, or should multifamily properties be included as a component of commercial mortgage reporting?

(3) Clarify that a mortgage loan, including a construction loan, secured by a project involving multiple one-to-four family properties cannot be reported as a single residential loan when the collateral is the project or development as a whole. Each individual one-to-four family property, including condominium dwelling units within the scope of one-to-four family property definition, may qualify for residential

mortgage loan reporting if each property is reported individually and the mortgage is legally separate and divisible from other properties in the project, development, or condominium.

(4) Consider whether there should be loan value limits on individual residential mortgage loans.

(5) Provide specific guidance on residential mortgage loans secured by ADUs or non-owner occupied one-to-four family properties, residential construction loans, fix and flip loans, lines of credit, home equity loans, and transitional properties.

NAIC staff also request input on whether loan risk factors should be incorporated into Schedule B reporting, whether through new columns, reporting codes, or separate loan reporting. As noted previously, some of the potential risk factors could include lien position such as 1st lien (senior) or 2nd lien (subordinated), and the LTV ratio. NAIC staff request comments on these potential factors, as well as any other risk characteristics that should be considered for reporting purposes. It should also be noted that the RBC factor for residential mortgage loans is quite low compared to other asset classes, and those charges do not vary based on the loan's risk characteristics. As a result, there is no RBC impact for residential mortgage loans with subprime characteristics such as low FICO scores.

As noted in the referral, NAIC staff have also heard concerns from regulators and industry representatives that the high volume of residential mortgage loans has significantly increased the length of Schedule B. Residential mortgage loans as an asset class have grown substantially in recent years and this is likely in response to rising mortgage rates combined with the very low RBC charges as compared to other asset classes, and other recent changes to SAP guidance (for example, revisions to SSAP No. 37 related to residential mortgage loans held in statutory trusts). Considering this, it is not unreasonable to assume that the number of residential mortgage loans reported on Schedule B will only continue to increase.

Schedule B currently requires mortgage loans to be reported individually, with each mortgage loan reported as a separate line item regardless of the number of properties securing the loan. While individual loan reporting is a cornerstone of mortgage loan reporting, NAIC staff is concerned that the growing volume of residential mortgage loans may reduce the analytical value of Schedule B and make it more difficult for regulators to effectively review and assess Schedule B. Ultimately, NAIC staff are seeking input from regulators and industry on whether, and under what circumstances, mortgage loan reporting could be aggregated and how it could be done without sacrificing the information necessary for regulators to evaluate insurer mortgage loan portfolios. As an additional note, some insurers have recently had to report residential mortgage loans in aggregate due to Schedule B reporting line limitations, but this issue should not reoccur as the number of mortgage loan reporting lines has been significantly increased and can be increased further as needed.

CFR Title 12, Chapter XII, Subchapter D, Part 1266, Subpart A, § 1266.1, Definitions:

One-to-four family property means any of the following:

(1) Real property containing:

(i) One-to-four dwelling units; or

(ii) More than four dwelling units if each unit is separated from the other units by dividing walls that extend from ground to roof, including row houses, townhouses or similar types of property;

(2) Manufactured housing if:

(i) Applicable state law defines the purchase or holding of manufactured housing as the purchase or holding of real property; and

(ii) The loan to purchase the manufactured housing is secured by that manufactured housing;

(3) Individual condominium dwelling units or interests in individual cooperative housing dwelling units that are part of a condominium or cooperative building without regard to the number of total dwelling units therein; or

(4) Real property containing one-to-four dwelling units with commercial units combined, provided the property is primarily residential.

Multifamily property means:

(1) *Intentionally Left Blank*

a. Real property that is solely residential and which includes five or more dwelling units; or

b. Real property which includes five or more dwelling units with commercial units combined, provided the property is primarily residential.

(2) Multifamily property as defined in this section includes nursing homes, dormitories and homes for the elderly.

Existing Authoritative Literature:

The following SAP guidance provides some measure of guidance regarding the definition of residential mortgage loans:

SSAP No. 58—Mortgage Guaranty Insurance

3. Mortgage guaranty insurance is provided on residential loans (one-to-four family residences, including condominiums and townhouses). Coverage can range from as little as 5% on pool insurance to as much as 100% of the outstanding loan amount on individual policies. Most policies cover 10% to 30% of the loan amount and are written on first mortgage loans where the loan amount is a high percentage (generally 80% to 95%) of the value of the mortgaged property.

Annual Statement Investment Schedules General Instructions

Residential Mortgage-Backed Securities:

Those securities directly or indirectly secured by liens on one- to four-family residential properties and subject to the guidance in *SSAP No. 43—Asset-Backed Securities*. Includes prime, subprime, Alt-A mortgages, as well as home equity loans and home equity lines of credit.

Annual Statement Summary Investment Schedule Instructions

Line 5.02 – Mortgage Loans – Residential Mortgages

Include: The value of loans secured by real estate as evidenced by mortgages (FHA, FmHA, VA or conventional) or other liens on nonfarm property containing one to four dwelling units (including vacation homes) or more than four dwelling units if each is separated from other units by dividing walls that extend from ground to roof (e.g., row houses, townhouses or the like); mobile homes where (a) state laws define the purchase or holding of a mobile home as the purchase or holding of real property and where (b) the loan to purchase the mobile home is secured by that mobile home as evidenced by a mortgage or other instrument

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on real property; individual condominium dwelling units and loans secured by an interest in individual cooperative housing units, even if in a building with five or more dwelling units; and housekeeping dwellings with commercial units combined where use is primarily residential and where only one to four family dwelling units are involved.

Model Law 280 – Investments of Insurers Model Act

VVV. "Residential mortgage loan" means a loan primarily secured by a mortgage on real estate improved with a one-to-four family residence.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):
Agenda item 2025-13: Residential Mortgages held in Statutory Trusts is tangentially related to this topic as the agenda item expanded the scope of *SSAP No. 37—Mortgage Loans* to allow residential mortgage loans to be held within Qualifying Statutory Trusts and thus be reported individually on Schedule B (as if held directly).

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): None

Staff Recommendation:
NAIC staff recommend that the Statutory Accounting Principles (E) Working Group receive the referral from the Investment Analysis (E) Working Group, and move this item to the active listing, initially categorized as a SAP Clarification, and expose this Form A as a concept agenda item. This is considered a SAP Clarification as the intent it only to clarify the existing definition of "one-to-four family properties" as the definition of a residential mortgage loan and then assess different characteristics and risk components of properties that meet that definition for more granular reporting and/or accounting guidance. Reconsideration of this item as a change in SAP Concept may occur in response to regulator and industry comments.

The items requested for comment include:

1. Are there other industry definitions other than 12 CFR § 1266.1 for one-to-four family property and multifamily property which should be considered?
2. The following are possible modifications to the 12 CFR § 1266.1 definitions:
    a. Establish a threshold for determining when a mixed-use property with both residential and commercial units can be considered either a one-to-four family or multifamily property. (e.g., 70% residential to commercial square footage or some other appropriate measure.) Additionally, how should mixed use properties be reported: as a separate category, by allocating and reporting the residential and commercial portions separately, or by reporting the entire mortgage balance as either one-to-four family or multifamily property?
    b. Should one-to-four family properties and multifamily properties both be classified as residential mortgage loans with separate reporting, or should multifamily properties be included as a component of commercial mortgage reporting?
    c. Clarify that a mortgage loan, including a construction loan, secured by a project involving multiple one-to-four family properties cannot be reported as a single residential loan when the collateral is the project or development as a whole. Each individual one-to-four family property, including condominium dwelling units within the scope of one-to-four family property definition, may qualify for residential mortgage loan reporting if each property is reported individually and the

mortgage is legally separate and divisible from other properties in the project, development, or condominium.

d. Consider whether there should be loan value limits on individual residential mortgage loans.

e. Provide specific guidance on residential mortgage loans secured by ADUs or non-owner occupied one-to-four family properties, residential construction loans, fix and flip loans, lines of credit, home equity loans, and transitional properties.

3. Should residential loan risk factors be incorporated into Schedule B reporting, whether through new columns, reporting codes, or separate loan reporting per those risk factors? Are there any other risk characteristics that should be considered for reporting purposes in addition to those already mentioned previously? (lien position and LTV ratio)

4. Should an alternative reporting approach be considered for residential mortgage loans, in which they are carved out from the traditional Schedule B reporting and instead reported in predefined aggregated categories?

Staff Review Completed by:
William Oden, NAIC Staff – July 2026

Status:
On August 12, 2026, the Statutory Accounting Principles (E) Working Group received a referral from the Investment Analysis (E) Working Group, and exposed this as a concept agenda item. This is considered a SAP clarification as the intent to incorporate a definition into the SSAPs that is consistent with the existing definition in other statutory guidance of "one-to-four family properties" as the definition for residential mortgage loans and to assess different characteristics and risk components of properties that meet that definition for more granular reporting and/or accounting guidance. Comments are specifically requested on the items noted above.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/11-15-26 Fall National Meeting/Hearing/15 - 26-11 - Residential Mortgage Definition.docx

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

Issue: Retroactive Reinsurance Exception

Check (applicable entity):

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

Description of Issue:
Regulators have requested this agenda item consider potential concerns with the exception to retroactive reinsurance accounting in *SSAP No. 62—Property and Casualty Reinsurance*, paragraph 36.d. This exception allows retroactive reinsurance contracts between insurers 100% owned by a common parent or ultimate controlling person, to be treated as prospective reinsurance, provided there is no gain in surplus because of the transaction. If there is a gain to the ceding entity because of the transaction, SSAP No. 62, paragraph 37 requires a punitive method of accounting, which is similar to deposit accounting, with the addition of requiring the deposit to be nonadmitted (See authoritative literature section).

SSAP No. 62 provides different accounting for reinsurance contracts that are prospective and retroactive. The distinction between prospective and retroactive reinsurance agreements is based on whether the agreement reinsures future (prospective) or past insured events (retroactive) covered by the underlying insurance policies. Prospective reinsurance contracts that transfer risk and meet other contractual requirements apply prospective reinsurance accounting. Retroactive reinsurance contracts covering risks that occurred prior to the effective date that also transfer risk are subject to retroactive reinsurance accounting. Under retroactive reinsurance accounting, all reserves remain on the ceding company's balance sheet and in annual statement Schedule P with a write-in contra-liability established for the retroactive reinsurance. The consideration paid is not recognized as ceded premiums, and therefore net premiums written is also not reduced.

The intercompany reinsurance exception detailed in SSAP No. 62, paragraph 36.d. existed prior to statutory codification, in the *Property and Casualty Accounting Practices and Procedures Manual*, Chapter 22, Reinsurance. The guidance for retroactive reinsurance contracts was adopted by the Property Casualty Reinsurance Study Group on December 13, 1995. Most of the reinsurance guidance in SSAP No. 62 was adopted as part of the review of *FASB Statement No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* (FAS 113) and a related *Emerging Issues Task Force Issue No. 93-6, Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises* (EITF 93-6). The exception guidance in SSAP No. 62, paragraph 36.d. was adopted by the membership of the NAIC at the March 1996 Plenary Session. This same wording was incorporated into SSAP No. 62 with initial statutory codification (see Issue Paper No. 75). The wording has consistently noted 100% common ownership since adoption.

This exception allows retroactive intercompany reinsurance contracts covering prior years to be treated as prospective contracts. Allowing prospective accounting can result in shifting large blocks of prior year business within an insurance group with 100% common control. NAIC staff's perception is that this exception is commonly used both for amendments to intercompany pooling, including when new

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members of a group are added to a pooling agreement; and to reallocate blocks of prior years' reserves and premiums within a group. Working Group members have informally indicated that while this exception is more permissive than U.S. GAAP, the intercompany reinsurance contracts are subject to regulatory review pursuant to *Insurance Holding Company System Regulatory Act* (Model #440). Furthermore, if there is a gain to the ceding entity, SSAP No. 62 paragraph 37 requires a conservative method of accounting. Current informal discussions with Working Group members indicated a willingness to have a public discussion of this overall topic.

Risk Transfer Logic
Current discussion by regulators have noted that to apply retroactive reinsurance accounting, retroactive reinsurance agreements must transfer risk. If a retroactive reinsurance agreement meets risk-transfer, there must be both a reasonable possibility of a loss to the reinsurer—and therefore a reasonable possibility of a gain to the ceding company. It is unclear how a ceding company can simultaneously assert that the retroactive reinsurance transfers risk and that no surplus gain will result from the agreement to qualify for the paragraph 36.d. exception. These two positions appear inconsistent.

Regulators have also noted that it seems contrary to the stated purpose of retroactive accounting treatment to allow a broad exception for affiliated transactions, which are inherently more susceptible to potential abuse. With retroactive accounting the ceding company must also complete Note 23F for the life of the agreement while reserves remain outstanding. This provides regulators with greater transparency, including annual fluctuations in development, recoverables on paid losses, over-90-day balances, and collateral levels (since retroactive reinsurance does not flow through Schedule F). However, there is not a disclosure of retroactive contact which apply this intercompany reinsurance exception. Hence, it is currently difficult to identify use of this reinsurance exception in the annual statement.

Regulators also noted that limiting applicability of the SSAP No. 62, paragraph 36.d. exception to only surplus gain at inception puts the focus on the timing of gain recognition, not on whether a transaction will ultimately result in a gain to the ceding company (putting form over substance).

Implications of Paragraph 36.d. Exception
Allowing prospective accounting treatment to intercompany reinsurance transactions also can impact operational and risk-based capital (RBC) ratios of the entities within the group. If companies are permitted to apply the paragraph 36.d. exception to treat affiliated loss portfolio transfers and other retroactive agreements as prospective, they could immediately shift significant amounts of premiums and reserves off the ceding entity's statutory financials and Schedule P. This in turn would make it harder to track reserve development over time, since Schedule P Part 2 is presented net of prospective reinsurance. More importantly, it can sharply reduce reserves held, lowering the total RBC requirement instantly.

Disclosure
SSAP No. 62, paragraph 36 contains the following exceptions to retroactive accounting and related disclosures are listed if applicable.

36a. Structured settlements to pay individual claims (Disclosed in *SSSAP No. 65—Property and Casualty Contracts*, paragraph 19

36.b. Novations – no specific SAP disclosure but disclosed in Schedule F - Part 2 per *Annual Statement Instructions*

36.c. Termination of, or reduction in participation in, reinsurance treaties - disclosed in SSAP No. 62, paragraph 109).

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36.d. Intercompany reinsurance agreements with 100% ultimate controlling person (no gain in surplus) to the ceding entity) – no specific disclosure;

36.e. Reinsurance/retrocession agreements that meet the criteria of property/casualty run-off agreements disclosed in SSAP No. 62, paragraphs 114-119.

Existing Authoritative Literature:

SSAP No. 62—Property and Casualty Reinsurance

26. Prospective reinsurance is defined as reinsurance in which a reinsurer agrees to reimburse a ceding entity for losses that may be incurred as a result of future insurable events covered under contracts subject to the reinsurance. Retroactive reinsurance is defined as reinsurance in which a reinsurer agrees to reimburse a ceding entity for liabilities incurred as a result of past insurable events covered under contracts subject to the reinsurance. A reinsurance agreement may include both prospective and retroactive reinsurance provisions.

27. The distinction between prospective and retroactive reinsurance agreements is based on whether the agreement reinsures future or past insured events covered by the underlying insurance policies. For example, in occurrence-based insurance, the insured event is the occurrence of a loss covered by the insurance contract. In claims-made insurance, the insured event is the reporting to the insurer, within the period specified by the policy, of a claim for a loss covered by the insurance agreement. A claims-made reinsurance contract that reinsures claims asserted to the reinsurer in a future period as a result of insured events that occurred prior to entering into the reinsurance agreement is a retroactive agreement. (However, a reinsurance agreement that reinsures claims reported to an insurer that are covered under currently effective claims-made insurance policies is a prospective reinsurance agreement.)

Accounting for Prospective Reinsurance Agreements

30. Amounts paid for prospective reinsurance that meet the conditions for reinsurance accounting shall be reported as a reduction of written and earned premiums by the ceding entity and shall be earned over the remaining contract period in proportion to the amount of reinsurance protection provided or, if applicable, until the reinsurer's maximum liability under the agreement has been exhausted. If the amounts paid are subject to adjustment and can be reasonably estimated, the basis for amortization shall be the estimated ultimate amount to be paid. Reinstatement premium, if any, shall be earned over the period from the reinstatement of the limit to the expiration of the agreement.

31. Changes in amounts of estimated reinsurance recoverables shall be recognized as a reduction of gross losses and loss expenses incurred in the current period statement of income. Reinsurance recoverables on paid losses shall be reported as an asset, reinsurance recoverables on loss and loss adjustment expense payments, in the balance sheet. Reinsurance recoverables on unpaid case-basis and incurred but not reported losses and loss adjustment expenses shall be netted against the liability for gross losses and loss adjustment expenses.

32. Prospective reinsurance agreements that meet the conditions for reinsurance accounting shall only reflect reinsurance credit for the portion of risk which is ceded.

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Provisions that would limit the reinsurer's losses (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions) caused by any applicable risk limiting provision(s) shall be reflected adjustments to ceded premiums, commissions or losses. Reporting entities shall only take credit for reinsurance, i.e., record a reinsurance recoverable, for non-proportional reinsurance when and to the extent that incurred losses on the underlying subject business exceed the attachment point of the applicable reinsurance contract(s).

Accounting for Retroactive Reinsurance Agreements

33. Certain reinsurance agreements which transfer both components of insurance risk cover liabilities which occurred prior to the effective date of the agreement. Due to potential abuses involving the creation of surplus to policyholders and the distortion of underwriting results, special accounting treatment for these agreements is warranted.

34. All retroactive reinsurance agreements entered into, renewed or amended on or after January 1, 1994 (including subsequent development of such transactions) shall be accounted for and reported in the following manner:

a. The ceding entity shall record, without recognition of the retroactive reinsurance, loss and loss expense reserves on a gross basis on the balance sheet and in all schedules and exhibits;

b. The assuming entity shall exclude the retroactive reinsurance from loss and loss expense reserves and from all schedules and exhibits;

c. The ceding entity and the assuming entity shall report by write-in item on the balance sheet, the total amount of all retroactive reinsurance, identified as retroactive reinsurance reserve ceded or assumed, recorded as a contra-liability by the ceding entity and as a liability by the assuming entity;

d. The ceding entity shall, by write-in item on the balance sheet, restrict surplus resulting from any retroactive reinsurance as a special surplus fund, designated as special surplus from retroactive reinsurance account;

e. The surplus gain from any retroactive reinsurance shall not be classified as unassigned funds (surplus) until the actual retroactive reinsurance recovered exceeds the consideration paid;

f. The special surplus from retroactive reinsurance account for each respective retroactive reinsurance agreement shall be reduced at the time the ceding entity begins to recover funds from the assuming entity in amounts exceeding the consideration paid by the ceding entity under such agreement, or adjusted as provided in paragraph 34.j.;

g. For each agreement, the reduction in the special surplus from retroactive reinsurance account shall be limited to the lesser of (i) the actual amount recovered in excess of consideration paid or (ii) the initial surplus gain resulting from the respective retroactive reinsurance agreement. Any

remaining balance in the special surplus from retroactive reinsurance account derived from any such agreement shall be returned to unassigned funds (surplus) upon elimination of all policy obligations subject to the retroactive reinsurance agreement;

h. The ceding entity shall report the initial gain arising from a retroactive reinsurance transaction (i.e., the difference between the consideration paid to the reinsurer and the total reserves ceded to the reinsurer) as a write-in item on the statement of income, to be identified as Retroactive Reinsurance Gain and included under Other Income;

i. The assuming entity shall report the initial loss arising from a retroactive reinsurance transaction, as defined in the preceding paragraph 34.g., as a write-in item on the statement of income, to be identified as Retroactive Reinsurance Loss and included under Other Income;

j. Any subsequent increase or reduction in the total reserves ceded under a retroactive reinsurance agreement shall be reported in the manner described in the preceding paragraphs 34.h. and 34.i., in order to recognize the gain or loss arising from such increase or reduction in reserves ceded. The Special Surplus from Retroactive Reinsurance Account write-in entry on the balance sheet shall be adjusted, upward or downward, to reflect such increase or reduction in reserves ceded. The Special Surplus from Retroactive Reinsurance Account write-in entry shall be equal to or less than the total ceded reserves under all retroactive reinsurance agreements in-force as of the date of the financial statement. Special surplus arising from a retroactive reinsurance transaction shall be considered to be earned surplus (i.e., transferred to unassigned funds (surplus)) only when cash recoveries from the assuming entity exceed the consideration paid by the ceding entity as respects such retroactive reinsurance transaction; and

k. The consideration paid for a retroactive reinsurance agreement shall be reported as a decrease in ledger assets by the ceding entity and as an increase in ledger assets by the assuming entity.

(For an illustration of ceding entity accounting entries see question 31 in Exhibit A.)

35. Portfolio reinsurance is the transfer of an insurer's entire liability for in force policies or outstanding losses, or both, of a segment of the insurer's business. Loss portfolio transactions are to be accounted for as retroactive reinsurance.

36. The accounting principles for retroactive reinsurance agreements in paragraph 34 shall not apply to the following types of agreements (which shall be accounted for as prospective reinsurance agreements unless otherwise provided in this statement):

a. Structured settlement annuities for individual claims purchased to implement settlements of policy obligations;

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b. Novations, (i.e., (i) transactions in which the original direct insurer's obligations are completely extinguished, resulting in no further exposure to loss arising on the business novated or (ii) transactions in which the original assuming entity's obligations are completely extinguished) resulting in no further exposure to loss arising on the business novated, provided that (1) the parties to the transaction are not affiliates (or if affiliates, that the transaction has the prior approval of the domiciliary regulators of the parties)and (2) the accounting for the original reinsurance agreement will not be altered from retroactive to prospective;

c. The termination of, or reduction in participation in, reinsurance treaties entered into in the ordinary course of business;

d. Intercompany reinsurance agreements, and any amendments thereto, among companies 100% owned by a common parent or ultimate controlling person provided there is no gain in surplus as a result of the transaction; or

e. Reinsurance/retrocession agreements that meet the criteria of property/casualty run-off agreements described in paragraphs 102-105.

37. Retroactive reinsurance agreements resulting in surplus gain to the ceding entity (with or without risk transfer) entered into between affiliates or between insurers under common control (as those terms are defined in Appendix A-440) shall be reported as follows:

a. The consideration paid by the ceding entity shall be recorded as a deposit and reported as a nonadmitted asset; and

b. No deduction shall be made from loss and loss adjustment expense reserves on the ceding entity's balance sheet, schedules, and exhibits.

Disclosures

109. Commutation of Ceded Reinsurance—Describe commutation of ceded reinsurance during the year reported in the following annual statement classifications, including the name(s) of the reinsurer(s):

a. Losses incurred;

b. Loss adjustment expenses incurred;

c. Premiums earned; and

d. Other.

110. Retroactive Reinsurance—The table illustrated in the NAIC Annual Statement Instructions for Property and Casualty Companies under Retroactive Reinsurance in the Notes to Financial Statements section shall be completed for all retroactive reinsurance agreements that transfer liabilities for losses that have already occurred and that will generate special surplus transactions. The insurer (assuming or ceding) shall assign a unique number to each retroactive reinsurance agreement and shall utilize this number for as long as the agreement exists. Transactions utilizing deposit accounting shall not be reported in this note.

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Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):
Agenda item 2008-24: Exceptions for portfolio reinsurance agreements between affiliates, sought to expand the exception, which was in SSAP No. 62, paragraph 31d at the time. This agenda item was exposed and then withdrawn by the sponsor.

Agenda item 2019-49 is a tangential issue regarding how to report the exception(s) to retroactive reinsurance exception using prospective reinsurance accounting when prior years are impacted on Schedule P. This agenda item, which asks for accounting guidance on how to report this exception in Schedule P was deferred in May 2020. NAIC staff received a separate regulator question on this topic in 2026 and would be interested in future actuarial and accounting input to resolve this topic.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): None.

Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, initially categorized as a SAP clarification, and expose the disclosures described below with a request for comment on regarding whether the existing exception to retroactive accounting in SSAP No. 62, paragraph 36.d, should remain unchanged, be considered for elimination, or be narrowed. Subsequent consideration of this agenda item as a SAP concept change will occur if revisions to the existing exception are supported.

Disclosure Discussion – Most of the SSAP No. 62, the paragraph 36 exceptions to retroactive reinsurance accounting have an existing disclosure, however there is not a specific disclosure for the exception for intercompany reinsurance as described in paragraph 36.d. While continued discussions occur on the exception, NAIC staff recommend exposure of the following SSAP No. 62 proposed new disclosures to allow for better transparency. If the exception is eliminated or revised, corresponding disclosure revisions will be considered.

SSAP No. 62 proposed new disclosures:

126. Disclose each contract that was entered into during the reporting period that applied the exception to retroactive reinsurance accounting for intercompany reinsurance contracts meeting the requirements of paragraph 36d., which allows such contracts to be reported as prospective reinsurance. Describe the parties and general terms of the contract including the amount of reserves reinsured, the aggregate consideration paid, the amount of ceded premiums recorded by line of business, the amount of any gain or loss in surplus from the transaction and if the contract received domiciliary approval.

Staff Review Completed by: Robin Marcotte – NAIC Staff, July 2026

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Status:
On August 12, 2026, the Statutory Accounting Principles (E) Working Group exposed revisions to the disclosures in *SSAP No. 62—Property and Casualty Reinsurance* as illustrated above and requested comments regarding whether the existing exception to retroactive accounting in SSAP No. 62, paragraph 36.d, should remain unchanged, be considered for elimination, or be narrowed.

For the 2026 Fall National Meeting, the following is a summary of key comments and recommendations received.

1. **Commenter Recommendations**
    - **Whether to keep the Paragraph 36d. exception and Scope**
        - IP and RAA - **Retain the exception rather than eliminate it.** (both IP and RAA) Noting it is an important tool that is commonly used for when groups modify intercompany pooling arrangements, transfer run-off liabilities, in loss portfolio transfers (LPT), adverse development covers (ADC) or to restructure operations.
    - **RAA is supportive of clarifying the inception-based test in the existing exception**
        - NC DOI - **Narrow the exception** - Retain paragraph 36.d for pooling arrangements, pooling modifications (including modifications that affect prior years) and qualifying amendments to prospectively originated intercompany agreements, while narrowing its scope to not allow for agreements that incept retroactively to be treated as prospective without a permitted practice.
    - **Affiliated Loss portfolio transfers(LPTs) and Adverse Development Covers (ADCs)**
        - RAA - Continue to permit qualifying transactions under the exception, distinguish them from pooling modifications, and preserve entity-level regulatory review and applicable recognition, measurement, and holding-company requirements.
        - NC DOI - Exclude affiliated agreements that incept retroactively from paragraph 36.d and account for them under paragraphs 34 and 35. Permit prospective accounting only through a case-specific permitted practice after regulatory review and notice.
    - **Risk Transfer, Surplus Gain, and Paragraph 37**
        - Interested Parties - Clarify the interaction of paragraph 36.d with risk transfer and paragraph 37.
        - RAA - Clarify that the no-surplus-gain condition applies to the cedent at inception; evaluate material amendments based on their incremental effect; and conform paragraph 37 as necessary without creating unsupported gain recognition.
        - NC DOI - Consider corresponding scope changes to paragraph 37 so retroactive affiliated transactions cannot use contract structure to avoid the applicable recognition, measurement, and disclosure requirements.
2. **Disclosure and Transparency**
    - Interested Parties - work with NAIC staff to develop targeted disclosures which address transparency concerns.
    - RAA - Use targeted, primarily transaction-year disclosures; distinguish pooling from other affiliated transactions; identify key terms, financial effects, approvals, and support arrangements; allow cross-references; and avoid repetitive ongoing disclosure unless an information gap is identified. RAA supports, nonduplicative disclosures, while reserving broader accounting changes for a separate exposure and coordinated impact analysis.

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- While RAA was supportive of disclosure to identify use of the exception, they also recommended modifications to the exposed disclosure.
  - distinguishing pooling modifications from other affiliated transactions so the disclosures reflect their different purposes and reporting requirements.
    - For pooling they recommended addressing identified gaps through SSAP No. 63 and Note 26 without overlapping requirements.
    - For other new or materially amended agreements, disclosure should identify the counterparties and domiciles, common-ownership basis, business purpose, principal coverage terms, reserves reinsured, aggregate consideration, inception surplus effect for each party and required approval or non-disapproval status. The new transaction disclosure should be required only for the reporting year in which the agreement is entered into or materially amended, with prior-year information retained in the following year only to the extent needed for comparative presentation.
    - For affiliated LPTs and ADCs, initial disclosure should also describe material financial support, including relevant retrocessional or other capital arrangements. Cross-references should be permitted where existing filings provide the information. Amendment disclosures should explain what changed and the incremental financial effect.
- Before requiring ceded premiums by line, the Working Group should assess whether existing allocations and reconciliations meet the supervisory need.
- NC DOI - the new disclosure on qualifying amendments to non-pooling intercompany agreements that originally incepted prospectively, while retaining Note 23F for retroactive transactions and Note 26 for pooling.

3. Implementation and Transition

- RAA - Separately expose substantive accounting changes, coordinate Schedule P and RBC analysis, and include appropriate transition provisions for existing agreements.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/11-15-26 Fall National Meeting/Hearing/16 - 26-12 - Retroactive Re exception.docx

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

Issue: Medicaid - Updates

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 questions received from industry and regulators regarding statutory accounting for state directed payments (SDP) in Medicaid managed care and for separate payment terms. The primary question is regarding whether the statutory reporting guidance classifies such payments as "at risk" under *SSAP No. 54—Individual and Group Accident and Health Contracts*. Key points are described below:

State directed payments - are based on the utilization and delivery of services and are further detailed in in 42 Code of Federal Regulations (CFR) § 438.6(c). These payments are also tied to quality goals.

Separate Payment Terms – are a mechanism used by states to send supplemental funding to providers through managed care organizations (MCO) for state directed payments that were separate from the per member per month payments. A 2024 final rule for Medicaid MCO contracts, prohibits the use of separate payment terms on or after July 9, 2027 per CMS-2439-F regulation. It requires that all state directed payments be included in actuarially sound capitation rates. It requires SDP separate payment terms (SPTs) must be moved into the base capitation rates paid to plans.

State directed payments are not pass throughs - 42 CFR 438.6(a) defines a pass-through payment as an amount required by the state to be added to contracted payment rates and considered in the actuarially sound capitation rate, that is not tied to a specific service or benefit, and not a permitted 438.6(c) payment methodology (i.e., SDP). CMS treats 438.6(c) SDPs as distinct from 438.6(d) pass-throughs: SDPs are service-specific and tied to utilization.

State directed payments are "at risk" - As provided for in the 2024 Medicaid and CHIP Managed Care Final Rule, CMS amended 438.8 (Medicaid MLRs) to clarify that SDPs and SDP SPTs are to be included in both the medical loss ratio (MLR) numerator and denominator. The inclusion of SDPs and SDP SPTs in both the MLR numerator and denominator indicates that CMS views these dollars as "at risk" to the MCO despite being embedded in the capitation rate with state direction on where the money flows.

However, some MCOs view some state directed payments and state directed payments from separate payment terms as low- to near-zero-risk because the state directs the payment to specified providers, and historically some MCOs exclude state directed payments from MLR reporting on a pass-through analogy.

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Note that the HRBC formula removes pass through payments from the underwriting risk charges and assigns a lower charge that is more akin to an administrative services contract to pass through payments. NAIC staff also received questions regarding whether the amounts should receive a risk charge similar to pass through payments in health risk-based capital (RBC) reporting, but defers to the Health Risk-based Capital (E) Working Group for this conclusion. The current health RBC (HRBC) guidance for XR-0013 underwriting risk and XR-0015 other underwriting risk defers to state treatment on whether pass through payments are in premium. (See Authoritative Literature). However, it appears to defer to the Medicaid classification of pass-throughs.

SSAP No. 47—Uninsured Plans and *SSAP No. 54—Individual and Group Accident and Health Contracts* discuss uninsured plans, insured plans and partially insured plans. If a reporting entity is not at risk and is only acting as an administrator for a third party that is not at risk, then the plan is uninsured. The guidance in SSAP No. 47 provides that arrangements where the reporting entity receives a capitated payment for providing medical services to a third party do not qualify the arrangement as an uninsured plan.

Existing Authoritative Literature:
SSAP No. 47—Uninsured Plans

> 2. For purposes of this statement, uninsured accident and health plans, including HMO administered plans, and uninsured property and casualty plans (collectively referred to as uninsured plans) are defined as plans for which a reporting entity, as an administrator, performs administrative services such as claims processing for a third party that is at risk, and accordingly, the administrator has not issued an insurance policy, regardless of whether an identification card is issued. In the case of uninsured accident and health plans, the administrator may arrange for the provision of medical services through a contracted or employed provider network. The plan (whether insured by another reporting entity or self insured) bears all of the insurance risk, and there is no possibility of loss or liability to the administrator caused by claims incurred related to the plan. The administrator, however, may be subject to credit risk with regard to the risk bearing entity. An uninsured accident and health plan may be either an Administrative Services Only (ASO) plan or an Administrative Services Contract (ASC) plan. Under an ASO plan, claims are paid from a bank account owned and funded directly by the uninsured plan sponsor; or, claims are paid from a bank account owned by the reporting entity, but only after the reporting entity has received funds from the uninsured plan sponsor that are adequate to fully cover the claim payments. Under an ASC plan, the reporting entity pays claims from its own bank accounts, and only subsequently receives reimbursement from the uninsured plan sponsor. No arrangement where the reporting entity receives a capitated payment for providing medical services to a third party shall qualify as an uninsured plan.
>
> 3. Uninsured accident and health plans also include Federal, state or other government department funded programs such as Medicare cost contracts where there is no underwriting risk to the reporting entity. Under Medicare cost contracts, service provided to recipients includes the direct delivery of health care for which the reporting entity is reimbursed based on costs incurred as provided for in regulations governing the administration of such contracts. Other such programs may include some Medicaid contracts for which administration or other non-underwriting services are provided.

4. Partially insured or combination plans exist, under which the reporting entity issues an insurance policy for some of the risks related to the claims (e.g., minimum premium and stop loss coverage), but acts as an administrator for some, or all, of the claims paid by the plan. Such plans shall be treated as two plans: an insured plan (the part for which the reporting entity has issued a policy) and an uninsured plan (the part that meets the definition in paragraph 2 of this statement). The components related to uninsured plans shall be accounted for using the accounting principles established in this statement; the components related to insured plans shall be accounted for as insurance.

SSAP No. 54—Individual and Group Accident and Health Contracts:

Premium Income Recognition

2. Premiums shall be recognized as income on the gross basis (amount charged to the policyholder or subscriber exclusive of copayments or other charges related to the receipt of health care services) when due from policyholders or subscribers, but no earlier than the effective date of coverage, under the terms of the contract. Due and uncollected premiums shall follow the guidance in *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers*, to determine the admissibility of premiums and related receivables. Premiums waived by the reporting entity under disability provisions contained in its policies and contracts, and reported in operations as a disability benefit, are included in premium income.

7. As discussed in *SSAP No. 47—Uninsured Plans*, amounts received on behalf of uninsured plans or the uninsured portion of partially insured plans shall not be reported as premium income. Administrative fees for servicing the uninsured plans shall be deducted from general expenses. Conversely, income relating to the insured portion of any plan shall be reported as premium income.

Legal guidance

Legal guidance for the 42 CFR, 438 is available at https://www.ecfr.gov/current/title-42/chapter-IV/subchapter-C/part-438/subpart-A/section-438.6#p-438.6(c)

Performance measure means, for State directed payments, a quantitative measure with a numerator and denominator that is used to monitor performance at a point in time or track performance over time, of service delivery, quality of care, or outcomes as defined in § 438.320 for enrollees.

The fact sheet on Medicaid and Children's Health Insurance Program Managed Care Access, Finance, and Quality Final Rule (CMS-2439-F) is available at https://www.cms.gov/newsroom/fact-sheets/medicaid-and-childrens-health-insurance-program-managed-care-access-finance-and-quality-final-rule

Prohibits the use of separate payment terms and requires that all state directed payments be included in actuarially sound capitation rates.

https://www.govinfo.gov/content/pkg/FR-2024-05-10/pdf/2024-08085.pdf

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Health Risk-Based Capital instructions - XR-0015 Other Underwriting Risk

Line (24.2) Medicaid Pass-Through Payments Reported as Premium – The treatment of Medicaid Pass-Through Payments varies from state to state, and in some instances is treated as premium. The Health Risk-Based Capital (E) Working Group, however, determined that the risk associated with these payments is more administrative in nature and similar to uninsured plans. As such, the Working Group determined that the charge should follow that of the uninsured plans (ASC and ASO) and apply a 2% factor charge to those Medicaid Pass-Through Payments reported as premiums. This amount should be equal to the amount reported on page XR013, Column (4), Line (3).

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

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): Not applicable

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 *SSAP No. 47—Uninsured Plans* and *SSAP No. 54—Individual and Group Accident and Health Contracts* to add a principles-based statement that Medicaid contracts payments classified as capitated payments are included in insured plans. This should cover the Medicaid revisions regarding state directed payment and separate payment terms without having to become too detailed regarding program terminology. In addition, Health Risk-Based Capital (E) Working Group should be notified of the exposure to allow that group to determine if the amounts should receive a risk similar to pass through payments.

SSAP No. 47—Uninsured Plans:

3. Uninsured accident and health plans also include Federal, state or other government department funded programs such as Medicare cost contracts where there is no underwriting risk to the reporting entity. Under Medicare cost contracts, service provided to recipients includes the direct delivery of health care for which the reporting entity is reimbursed based on costs incurred as provided for in regulations governing the administration of such contracts. Other such programs may include some Medicaid contracts for which administration or other non-underwriting services are provided.

4. Partially insured or combination plans exist, under which the reporting entity issues an insurance policy for some of the risks related to the claims (e.g., minimum premium and stop loss coverage), but acts as an administrator for some, or all, of the claims paid by the plan. Such plans shall be treated as two plans: an insured plan (the part for which the reporting entity has issued a policy) and an uninsured plan (the part that meets the definition in paragraph 2 of this statement). The components related to uninsured plans shall be accounted for using the accounting principles established in this statement; the

components related to insured plans shall be accounted for as insurance. Medicaid contract payments classified as capitated payments are included in insured plans.

SSAP No. 54—Individual and Group Accident and Health Contracts:

Premium Income Recognition

2. Premiums shall be recognized as income on the gross basis (amount charged to the policyholder or subscriber exclusive of copayments or other charges related to the receipt of health care services) when due from policyholders or subscribers, but no earlier than the effective date of coverage, under the terms of the contract. Due and uncollected premiums shall follow the guidance in *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers*, to determine the admissibility of premiums and related receivables. Premiums waived by the reporting entity under disability provisions contained in its policies and contracts, and reported in operations as a disability benefit, are included in premium income.

7. As discussed in *SSAP No. 47—Uninsured Plans*, amounts received on behalf of uninsured plans or the uninsured portion of partially insured plans shall not be reported as premium income. Administrative fees for servicing the uninsured plans shall be deducted from general expenses. Conversely, income relating to the insured portion of any plan shall be reported as premium income. Medicaid contract payments classified as capitated payments are included in insured plans.

Staff Review Completed by: Robin Marcotte – NAIC Staff July 2026

Status:
On August 12, 2026, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 47—Uninsured Plans* and *SSAP No. 54—Individual and Group Accident and Health Contracts*, as illustrated above, to add a principles-based statement that Medicaid contracts payments classified as capitated payments are included in insured plans. The Working Group also directed NAIC staff to send a referral to Health Risk-Based Capital (E) Working Group so that group can determine if the amounts previously classified as pass through payments should be considered for a risk charge that is to be similar to pass through payments.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/11-15-26 Fall National Meeting/Hearing/17 - 26-13 - Medicaid revision.docx

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

Issue: SSAP No. 23 – Canadian Translations

Check (applicable entity):

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

Description of Issue: This agenda item has been prepared to review and potentially eliminate the guidance in *SSAP No. 23—Foreign Currency Transactions and Translations* for Canadian Insurance Operations that qualify for exception reporting as detailed in paragraph 5.a. With elimination of the Canadian exception, all foreign currency impacts would be required to be translated to U.S. dollars within each financial statement line. The gains and losses due to translating foreign operations to U.S. dollars would be recorded as unrealized capital gains or losses.

Under existing guidance, which has been a long-standing provision, Canadian insurance operations resulting in less than 10% of a reporting entity's admitted assets, less than 10% of the reporting entity's liabilities and less than 10% of the reporting entity's net premium, can be translated to U.S. dollars by making an adjustment to the net assets of the foreign operation. (This is not a translation to each financial statement line item.) Pursuant to SSAP No. 23 paragraph 5a., the adjustment is calculated by summarizing the assets and liabilities in the foreign currency and in U.S. dollars. The net value is converted to U.S. dollars at the current rate of exchange and compared with the net value in U.S. dollars recorded by the reporting entity. Any difference in the net value to current exchange rates is recorded as a separate asset or liability and the change in the foreign exchange adjustment is recorded as an unrealized capital gain or loss. If a reporting entity does not meet the requirements of paragraph 5a., or elects to translate each financial statement line item, then the reporting entity is to follow the accounting guidance for all other foreign currency impacts, with translation to U.S. dollars within each financial statement line.

From initial research, it was noted that the Canadian insurance operation exception was incorporated when the Canadian and U.S. dollars were a close equivalent, and the cost of translating each item for immaterial operations was not worth the benefit for the financial statement line reporting. At that time, the impact to RBC and AVR was noted to be immaterial. With current conversion rates, the U.S. and Canadian rates are no longer close to equivalent, and with 1 Canadian dollar representing 0.70 U.S. dollar (as of July 7, 2026), the conversion could be considered significant.

The Canadian exception creates a U.S. GAAP to SAP difference. Under U.S. GAAP, all asset and liability accounts are to be adjusted, which is consistent with SSAP No. 23 excluding the Canadian exception.

As one more point, by eliminating the Canadian exception, it will reduce data quality issues that must be addressed in the system (as it causes mismatches to financial statement line items) that must be explained by companies and addressed by the NAIC Quality Assurance analysts.

Existing Authoritative Literature:
The entire SSAP No. 23 has been included to allow for a full review.

SSAP No. 23—Foreign Currency Transactions and Translations

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2. A foreign currency transaction is a transaction denominated in a currency other than the reporting entity's functional currency. The reporting entity's functional currency is defined as the currency of the primary economic environment in which the reporting entity operates. Foreign currency translation is the translation of financial statements, denominated in the reporting entity's functional currency, into U.S. dollars prior to their incorporation into financial statements through consolidation or the equity method of accounting.

3. For the purposes of this statement, a U.S. domiciled reporting entity's reporting currency shall be defined as the U.S. dollar, regardless of the primary economic environment in which the reporting entity operates. In order to ensure consistency, all elements of statutory financial statements shall be reported in U.S. dollars.

4. Each foreign currency transaction shall be examined and a determination made if the foreign currency transaction was made in support of insurance operations denominated in the same foreign currency. For example, some reporting entities engage in insurance operations in foreign countries with the premiums collected and claims paid in local currency. As in any insurance operation there will at times be uncollected premiums, policy reserves, unpaid claims, and other incomplete transactions that must be recorded in the reporting entity's balance sheet. Premiums, reserves, and claims normally are recorded in U.S. dollars at the rate of exchange that is in effect at the time the policy is written, or when the claim is incurred. Changes in exchange rates, while not affecting the foreign policyholder, do affect the value of the foreign business as it is recorded in U.S. dollars.

5. Foreign currency transactions made in support of insurance operations denominated in the same foreign currency, such as foreign branches, shall be accounted for as follows:

a. Canadian Insurance Operations—Canadian insurance operations, resulting in less than 10% of the reporting entity's admitted assets, less than 10% of the reporting entity's liabilities and less than 10% of the reporting entity's net premium, can be translated to U.S. dollars by making an adjustment to the net assets of the foreign operation. The adjustment is calculated by summarizing the assets and liabilities in the foreign currency and in U.S. dollars. The net value is converted to U.S. dollars at the current rate of exchange and compared with the net value in U.S. dollars recorded by the reporting entity. Any difference in the net value to current exchange rates is recorded as a separate asset or liability and the change in the foreign exchange adjustment is recorded as an unrealized capital gain or loss. If a reporting entity does not meet the requirements of this paragraph or elects to translate each financial statement line item, the reporting entity shall follow the accounting in paragraph 5.b. of this statement;

b. All Other Foreign Insurance Operations—All other foreign insurance operations must be translated to U.S. dollars as follows: each financial statement line shall be translated to U.S. dollars by applying the following exchange rates: (i) for assets and liabilities, the exchange rate at the balance sheet date shall be used and (ii) for revenues, expenses, gains, losses and surplus adjustments, the exchange rate at the dates on which those elements are recognized shall be used. Because translation at the exchange rates at the dates the numerous revenues, expenses, gains, losses and surplus adjustments are recognized is generally impractical, an appropriately weighted average exchange rate for the period may be used to translate those elements. Gains or losses due to translating foreign operations to U.S. dollars shall be recorded as unrealized capital gains or losses.

6. All other foreign currency transactions shall be accounted for as follows:

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a. Assets and liabilities denominated in foreign currencies shall be accounted for at their U.S. dollar equivalent values using exchange rates at the balance sheet date. Income and expenses recognized during an accounting period shall be recorded at an appropriately weighted average exchange rate;

b. Changes in balance sheet asset and liability values due to fluctuations in foreign currency exchange rates shall be recorded as unrealized capital gains and losses until the asset is sold or exchanged or the liability is settled. Additionally, in situations in which the reporting entity has an investment in a foreign entity (such as an investment in a joint venture under *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* or an investment in subsidiary under *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*), the parent reporting entity shall realize foreign currency translation changes when the parent loses control of the foreign entity, the parent entity derecognizes the entire equity method investment, or the parent entity acquires control in a foreign entity when the parent previously only held a noncontrolling interest (step acquisition). Upon partial sale or acquisition of control of a foreign entity, the parent reporting entity shall realize a pro-rata share of foreign currency translation changes. Upon settlement, or the situations previously described, all previously recorded unrealized capital gains and losses shall be reversed and the foreign exchange profit or loss for the entire holding period shall be recorded as a realized capital gain or loss. When a foreign entity investee is substantially liquidated, the entire unrealized foreign currency translation balance is to be realized;

c. Transactions involving settlement in cash, such as purchases, payment of expenses, sales, and receipt of income, shall be recorded at their U.S. dollar equivalent value based on the foreign currency exchange rate as of the transaction date. Any foreign currency exchange gains or losses on purchases, payment of expenses, sales, maturities or changes in income or expense accruals shall be recorded as a capital gain or loss realized on the purchase, sale or maturity.

7. Nominal information such as par value of investments may be expressed in the foreign currency or U.S. dollar equivalent (description of issue), but where the information is displayed comparatively (column of par values), U.S. dollar equivalent amount shall be used. The U.S. dollar equivalent amount is translated utilizing the exchange rate at the balance sheet date. Ratios and factors shall be based on data that is entirely consistent with respect to currency.

8. A currency in a highly inflationary environment (one that has cumulative inflation of approximately 100% or more over a three year period) is not considered stable enough to serve as a functional currency and the more stable currency of the reporting parent is to be used instead. If a reporting entity's books of record are not maintained in its functional currency, remeasurement into the functional currency is required. That remeasurement is required before translation into the reporting currency. The remeasurement process is intended to produce the same result as if the reporting entity's books of record had been maintained in the functional currency. The remeasurement of and subsequent accounting for transactions denominated in a currency other than the functional currency shall be recognized as a realized gain or loss in the statement of operations.

Relevant Literature

9. This statement adopts, with modification, *ASU 2013-05, Parents Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.* Modifications within this statement reflect the statutory accounting definition of controlling interest, as specified in *SSAP No. 97—Investments in Subsidiary,*

Controlled and Affiliated Entities and *SSAP No. 25—Affiliates and Other Related Parties*, as well as the reporting specified in this statement.

10. This statement rejects *FASB Statement No. 52, Foreign Currency Translation*, *FASB Emerging Issues Task Force No. 87-12, Foreign Debt-for-Equity Swaps, FASB Emerging Issues Task Force No. 87-26, Hedging of Foreign Currency Exposure with a Tandem Currency, FASB Emerging Issues Task Force No. 92-4, Accounting for a Change in Functional Currency When an Economy Ceases to Be Considered Highly Inflationary, FASB Emerging Issues Task Force No. 95-2, Determination of What Constitutes a Firm Commitment for Foreign Currency Transactions Not Involving a Third Party, FASB Emerging Issues Task Force No. 96-15, Accounting for the Effects of Changes in Foreign Currency Exchange Rates on Foreign-Currency-Denominated Available-for-Sale Debt Securities* and *FASB Interpretation No. 37, Accounting for Translation Adjustments upon Sale of Part of an Investment in a Foreign Entity, an interpretation of FASB Statement No. 52*, and *Accounting Research Bulletin No. 43, Restatement and Revision of Accounting Research Bulletins*, Chapter 12.

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

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing categorized as a new SAP Concept and expose revisions to *SSAP No. 23—Foreign Currency Transactions and Translations* to remove the Canadian exception for foreign currency translation. With this change, all foreign currency operations will be required to be translated to U.S. dollars within each financial statement reporting line.

With this exposure, comments are requested on the impact of this change, whether the Canadian exception should be retained, and (if applicable) rationale supporting retention of the exception approach. (This is considered a new SAP Concept as it eliminates a long-standing provision, but due to the limited focus, a separate issue paper will not be drafted.) Subsequent to initial exposure, NAIC staff will coordinate with the blanks team to determine any necessary annual statement instruction / blanks revisions as a result of this change and sponsor a blanks proposal accordingly.

Proposed Revisions to *SSAP No. 23—Foreign Currency Transactions and Translations*

2. A foreign currency transaction is a transaction denominated in a currency other than the reporting entity's functional currency. The reporting entity's functional currency is defined as the currency of the primary economic environment in which the reporting entity operates. Foreign currency translation is the translation of financial statements, denominated in the reporting entity's functional currency, into U.S. dollars prior to their incorporation into financial statements through consolidation or the equity method of accounting.

3. For the purposes of this statement, a U.S. domiciled reporting entity's reporting currency shall be defined as the U.S. dollar, regardless of the primary economic environment in which the reporting entity operates. In order to ensure consistency, all elements of statutory financial statements shall be reported in U.S. dollars.

4. Each foreign currency transaction shall be examined and a determination made if the foreign currency transaction was made in support of insurance operations denominated in the same foreign currency. For example, some reporting entities engage in insurance operations in foreign countries with the premiums collected and claims paid in local currency. As in any insurance operation there will at times be uncollected premiums, policy reserves, unpaid claims, and other incomplete transactions that must be recorded in the reporting entity's balance sheet. Premiums, reserves, and claims normally are recorded in U.S. dollars at the rate of exchange that is in effect at the time the policy is written, or when the claim is incurred. Changes in exchange rates, while not affecting the foreign policyholder, do affect the value of the foreign business as it is recorded in U.S. dollars.

5. Foreign currency transactions made in support of insurance operations denominated in the same foreign currency, such as foreign branches, must be translated to U.S. dollars as follows: each financial statement line shall be translated to U.S. dollars by applying the following exchange rates: (i) for assets and liabilities, the exchange rate at the balance sheet date shall be used and (ii) for revenues, expenses, gains, losses and surplus adjustments, the exchange rate at the dates on which those elements are recognized shall be used. Because translation ~~at the~~ using the exchange rates ~~at the~~ in effect on the dates ~~the~~ numerous revenues, expenses, gains, losses and surplus adjustments are recognized is generally impractical, an appropriately weighted average exchange rate for the period may be used to translate those elements. Gains or losses due to translating foreign operations to U.S. dollars shall be recorded as unrealized capital gains or losses. ~~shall be accounted for as follows:~~

Staff Note: The above edits are a copy/paste of paragraph 5.b to bring the guidance into a single paragraph. Limited edits to improve the historical guidance are shaded.

~~a. Canadian Insurance Operations—Canadian insurance operations, resulting in less than 10% of the reporting entity's admitted assets, less than 10% of the reporting entity's liabilities and less than 10% of the reporting entity's net premium, can be translated to U.S. dollars by making an adjustment to the net assets of the foreign operation. The adjustment is calculated by summarizing the assets and liabilities in the foreign currency and in U.S. dollars. The net value is converted to U.S. dollars at the current rate of exchange and compared with the net value in U.S. dollars recorded by the reporting entity. Any difference in the net value to current exchange rates is recorded as a separate asset or liability and the change in the foreign exchange adjustment is recorded as an unrealized capital gain or loss. If a reporting entity does not meet the requirements of this paragraph or elects to translate each financial statement line item, the reporting entity shall follow the accounting in paragraph 5.b. of this statement;~~

~~b. All Other Foreign Insurance Operations—All other foreign insurance operations must be translated to U.S. dollars as follows: each financial statement line shall be translated to U.S. dollars by applying the following exchange rates: (i) for assets and liabilities, the exchange rate at the balance sheet date shall be used and (ii) for revenues, expenses, gains, losses and surplus adjustments, the exchange rate at the dates on which those elements are recognized shall be used. Because translation at the exchange rates at the dates the numerous revenues, expenses, gains, losses and surplus adjustments are recognized is generally impractical, an appropriately weighted average exchange rate for the period may be used to translate those elements. Gains or losses due to translating foreign operations to U.S. dollars shall be recorded as unrealized capital gains or losses.~~

6. ~~All other f~~Foreign currency transactions shall be accounted for as follows:

d. Assets and liabilities denominated in foreign currencies shall be accounted for at their U.S. dollar equivalent values using exchange rates at the balance sheet date. Income and expenses recognized during an accounting period shall be recorded at an appropriately weighted average exchange rate;

e. Changes in balance sheet asset and liability values due to fluctuations in foreign currency exchange rates shall be recorded as unrealized capital gains and losses until the asset is sold or exchanged or the liability is settled. Additionally, in situations in which the reporting entity has an investment in a foreign entity (such as an investment in a joint venture under *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* or an investment in subsidiary under *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*), the parent reporting entity shall realize foreign currency translation changes when the parent loses control of the foreign entity, the parent entity derecognizes the entire equity method investment, or the parent entity acquires control in a foreign entity when the parent previously only held a noncontrolling interest (step acquisition). Upon partial sale or acquisition of control of a foreign entity, the parent reporting entity shall realize a pro-rata share of foreign currency translation changes. Upon settlement, or the situations previously described, all previously recorded unrealized capital gains and losses shall be reversed and the foreign exchange profit or loss for the entire holding period shall be recorded as a realized capital gain or loss. When a foreign entity investee is substantially liquidated, the entire unrealized foreign currency translation balance is to be realized;

f. Transactions involving settlement in cash, such as purchases, payment of expenses, sales, and receipt of income, shall be recorded at their U.S. dollar equivalent value based on the foreign currency exchange rate as of the transaction date. Any foreign currency exchange gains or losses on purchases, payment of expenses, sales, maturities or changes in income or expense accruals shall be recorded as a capital gain or loss realized on the purchase, sale or maturity.

7. Nominal information such as par value of investments may be expressed in the foreign currency or U.S. dollar equivalent (description of issue), but where the information is displayed comparatively (column of par values), U.S. dollar equivalent amount shall be used. The U.S. dollar equivalent amount is translated utilizing the exchange rate at the balance sheet date. Ratios and factors shall be based on data that is entirely consistent with respect to currency.

8. A currency in a highly inflationary environment (one that has cumulative inflation of approximately 100% or more over a three year period) is not considered stable enough to serve as a functional currency and the more stable currency of the reporting parent is to be used instead. If a reporting entity's books of record are not maintained in its functional currency, remeasurement into the functional currency is required. That remeasurement is required before translation into the reporting currency. The remeasurement process is intended to produce the same result as if the reporting entity's books of record had been maintained in the functional currency. The remeasurement of and subsequent accounting for transactions denominated in a currency other than the functional currency shall be recognized as a realized gain or loss in the statement of operations.

Relevant Literature

9. This statement adopts, with modification, *ASU 2013-05, Parents Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.* Modifications within this statement reflect the statutory

accounting definition of controlling interest, as specified in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* and *SSAP No. 25—Affiliates and Other Related Parties*, as well as the reporting specified in this statement.

10. This statement rejects *FASB Statement No. 52, Foreign Currency Translation*, *FASB Emerging Issues Task Force No. 87-12, Foreign Debt-for-Equity Swaps, FASB Emerging Issues Task Force No. 87-26, Hedging of Foreign Currency Exposure with a Tandem Currency, FASB Emerging Issues Task Force No. 92-4, Accounting for a Change in Functional Currency When an Economy Ceases to Be Considered Highly Inflationary, FASB Emerging Issues Task Force No. 95-2, Determination of What Constitutes a Firm Commitment for Foreign Currency Transactions Not Involving a Third Party, FASB Emerging Issues Task Force No. 96-15, Accounting for the Effects of Changes in Foreign Currency Exchange Rates on Foreign-Currency-Denominated Available-for-Sale Debt Securities* and *FASB Interpretation No. 37, Accounting for Translation Adjustments upon Sale of Part of an Investment in a Foreign Entity, an interpretation of FASB Statement No. 52*, and *Accounting Research Bulletin No. 43, Restatement and*

Staff Review Completed by: Julie Gann, July 2026.

Status:
On August 12, 2026, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 23—Foreign Currency Transactions and Translations* to remove the Canadian exception for foreign currency translation. With this change, all foreign currency operations will be required to be translated to U.S. dollars within each financial statement reporting line. The Working Group also requested comments from regulators and industry regarding the impact of this change, whether the Canadian exception should be retained, and (if applicable) rationale supporting retention of the exception approach.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/11-15-26 Fall National Meeting/Hearing/18 - 26-15 - SSAP No. 23 - Canadian Translations.docx

Statutory Accounting Principles (E) Working Group
2026 Fall National Meeting
ICOLI Comment Letters Received

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October 2, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

Re: SAPWG Ref. #2026-08 – Insurance Company-Owned Life Insurance (ICOLI)

Submitted Electronically

Dear Chair Clark:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide additional information about insurance company-owned life insurance (ICOLI). The discussion below provides further detail regarding ICOLI's business purposes, product structures, risk characteristics, existing safeguards, and potential approaches to enhanced regulatory transparency.

Executive Summary

Growth in reported ICOLI balances has increased regulatory interest in the transparency, concentration, oversight, and capital treatment of these life insurance purchases. As a threshold matter, ICOLI is an insurance product, not an investment. Its statutory reporting should reflect the nature of the insurance product and should not be classified as an invested asset on Schedule BA.

ICOLI is life insurance that is purchased by insurers to meet legitimate, long-term business needs, including offsetting the costs of employee-benefit obligations, key-person risk, and business continuity. The policyholder owns an insurance policy, not the assets supporting it. ICOLI's statutory and capital treatment should reflect the reporting insurer's actual exposure under the particular contract, including consideration of the relevant counterparty, investment, concentration, liquidity, and guarantee risks, rather than treating the policyholder as if it directly owned the underlying assets.

ACLI supports reporting that gives regulators the transparency needed to assess ICOLI's use, materiality, structure, risk mitigants, counterparty exposures, and governance and stands ready to work with regulators to provide the information needed. Any additional measures should avoid duplication, distinguish among product structures, and remain focused on the particular contract and the reporting entity's actual exposure.

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 94 percent of industry assets in the United States.

ICOLI's Business Purpose and Governance

ICOLI helps companies offset the cost of long-term retirement and employee-benefit obligations, manage key-person risk, and support succession and business continuity. Policyholders pay premiums, including mortality and expense, and administrative charges, for this coverage.

ICOLI is intended to meet long-term insurance needs, often through coverage maintained for decades until benefits are paid. Although purchasers evaluate policy values and investment-related features, they acquire insurance to address identified business needs—not the underlying investments or short-term returns.

An ICOLI program is subject to pre-purchase analysis, management or board approval, and ongoing oversight. That review typically considers the program's purpose and size, expected benefit costs, capital, liquidity, policy performance, counterparty exposure, and the issuer's financial strength.

The Policyholder Owns the Policy, Not the Underlying Assets

The policy defines the policyholder's legal and economic rights. The issuing insurer owns the assets supporting the contract through its general or separate account. A policyholder may allocate values among available separate account investment options, but it does not own the underlying assets as a direct investor would.

Accordingly, ICOLI's investment-related features should be evaluated within the policy framework, including the issuer's obligations, insurance benefits and guarantees, contractual rights, and limits on policyholder authority.

Investor-control requirements imposed by federal court and IRS rulings reinforce this distinction: the issuer selects the available investment options, and the policyholder may allocate values only among those options—not select or control their individual assets.

Product Structures and Risk Characteristics

The chart below provides a simplified comparison of common ICOLI product structures and selected risk characteristics. ICOLI products may use a general account structure or a separate account structure, and some policies may permit allocation between general account and separate account options within a single contract. The specific features, risks, guarantees, and policyholder exposures associated with any particular policy will depend on the terms of the contract. No structure should be viewed as inherently preferable. Each presents different contract features and risk characteristics that should be understood on their own terms.

Feature	General Account Product	Separate Account Product
Policy structure	A fixed life insurance policy supported by the issuer's general account. Policy value is credited based on a declared rate or an index-related rate.	A variable life insurance policy using a separate account. The policy permits allocation among investment options available under the policy.
Nature of exposure	Benefits and policy values depend on the terms of the policy and the issuer's contractual performance and claims-paying ability.	Policy values respond to selected investment options. Any guarantees and insurance benefits are subject to the terms of the policy and the issuer's ability to perform.
Risk exposure	Exposure reflects contractual obligations and claims-paying ability including applicable guarantees, crediting provisions, and other policy terms.	Exposure reflects investment-option performance together with diversification and investor-control requirements, policy features, issuer obligations and the existence (if any) of a stable value wrap or other risk mitigants.
Ownership and control	The policyholder owns the insurance policy, not the assets in the issuer's general account.	The policyholder owns the policy, not the separate account assets, and has the allocation rights provided by the policy.
Death benefits	The issuer pays the death benefit according to the policy terms, including any applicable guarantees.	The issuer pays the death benefit according to the policy terms, including any applicable guarantees.
Guarantees and wraps	The issuer may provide minimum crediting, policy-value, or death-benefit guarantees under the policy.	If included, a stable value wrap may provide minimum crediting and amortize market-value fluctuations, subject to the wrap provider's financial strength.

The structures differ in how policy values are determined and the mix of issuer, investment-performance, guarantee, and other contractual risks they present. Some policies may permit allocations to both general account and separate account options, in which case the policyholder's exposure reflects the contractual features, guarantees, risk mitigants, and other terms applicable to each allocation. These features should be evaluated together under the terms of the particular contract rather than viewed in isolation. Across all structures, the policyholder owns an insurance policy rather than the underlying assets, and its exposure is governed by the terms of that policy and the issuing insurer's contractual obligations.

Existing Safeguards Inform the Regulatory Analysis

ICOLI operates within established legal, regulatory, and governance safeguards that shape how it is designed, acquired, maintained, and overseen. Issuers are regulated insurers subject to licensing, examination, reserve, and risk-based capital requirements. Federal tax rules, including the notice-and-consent requirements, state insurable-interest requirements, investment diversification and investor-control limits, and internal governance processes impose additional conditions on coverage and oversight.

Together, these safeguards tie coverage to an eligible insured population, constrain the amount and design of coverage, limit concentration and policyholder control over separate account investments, and support disciplined approval and monitoring.

Building on these safeguards, ACLI supports additional disclosure or targeted governance measures where needed to address identified risks, provided that any response is informed by the existing framework and remains proportionate.

Understanding Growth and Materiality

Growth in ICOLI balances has increased interest in product use, policy-structure risks, and regulatory reporting. Balances may rise for a number of reasons including additional premiums, growth in existing policy values, or changes in the obligations the programs support.
ICOLI growth is subject to practical, legal, financial and governance constraints. Specifically, ICOLI programs are constrained by the underlying business need, the eligible insured population, state insurable-interest and federal notice-and-consent requirements, federal tax rules, issuer underwriting and product limits, and the purchaser's governance and risk-management processes. Program size is also considered in relation to the purchaser's capital, surplus, liquidity, expected obligations, risk appetite, and overall financial condition.

Capital Treatment Should Reflect the Risk Exposure

Any analysis of capital treatment should begin with the nature and location of risk under the particular ICOLI contract, including the extent to which existing reserves, capital, disclosure, governance, or other requirements already address the risk under consideration. Accounting presentation, disclosure, and capital treatment serve different purposes and should be considered separately, even when they are informed by the same facts. Separate account performance may affect policy values, but the policyholder's exposure is also shaped by the issuer's ability to pay death benefits according to the terms of the insurance contract, including limited allocation rights, issuer obligations and financial strength, guarantees, and the absence of direct ownership or control of the underlying assets.

A Proportionate Path Forward: Targeted Disclosure and Risk-Based Oversight

ACLI supports a proportionate, principle-based, and risk-focused approach that preserves ICOLI's treatment as a life insurance policy while giving regulators meaningful information about its use and risk characteristics.

Enhanced reporting could provide regulators with information about the amount and materiality of ICOLI held; the program's business purpose; the use of a general account or separate account structure, including policies that permit allocations between both; the general nature of the separate account investment options; relevant guarantees and risk mitigants; issuer and wrap-provider exposure; and the governance supporting approval and ongoing monitoring.

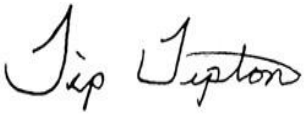
Any new reporting should be designed to improve regulatory risk assessment, avoid duplication, distinguish among product structures, and focus on the risks of the particular contract and the reporting entity's exposure.

Conclusion

ICOLI should be reported and evaluated as an insurance policy based on the terms of the particular contract, the reporting insurer's actual exposure, and the safeguards and oversight that apply. ACLI supports enhanced disclosure that results in a proportionate, risk-focused approach.
Thank you for considering our comments, ACLI looks forward to working collaboratively with regulators on this issue.



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October 2, 2026

Mr. Kevin Clark, Chairman
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

RE: Interested Parties Comments on Items Exposed for Comment by the Statutory Accounting Principles Working Group with Comments due October 2.

Dear Mr. Clark:

Thank you and the NAIC Statutory Accounting Principles (E) Working Group (the Working Group) for the opportunity to comment on the above-referenced items, which were exposed for comment by the Working Group during the NAIC Summer National Meeting in Columbus.

Ref #2026-08: SSAP No. 21 – ICOLI

The Working Group exposed this as a concept agenda item with a request for comments on whether the amounts reported under SSAP No. 21, paragraph 9, should be captured on Schedule BA with a new reporting category for "Realizable Amounts Under ICOLI Policies," with reporting lines to capture the amount outside of an investment vehicle, and the amounts within an investment vehicle, divided by investment category. Consideration of comments will occur before formally moving this item to the SAPWG active agenda. The Working Group also directed a referral to the Capital Adequacy (E) Task Force to notify them of this exposure and request initial feedback on the potential inclusion of these items as an invested asset, with assessment of RBC factors.

Interested parties held several conference calls to discuss this item to ensure that we had input from all parties involved, including the life companies that issue ICOLI contracts, the organizations that market ICOLIs, and the insurers that purchase ICOLIs. From those discussions, we offer the following comments:

Overview

Insurance company-owned life insurance, or ICOLI, is an insurance product where an insurance company is the purchaser (and policyholder), beneficiary, and owner of life insurance policies placed on selected senior executives and other key officers or employees to offset the cost of long-term employee benefit and risk management objectives. Like other life insurance products, ICOLI contracts are acquired through the payment of premiums for insurance coverage, and the purchaser does not have direct ownership of investments. Instead, the policyholder's rights arise from the insurance contract itself, including cash surrender value, death benefits, guarantees, and other contractual features.

Qualifying ICOLI operates within a framework of federal tax requirements and state insurance laws and regulations, including IRC §7702 requirements, insurable-interest standards, employee notice and consent requirements, investor-control limitations, and diversification requirements. As part of the governance over the purchase of ICOLI, management provides an assertion that, at acquisition, the reported amount that could be realized from the life insurance policies did not exceed the present value of expected costs related to employee benefit obligations or the loss of key persons.

Included in the state insurance requirements is the accounting guidance contained in SSAP No. 21 – *Other Admitted Assets*, which measures qualifying ICOLI on the statutory balance sheet at the cash surrender value, i.e., the amount realizable under the insurance contract as of the reporting date.

Cash surrender value is an objective reporting measure but is not a representation of the contract's overall economic value that is paid at maturity, i.e., the amount of the death benefit. Because ICOLI is generally acquired to support long-term employee benefit and risk management objectives, the contracts are expected to be maintained through maturity rather than surrendered in the ordinary course of business.

ICOLI Contract Structures

ICOLI products span a range of structures that allocate investment risk differently between the issuing insurer and the policyholder. Some products place substantially all investment risk on the issuing insurer, while others provide the policyholder with exposure to the performance of particular asset classes based on the contractual features offered by the issuer and selected by the policyholder. Contractual guarantees, stable-value features, surrender provisions, and other policy terms can materially influence the economic relationship between the insurer and policyholder, and ultimately the amount paid at maturity.

As noted above, the cash surrender value of a policy does not necessarily reflect the policyholder's economic exposure over the expected duration of the contract.

The Purchasers' Financial Statement Disclosures

The life insurance companies that issue ICOLI already report the associated liability for the contracts on their balance sheet with the required disclosure in their notes to financial statements and have a prescribed risk charge in their risk-based capital (RBC) requirements. Accordingly, the risks to the issuing company are already reflected in their RBC calculation.

From the purchaser's perspective, enhanced disclosures in the notes to financial statements may provide regulators with greater transparency. Since the purchaser acquires an insurance contract and not the underlying reserve assets, we do not believe it would be appropriate for the cash surrender value of the insurance policy to be reported in the purchaser's Schedule BA.

We believe the following additional disclosures would be helpful in providing increased transparency into the risks associated with an insurer owning ICOLI, and would also support the consideration of appropriate risk-based capital charges:

- Risk characteristics of underlying investments, if applicable
- Affiliated investment manager relationships, if any
- Whether there are contract guarantees and/or stable-value features that materially reduce volatility

Risk-Based Capital Treatment

Although not explicitly requested in the exposure, interested parties understand that one of the regulators' key concerns relates to the risk-based capital treatment of ICOLI balances reported by insurers that own ICOLI. As noted above, the ICOLI assets are reported at cash surrender value by the purchaser with changes to the cash surrender value recognized in earnings (surplus). If the value of the underlying investments decreases, the cash surrender value, and therefore surplus will decrease. This is in contrast to many other assets on the statutory balance sheet which are carried at amortized cost.

As noted above, the risks to the issuing company are already reflected in their RBC calculation. From the purchaser's perspective, there is a wide range of contractual features that impact the economics and risks to the purchaser. As a result, interested parties considered a couple of approaches that could be used for incorporation of the risk into the purchaser's RBC.

The first approach would be to develop and implement a single RBC charge that would be applied to the owned ICOLI asset for contracts that expose the reporting entity to investment risk, regardless of the features included in the ICOLI insurance contract. Interested parties believe it would be difficult to identify a single charge that would encompass the range of features currently offered in ICOLI insurance contracts and believe this approach would not capture the diversity and complexity of risks present in the contracts.

The second approach would be to apply a range of RBC charges based on the risks associated with the range of features currently offered and that are calibrated to the associated risk. We believe this approach is more consistent with the risks resulting from the contracts but realize it would take additional work to identify the range of features and identify the appropriate RBC factors. Interested parties are willing to work with staff to develop a data-captured disclosure that would provide sufficient information about the risks in the contracts and, if desired, provide a basis for the development of appropriate RBC factors to be applied in the purchaser's RBC calculation. The data points described above would provide an appropriate starting point for this discussion.

Alternatively, if regulators prefer a different approach, we also offer to work with staff on the appropriate disclosure needed to capture the relevant information.

* * * *

Thank you for considering interested parties' comments. We look forward to working with you and the Working Group on these items. If you have any questions in the interim, please do not hesitate to contact either one of us.

Sincerely,

D. Keith Bell Rose Albrizio

cc: Julie Gann, NAIC staff
Robin Marcotte, NAIC staff
Wil Oden, NAIC staff
Jake Stultz, NAIC staff
Interested parties

Docusign Envelope ID: 854530C3-C6CB-805A-82D0-90344DC2FEA8

Nationwide®
is on your side

October 2, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

RE: SAPWG Ref #2026-08: Insurance Company Owned Life Insurance

Dear Mr. Clark:

Nationwide and its subsidiaries ("Nationwide") appreciate the opportunity to comment on the Statutory Accounting Principles (E) Working Group ("SAPWG") exposed item Ref #2026-08 – *Insurance Company Owned Life Insurance* ("ICOLI").

Nationwide is one of the largest insurance and financial services companies in the United States, operating both property and casualty and life insurance businesses. As both a policyholder and leading issuer of ICOLI, Nationwide values the opportunity to provide its perspective on the structure, purpose, and risk characteristics of these products.

Nationwide supports the American Council of Life Insurers' ("ACLI") proposal to preserve the accounting treatment of ICOLI as a life insurance contract rather than an investment. Nationwide also supports enhanced disclosures and targeted safeguards that provide regulators with greater transparency into ICOLI products and address the concerns identified by SAPWG. To the extent regulators ultimately determine that risk-based capital ("RBC") requirements are appropriate for certain ICOLI products, Nationwide believes any such RBC framework should be appropriately tailored to the risk profiles of different products.

Overview of ICOLI

ICOLI is a life insurance contract with rights and obligations governed by the terms of the insurance policy. Pursuant to SSAP No. 21 – *Other Admitted Assets*, ICOLI must satisfy the definition of life insurance under Internal Revenue Code ("IRC") §7702 and be acquired primarily in connection with employee benefit obligations or key person risks. As such, qualifying ICOLI operates within a framework of federal tax requirements and state insurance laws, including insurable-interest standards, employee notice and consent requirements, investor-control limitations, and diversification requirements. Collectively, these safeguards help ensure that ICOLI retains its character as a life insurance product and is used in a manner consistent with its intended insurance and business purposes.

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A fundamental characteristic of ICOLI is that the policyholder owns a life insurance contract rather than interests in the underlying assets supporting the insurer's obligations under the contract. The policyholder's payment of premium secures its rights as defined by the insurance policy and its contractual provisions, including rights to cash surrender value, death benefits, guarantees, rights to allocate cash value among the separate account if applicable, and other policy benefits. Although the assets supporting the policy are invested by the issuing insurer and may influence policy performance, the policyholder does not possess the rights, control, or economic interests associated with direct ownership of those assets. Instead, the policyholder's relationship is with the insurer through the life insurance contract, and the insurer remains responsible for fulfilling its contractual obligations under that policy. The economic value associated with an ICOLI policy is not determined solely by the assets supporting the contract. Contractual features such as stable-value structures, contract guarantees, cash surrender and loan provisions, and other policy terms provide meaningful value by providing stability, liquidity, flexibility and other benefits to policyholders.

Consistent with this framework, SSAP No. 21 requires policyholders of qualifying ICOLI products to measure the asset based on the amount realizable under the insurance contract rather than the underlying assets themselves. The use of cash surrender value as the reported amount reflects a practical and objective measurement convention for financial reporting purposes, not a conclusion that cash surrender value represents the full economic value or risk profile of the contract. In practice, ICOLI is generally acquired to support long-term employee benefit and risk management objectives and is expected to be maintained through maturity rather than surrendered in the ordinary course of business. As a result, policyholders typically expect to realize value through the long-term operation of the contract and the associated death benefits, rather than through surrender of the policy for cash value.

Cash surrender value incorporates contractual provisions such as surrender charges and other adjustments that are relevant to determining a realizable amount for reporting purposes but do not fully reflect the broader economics of the insurance contract. Likewise, changes in the value of the underlying investments can affect reported cash surrender value while having a materially different effect on the overall economics of the policy due to contractual guarantees, stable-value features, and other contractual provisions. Accordingly, the reported amount under SSAP No. 21 should be understood as an objective measure of the policy's realizable value rather than a proxy for direct ownership of the underlying investments.

ICOLI Contract Structures

ICOLI products span a range of structures, each of which allocates investment risk differently between the issuing insurer and the policyholder. At one end of the spectrum are general account products, in which the insurer bears substantially all investment risk and remains responsible for delivering the contractual benefits promised under the policy. At the other end are policyholder-directed or separate account arrangements, where the policyholder assumes the risk of exposure to investment performance. Many ICOLI products incorporate contractual guarantees, stable-value features, surrender provisions, and other terms that influence the economic relationship between the policyholder and insurer.

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As a result, two ICOLI policies with identical reported cash surrender values may present materially different economic exposures depending on their contractual design and the degree of investment risk retained by the insurer. Any evaluation of an ICOLI arrangement requires consideration of the insurance contract as a whole, including the allocation of risk between the parties and the effect of contractual features that modify the economic outcomes of the policy.

Recommended Path Forward

Nationwide supports targeted enhancements to the existing disclosure framework to provide regulators with greater transparency regarding the nature of ICOLI products and the economic exposures associated with those products. Such disclosures could include information regarding the risk characteristics of underlying investments, material concentrations by underlying asset category, allocations to affiliated investments/investment managers, the extent to which contractual guarantees or stable-value features modify investment risk, and the relative significance of ICOLI holdings to the reporting entity's capital position. Enhanced disclosures would improve regulatory visibility while preserving the distinction between ownership of a life insurance contract and ownership of the assets supporting that contract. Nationwide also acknowledges that additional disclosure alone may not fully address the concerns identified by regulators. Accordingly, Nationwide supports targeted safeguards that directly address the specific concerns identified by regulators.

To the extent regulators are considering refining the RBC requirements applicable to certain ICOLI products, Nationwide believes any resulting RBC framework should be based on the economic exposure of the policyholder and the extent to which investment risk has been retained by the issuing insurer or assumed by the policyholder. This could be accomplished through a framework that distinguishes among product structures, such as general account products, in which the insurer retains substantially all investment risk and separate account structures where the policyholder bears the investment risk, while taking into consideration products that incorporate stable-value features, minimum death benefit protections, or other contractual provisions that serve to stabilize that risk. Furthermore, an aligned regulatory approach should contemplate the potential overlap of risk coverage between the issuing carrier's liability-side C-3 capital charges and the investing carrier's asset-side RBC treatment. Ultimately, Nationwide would support a RBC framework that results in a materially equivalent capital outcome for economically analogous risk exposures while recognizing the distinct contractual features and risk profiles of different ICOLI products.

Taken together, enhanced disclosures, targeted safeguards, and any appropriately tailored RBC requirements would directly address concerns regarding transparency, concentration risk, and the use of ICOLI structures without requiring the fundamental recharacterization of qualifying ICOLI as a direct investment. Accordingly, Nationwide does not believe reporting qualifying ICOLI on Schedule BA would be appropriate. Schedule BA is intended to capture invested assets, whereas ICOLI remains a life insurance contract governed by its contractual rights and obligations. This approach would acknowledge the differences among ICOLI product structures and allow regulators to focus on the economic characteristics of a particular arrangement rather than applying a single framework to all ICOLI products.

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Conclusion

For these reasons, Nationwide recommends that the existing statutory accounting framework for qualifying ICOLI policies be maintained. Nationwide believes regulator concerns can be addressed through enhanced disclosures, targeted safeguards, and, if necessary, appropriately tailored RBC requirements without recharacterizing ICOLI as an invested asset.

Sincerely,

Andrea Iacoboni

Andrea Iacoboni
Vice President, Controller – Financial Reporting and Accounting Policy
Nationwide

Submitted Electronically to:
Dale Bruggeman
Julie Gann
Robin Marcotte
Jake Stultz
Jason Farr
Wil Oden

INSTITUTIONAL INSURANCE GROUP

October 2, 2026

Via Electronic Submission

Mr. Kevin Clark, Chair
Mr. Dale Bruggeman, Vice Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners

Re: Agenda Item Ref #2026-08, SSAP No. 21, Insurer Company Owned Life Insurance - ICOLI

Dear Chair Clark and Vice Chair Bruggeman:

Institutional Insurance Group, LLC (IIG) appreciates the opportunity to comment on Agenda Item Ref #2026-08. IIG specializes in the design, implementation, and ongoing administration of corporate owned life insurance (COLI) programs for institutional purchasers, including insurance companies (ICOLI)[1]. IIG is a market leader in the ICOLI market, advising clients with more than $22 billion of existing ICOLI assets. That experience provides IIG with a practical perspective spanning these programs' purpose, product design, carrier and investment structure, implementation, governance, accounting, and long-term administration.

IIG supports the rational recommendations advanced by Interested Parties (IPs) led by Keith Bell and Rose Albrizio as well as the American Council of Life Insurers (ACLI): qualifying insurance company owned life insurance (ICOLI) should continue to be accounted for and reported separately as a life insurance policy under SSAP No. 21, rather than reported as an invested asset on Schedule BA.

[1] Corporate or company owned life insurance (COLI) that is owned by insurance companies is sometimes referred to as ICOLI (insurance company owned life insurance). ICOLI is primarily a marketing term used to distinguish insurance company owned programs from other forms of COLI. In addition to being subject to the legal, tax, and regulatory requirements applicable to all COLI arrangements, ICOLI programs must also address statutory accounting, regulatory, rating agency, and other considerations unique to insurance company operations. As a result, ICOLI programs typically require significant specialization and customization to meet the needs and requirements of insurance company owners. For clarity, the term ICOLI is used throughout this document to distinguish these arrangements from COLI generally and to align with the agenda item usage. **We believe that any accounting text should continue to refer to it as corporate or company owned life insurance, COLI, or as a life insurance asset**.

Executive Summary

IIG recommends that qualifying policies under the current SSAP No. 21 remain classified and reported as a life insurance policy under SSAP No. 21 rather than as an invested asset on Schedule BA.

Accounting Classification and Reporting

- This treatment reflects the asset legally owned by the reporting entity (policyholder): an insurance policy providing death benefits, contractual guarantees, cash surrender value, mortality protection, and a claim against the issuing life insurer and not direct ownership or control of the assets supporting the policy.
- IIG proposes expanded Note 21 reporting that categorizes ICOLI by the degree of investment-performance exposure and contractual protection, with progressively higher capital factors for General Account, Declared Rate Separate Account, and Variable Separate Account policies. Non-qualifying policies would remain non-admitted.

Amendments to SSAP No. 21 to Add Additional Targeted Guardrails

- Require documentation supporting employee benefit or key-person purposes.
- Demonstrable ability and intent to hold policies to maturity.
- Restrictions addressing affiliated investment management.
- Periodic board or senior management review.
- Regulatory examination of program purpose, size, governance, and compliance.

Together, these measures would improve transparency and oversight while preserving the established distinction between a qualifying life insurance policy and a direct investment.

Accounting Classification and Reporting

By incorporating IRC §7702 within SSAP No. 21 in 2018, regulators created a clear, established bright line between a qualifying life insurance policy and an investment contract. IIG appreciates the Working Group's thoughtful resolution of this issue at that time and the durable framework it established.

COLI is a qualifying life insurance policy, not a direct investment in assets held and legally owned and controlled by the issuing carrier. The reporting entity owns contractual rights to death benefits, cash surrender value, and guarantees; it does not obtain the governance, voting, disposition, or portfolio management rights of a direct investor. Reporting ICOLI on Schedule BA would therefore focus on assets supporting the policy rather than the

insurance asset actually owned. Reporting as a direct exposure would be inconsistent with the policy's mortality and insurance protections, and blur distinctions recognized in insurance, tax, and GAAP and statutory accounting frameworks. It would also conflict with the industry's longstanding prohibition against describing life insurance as an "investment" (e.g., NAIC Model Law 570).

ICOLI's treatment as an "other-than-invested" asset is substantive, not merely a reporting convention. IRC §7702 requires a meaningful quantitative relationship between cash value and death benefit, with death benefit exceeding current cash value. A policy that fails the two-prong test under IRC §7702 is not life insurance for federal tax purposes, and its cash value is taxed as an investment contract under §7702(g). Section 7702 thus provides an objective dividing line between qualifying life insurance and an investment account.

In addition, Schedule BA implies that the reporting entity (policyholder) directly bears the risks of the underlying investments. That framework would not fully recognize the substantial risk mitigation provided by:

- The death benefit, which always exceeds the cash value of the policy.
- General account obligations of the issuing insurance company.
- Contractual policy features that determine the cash surrender value.
- Other contractual protections embedded in the policy.
- Regulatory oversight of the issuing life insurer.
- The policyholder's creditor claims against a regulated life insurance company rather than direct ownership of investment assets.

We recognize the concerns prompting this agenda item: ICOLI balances have become more visible, product structures transfer differing degrees of performance exposure, and misconceptions about SSAP No. 21 that persist. Although qualifying ICOLI remains a limited exposure for most reporting entities, these concerns warrant enhanced transparency and disciplined oversight, not reclassification as an invested asset. Accounting classification, regulatory reporting, market conduct, and risk-based capital are related but distinct questions that should be addressed according to their specific objectives and risks. Enhanced reporting and principles-based guidance can provide visibility into program purpose, size, structure, contractual protections, and risk without treating the policyholder as the owner of assets legally owned and controlled by the issuer.

We recognize that the framework we recommend may impose additional reporting, governance, or compliance requirements. Nevertheless, these measures are appropriate to address legitimate regulatory concerns, preserve confidence in the ICOLI market, and

ensure that qualifying ICOLI programs continue to serve their intended insurance and employee benefit purposes.

ICOLI Background

Employee Benefit Financing

Corporate-owned life insurance has existed for more than a century. For roughly the past six decades, corporations, banks, and insurance companies have used COLI as a long-term tool to finance or recover the cost of employee benefits and to address key-person risks. Its development reflects a U.S. system in which employers play a substantial role in providing employees with retirement, health, welfare, and other benefits in addition to their compensation.

COLI may support benefits directly, including non-qualified deferred compensation or split-dollar arrangements, or may be used on an aggregate basis to offset or recover employee benefit costs. In a cost recovery structure, expected death benefits are evaluated against long-duration benefit costs. In a cost offset structure, policy performance helps offset current or projected benefit expense. In either case, the economic logic is long-term alignment: long duration employee benefit-related obligations are paired with long duration life insurance cash flows.

Tax law has defined the guardrails that make COLI life insurance and not an investment. A life insurance policy must operate within a substantial legal and regulatory framework:

- IRC §7702 defines the federal tax requirements for a life insurance policy.
- IRC §7702A restricts early distributions from policies to ensure life insurance is used for long-term needs.
- IRC §817(h) imposes diversification requirements on variable policies.
- Treas. Reg. §1.817-5 establishes rules regarding “insurance dedicated funds”.
- IRC §101(j) establishes employer-owned life insurance notice, consent, insured status, and reporting requirements where applicable.
- IRC §264 restricts the deductibility of interest on funds that may be used to buy COLI.
- The Investor Control Doctrine restricts policyholder control of the strategies and investments underlying the policies to only the ability to make allocations among carrier provided options.

State law adds insurable interest, policy form, licensing, and employee protection requirements.

Given the tax and legal characteristics of COLI, the best economic outcome is derived from long-term ownership and receipt of death benefits, since non-death distributions may produce less favorable tax and economic results.

The Investor Control Doctrine reinforces this ownership distinction. A policyholder may allocate among carrier-provided options but may not contribute assets in kind, own supporting assets, direct strategy or security selection, require a particular manager or asset, or exercise direct or indirect control over portfolio management, including through affiliates. This substance-over-form doctrine cannot be avoided through creative structuring. The issuing insurer owns and controls the supporting assets and remains responsible for the policy's cash value, death benefits, guarantees, and other obligations; a violation of this tax doctrine can cause the policyholder to be treated as owning the underlying assets for federal tax purposes, undermining the intended tax treatment of the policy.

Policy Ownership

The accounting for COLI focuses on realizable policy surrender value. GAAP and statutory accounting both use the amount realizable under the insurance policy, while statutory guidance adds purpose and qualification conditions. This balance sheet accounting value for the policy relies on the consistent and conservative measure of the contractual net realizable cash surrender value. Although accounting measures the policy at its realizable cash surrender value, the policy's broader and more important economics include its expected death benefits.

Agenda Item 2018-08 confirmed qualifying ICOLI as an admitted asset subject to two guardrails: qualification as life insurance under federal tax law and acquisition primarily to finance employee benefit obligations or address key-person loss. It also contemplated documentation available to examiners and disclosure by broad investment category. This framework remains conceptually sound because it ties admission to insurance qualification, legitimate business purpose, and regulatory transparency.

At the same time, classification as an other-than-invested asset should not be used to avoid transparency. Regulators should be able to identify material ICOLI exposures, understand the program's purpose and structure, and distinguish among policies with different allocations of risk. IIG therefore recommends preserving SSAP No. 21 while materially improving the reporting framework around it.

ICOLI Products

Product Structures

COLI policies allocate performance risk differently. General Account policies generally place the risk with the issuer. Declared Rate Separate Account policies, including stable value and hybrid designs, combine separate account assets with contractual general account support and determine cash value through a crediting rate set by the issuing carrier. Variable Separate Account policies expose cash value more directly to market performance, subject to mortality benefits, guarantees, charges, and other terms. Across all structures, mortality remains an insurance function and portfolio management remains with the issuing carrier or its designated managers.

Fundamentally, a COLI policy provides a death benefit established at issuance that remains in force for the life of the policy. While the death benefit may increase over time, including as necessary to satisfy IRC §7702 corridor requirements, it is not generally reduced below the contractual minimum established at inception. Consequently, the insurer maintains a net amount at risk and remains obligated to pay a death benefit that, by definition, exceeds policy cash values. This ongoing mortality risk and death benefit obligation are fundamental elements of the policy's economic substance. The issuing carrier must have ownership and control of the underlying invested assets to assure its ability to pay death benefits. The value provided to the policyholder is derived from an integrated insurance policy that combines both insurance protection and cash value accumulation.

The ICOLI market encompasses a remarkably diverse range of product structures. No two policies are necessarily alike even from the same issuer, especially considering an institutional context where some elements of the policy may be negotiated between issuing carrier and policyholder. Products carrying the same label may differ materially in their crediting mechanics, guarantees, death benefit design, surrender provisions, and charges.

Broad categories should therefore be practical risk groupings, not claims that every policy is identical, and should distinguish economically relevant features rather than rely on labels. Intended use may also come into play: an ICOLI policy matched to a non-qualified deferred-compensation liability may produce negligible net economic exposure because changes in policy performance are offset by changes in participant benefit liability obligations.

Stable Value Features

Stable value structures combine separate account assets with contractual guarantees or other general account support that limit the effects of the underlying assets on realizable policy value. Cash surrender value is determined by a crediting rate with a guaranteed minimum provided by the issuing carrier's general account. These protections reduce downside risk and provide a more predictable cash surrender value than an otherwise comparable variable life insurance policy without these features.

Stable value compresses the distribution of realizable returns around its mean, reducing volatility, downside dispersion, and the probability and severity of adverse tail events. This effect is particularly relevant to risk-based capital frameworks calibrated to market stress. Based on IIG's analysis, stable value structures typically reduce volatility by 50-80% or more and reduce the absolute magnitude of tail events by at least 15-20% (e.g., tail losses reduced from 20% to 0%), depending on product structure and the scenarios and periods tested.

The economic significance of this risk reduction depends on the source and substance of the stable value protection. Where an insurer contractually guarantees book value and is obligated to absorb book-to-market differences, the risk is not eliminated but transferred to the issuing insurance company. In such cases, the insurer providing the guarantee remains subject to statutory reserving requirements, risk-based capital requirements, and ongoing regulatory oversight.

The economic value of that protection therefore depends on the guarantor's ability to perform during periods of market stress. Accordingly, consideration of the guarantor's capital position and creditworthiness may be more relevant than a sole focus on the underlying assets. Where similar protections are provided by entities outside the NAIC regulatory framework, regulators may reasonably consider whether additional capital requirements are warranted to reflect the differing oversight, capital, and solvency regimes applicable to the guarantor. The extent of any capital recognition should depend on whether the protection is legally enforceable and transfers risk to a financially responsible guarantor.

Proposed Reporting and Potential Capital Framework

Note 21 Reporting

SAPWG should retain COLI as a Line 25 write-in and expand Note 21 data fields rather than move qualifying policies to Schedule BA. The note should reconcile to total COLI on Line 25

and classify amounts by product type, investment performance exposure, contractual protection, and risks retained by the reporting entity. This would provide the requested visibility, address current reporting inconsistencies, and reflect that assets within a policy vehicle do not by themselves give the policyholder the risk or ownership of a direct investor.

Risk Categorization

The categories should function as a practical risk-clustering framework: use the fewest groups that capture meaningful differences in how investment performance affects realizable policy value and in the contractual protection provided by the insurer. Each category is intended to contain products that are more similar to one another than they are to products in the other categories. Some variation within each group is inevitable, but a small number of reasonably homogeneous categories supports simple, consistent, and administrable capital treatment without false precision.

Product Categories and RBC Treatment

All categories retain issuing carrier credit risk, which should be reflected in the applicable factors.

For IRC §7702 compliant COLI policies:

Category 1 — General Account COLI

- With a cash surrender value that is held entirely in the issuing insurer's general account and for which there cannot be policyholder-directed investment exposure.

  The capital charges that could apply to Category 1 are very low. The nominal level of these factors may be different by filer type and should be calibrated to produce the desired results by filer type. The essential risk exposure to the reporting entity can be captured by basing the factor on the claims-paying ability of the issuing life insurance company and the priority that policyholder claims have over the issuing life insurance company's debt obligations.

Category 2 — Declared Rate Separate Account COLI

With a cash surrender value that is held in a separate account of the issuing carrier for which the reporting entity has reasonably determined that the volatility of the cash surrender value is not expected to be material for the following reasons:

1. the cash surrender value is contractually determined by a crediting rate with a guaranteed minimum provided by the issuing carrier's general account

such that the policies do not directly bear the mark-to-market performance of the underlying separate account (including, for the avoidance of doubt, both stable value and hybrid products); or

2. used as a bona fide direct hedge for deferred compensation or similar plans if there is a matched liability that results in negligible net economic exposure to the reporting entity.

The capital charges that could apply to Category 2 are commensurate with the claims-paying ability of the issuing life insurance company. With these structures the volatility of the realizable value is expected to be immaterial and therefore the primary risk is credit risk to the issuer for the stream of future death benefits. There should be a very modest increase from the prior product category to reflect a small increase in uncertainty that (1) the economic value of that protection depends on the guarantor's ability to perform during periods of market stress, or (2) the direct hedge may not perfectly offset the matched benefit liability. The nominal level of these factors may be different by filer type and should be calibrated to produce the desired results by filer type.

Category 3 — Variable Separate Account COLI

- With a cash surrender value that is directly exposed to the mark-to-market performance of the underlying separate accounts.

  The capital charges that could apply to Category 3 are higher than the prior categories. The nominal level of these factors may be different by filer type and should be calibrated to produce the desired results by filer type. Alternatively, the policyholder could elect to look through to the underlying separate accounts for the purposes of RBC, at their discretion.

  This fixed charge captures that there may be significant risk mitigants in most programs (such as minimum death benefits or specific, direct employee benefit funding obligations).

Non-Qualifying Policies

- COLI policies that do not comply with IRC §7702 will continue to be non-admitted under SSAP No. 21.

RBC Factors and Counterparty Risk

The capital framework should normalize comparable risks across life, P&C, and health insurers while reflecting each category's contractual protections. The product categories should reflect increasing policyholder exposure to investment performance, while every category continues to reflect carrier counterparty risk because death benefits, guarantees, and cash surrender value remain obligations of the issuing life insurer. Existing calibrated factors may be preferable to fixed charges that may affect filer types differently after covariance.

IIG is not wedded to these specific categories or factor levels. We offer them as a practical starting point and look forward to constructive dialogue regarding the framework's design and calibration.

Benefits of the Proposed Framework

This approach would:

- Preserve the distinction between a life insurance policy and a direct investment without implying ownership of underlying invested assets.
- Provide regulators with enhanced transparency regarding policy characteristics and the types of risks retained by the reporting entity.
- Allow the NAIC to consider appropriate RBC factors based on the risks retained by the policyholder, based on COLI product type.

A mockup of potential changes to Note 21 is attached as an exhibit for consideration.

Additional SSAP No. 21 Guardrails

IIG also recommends targeted enhancements to SSAP No. 21 to align ICOLI use with the spirit of the framework adopted in 2018.

Program Qualification and Governance

These guidelines should apply to all programs:

- The existing SSAP No. 21 employee benefit funding purpose must be demonstrated in an internal pre-purchase due diligence file at the time of purchase using the cost recovery method, the cost offset method, as a bona fide direct hedge for an employee benefit liability, or another commonly accepted practice. The provision of a supplemental death benefit to the COLI insureds does not, on its own, satisfy the funding of employee benefit obligations purpose.

- The reporting entity has the documented willingness and ability to hold the COLI policies for the full lifetime of all the insureds (hold-to-maturity). This will ensure that the company is holding the policies in order to receive a stream of future death benefits.
- Investment managers who are under common control (as broadly defined) with the reporting entity (policyholder) may not manage the investments (directly or indirectly) inside the separate account of a policyholder's COLI program. Noncompliance with this increases the risk of adverse tax outcomes which would increase the risk of surrender and lessen the likelihood of holding the COLI policies for its intended purpose.
- Periodic board or senior management review of existing or new COLI policies is required.

Program Size and Concentration

The employee benefit purpose requirement adopted in 2018 was intended, in part, to make program size self-limiting, but it may not constrain every case. The proposed guardrails regarding documentation, hold-to-maturity, affiliated managers, governance, examination, and appropriately calibrated capital requirements should better align program size with intended uses and reduce the potential for misuse.

Although some individual insurance entities report substantial ICOLI balances as a percentage of surplus or total adjusted capital, those concentrations may appear more proportionate when evaluated across the statutory balance sheets of the affiliated insurance group. ICOLI may be purchased by a particular legal entity for legitimate entity-specific purposes, including the location of employee benefit obligations, available capital, tax attributes, or administrative considerations. Where appropriate intercompany agreements exist, regulators should review both the exposure of the individual reporting entity and the aggregate exposure across affiliated statutory entities.

Examination and Compliance

Examiners should have clear authority to test the primary consideration analysis, sizing, governance, and compliance. A policy that fails IRC §7702 or was not acquired with the required employee benefit or key-person consideration should not receive qualifying ICOLI treatment. This targeted approach protects SSAP No. 21 without redefining compliant policies.

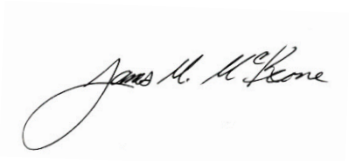
A mockup of potential changes to SSAP No. 21, paragraph 9, is attached as an exhibit for consideration.

Conclusion

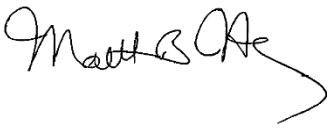
ICOLI is a diverse product category with legitimate business purposes and varying degrees of policyholder performance exposure. Qualifying policies should remain within SSAP No. 21 and outside Schedule BA, paired with transparent Note 21 reporting, documented purpose, disciplined governance, stronger examination tools, appropriately calibrated capital treatment, and continued recognition of the policyholder's contractual insurance asset.

Thank you for considering our comments. IIG would welcome the opportunity to assist the Working Group in developing a practical reporting framework and principles-based guidance that provide regulators with meaningful visibility while preserving the established treatment of qualifying ICOLI as a life insurance policy.

Respectfully,



James M. McKeone
Founder & Senior Managing Principal



Matthew B. Henebry
Senior Managing Principal



Lawrence R. Stoehr
Principal & General Counsel



Nathan M. Butler, CFA, CAIA, FRM
Managing Director

Exhibit

Potential Changes to SSAP No. 21, Paragraph 9 for Consideration

Potential additions are indicated in blue; deletions are indicated in green

The Amount That Could Be Realized on Life Insurance Where the Reporting Entity is Owner and Beneficiary or Has Otherwise Obtained Rights to Control the Policy

9. The provisions in this paragraph are for life insurance policies, which are in compliance with Internal Revenue Code (IRC) §7702[5], in which the reporting entity is the owner and beneficiary[6]. For these owned products, the amount that could be realized on life insurance policies where the reporting entity is the owner and beneficiary or has otherwise obtained the rights to control the policy, is similar to a cash deposit that is realizable on demand. As such, the amount that could be realized on a life insurance policy as of the date to which premiums have been paid shall be reported as an admitted asset. In determining the amount that could be realized, reporting entities shall consider the cash surrender value as well as other contractual terms which limit or provide for additional realizable amounts. If any of these contractual terms which limit or provide for

[5] In order to be in compliance with IRC §7702:

1. The contract must be considered "life insurance" under applicable state insurance law. This is a contractual definition that includes:
    - The contract must be filed and approved as life insurance.
    - It must be regulated as life insurance under applicable laws and regulations (such as variable life insurance regulation and non-forfeiture laws).
    - There must be an insurable interest in the continued life of the insured (federal and state law also require the consent of the insured to the coverage).
    - There must be a significant transfer of mortality risk between the policyholder and the insurance company.
2. The contract must meet one of two actuarial tests of the policy's cash value relation to its death benefit to assure that, prior to death/maturity, the policy cash value does not exceed the net single premium required to fund the death benefit.

[6] These life insurance products shall be acquired with the primary consideration of the costs related to employee benefit obligations or the loss of a key person. Such benefit funding purpose shall be documented in an internal pre-purchase due diligence file and demonstrated using the cost recovery method, the cost offset method, as a bona fide direct hedge for an employee benefit liability, or another commonly accepted practice. The reporting entity must maintain that it has the willingness and ability to hold the policies for the full lifetime of all the insureds. The board of directors or senior management shall periodically review the purpose, size, performance, and compliance of material holdings subject to this paragraph.

additional realizable amounts allow the owner to pay variable premium (reducing or increasing the premium based on the increase or decrease of a variable investment vehicle of the policy), the life insurance policies must always remain compliant with IRC §7702 to be an admitted asset under this paragraph. Amounts recoverable by the reporting entity at the discretion of the issuing company shall not be included. Amounts realizable beyond one year from the surrender date shall be discounted. For group policies or a group of individual life policies, reporting entities shall assume surrender on a policy-by-policy or certificate-by-certificate basis, unless contractual terms only allow for surrender of all policies or certificates as a group, in which case the amount that could be realized shall be determined on a group basis.

Disclosure is required of the amount of the cash surrender value

(1) by insurance product type
For §7702 compliant policies:
   a. General Account
      i. With a cash surrender value that is held entirely in the issuing insurer's general account and for which there cannot be policyholder-directed investment exposure.
   b. Declared Rate Separate Account
      i. With a cash surrender value that is held in a separate account of the issuing carrier for which the reporting entity has reasonably determined that the volatility of the cash surrender value is not expected to be material for the following reasons:
         1. the cash surrender value is contractually determined by a crediting rate with a guaranteed minimum provided by the issuing carrier's general account such that the policies do not directly bear the mark to market performance of the underlying separate account investments (including, for the avoidance of doubt, both stable value and hybrid products); or
         2. used as a bona fide direct hedge for deferred compensation or similar plans if there is a matched liability that results in negligible net economic exposure to the reporting entity.
   c. Variable Separate Account
      i. With a cash surrender value that is directly exposed to the mark to market performance of the underlying separate accounts.

For the avoidance of doubt, policies that do not comply with §7702 will to be non-admitted under SSAP No. 21, and;

(2) by investment category (e.g., bonds, common stock, joint ventures, derivatives, etc.).

For any policy supported by a separate account, investment managers who are under common control (as broadly defined) with the reporting entity shall not directly or indirectly manage the investments inside the separate account of a reporting entity's life insurance assets.

Potential Changes to the Annual Statement Instructions for Consideration

Potential additions are indicated in blue; deletions are indicated in green

Assets

Line 25 – Aggregate Write-ins for Other-Than-Invested-Assets

Enter the total of the write-ins listed in schedule Details of Write-ins Aggregated at Line 25 for Other-Than-Invested-Assets.

...

Details of Write-ins Aggregated at Line 25 for Other-Than-Invested-Assets

List separately each category of assets (other-than-invested-assets) for which there is no pre-printed line on Page 2.

Include: Equities and deposits in pools and associations.

~~COLI – Report the cash value of corporate owned life insurance including amounts under split dollar plans.~~

Life Insurance Assets – Report the aggregate amount of cash surrender value that could be realized on life insurance policies. Aggregate amounts reported on Line 25 should equal the aggregate amount reported in Note 21 I or H.

...

Note 21 I or H

I. The Amount That Could Be Realized on Life Insurance Where the Reporting Entity is Owner and Beneficiary or Has Otherwise Obtained Rights to Control the Policy

Disclose the amount of the aggregate cash surrender value ~~that is within investment vehicles and percentage by the following investment category:~~

- ~~Bonds~~
- ~~Stocks~~
- ~~Mortgage Loans~~
- ~~Real Estate~~
- ~~Cash and Short-Term Investments~~
- ~~Derivatives~~
- ~~Other Invested Assets *~~

~~* Investments in private funds/hedge funds shall be reported as other invested assets~~

by insurance product type and by investment category. Given that reporting entity does not own the underlying assets directly, a reasonable basis may be used to determine the appropriate categories.

Realizable Value of Life Insurance Assets		Cash Surrender Value
(1)	Total General Account Policies	$
	Declared Rate Separate Account Policies with the underlying characteristics of:	
(2)	Bonds	$
(3)	Common stock	$
(4)	Mortgages	$
(5)	Real Estate	$
(6)	Cash and Short-Term Investments	$
(7)	Derivatives	$
(8)	Other Long-Term Assets	$
(9)	General Account Obligations	$
(10)	Excess market value (if applicable)	$
(11)	Total Declared Rate Separate Account Policies (Sum of Lines 2-9 less Line 10)	$

	Variable Separate Account Policies with the underlying characteristics of:	
(12)	Bonds	$
(13)	Common stock	$
(14)	Mortgages	$
(15)	Real Estate	$
(16)	Cash and Short-Term Investments	$
(17)	Derivatives	$
(18)	Other Long-Term Assets	$
(19)	General Account Obligations	$
(20)	Total Variable Separate Account Policies (Sum of Lines 12-19)	$
(21)	Total Realizable Value of Life Insurance Assets (Lines 1+11+20)	$

Finseca™

October 2, 2026

VIA ELECTRONIC MAIL

Mr. Kevin Clark, Chair
Mr. Dale Bruggeman, Vice Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners

cc: Julie Gann (jgann@naic.org)

Re: Comments on Agenda Item Ref #2026-08 – SSAP No. 21, Reporting of Insurance Company-Owned Life Insurance (ICOLI)

Dear Chair Clark & Vice Chair Bruggeman:

On behalf of Finseca, we appreciate the opportunity to comment on Agenda Item Ref #2026-08, exposed by the Statutory Accounting Principles (E) Working Group ("the Working Group") for comment at its August 12, 2026 meeting. Finseca submits these comments in support of, and as a complement to, the comments submitted by the American Council of Life Insurers ("ACLI"), while offering the perspective of the brokerage and distribution community. The exposure asks whether amounts realizable under Insurance Company-Owned Life Insurance ("ICOLI") policies should be reclassified from an admitted other-than-invested asset under SSAP No. 21 to an invested asset reported on Schedule BA. Finseca represents the brokerage and distribution side of this market — the licensed insurance professionals who work directly with corporate clients to assess benefit-financing needs, design compliant insurance-based solutions with carriers, and place and administer those arrangements over time. That practical client-facing perspective informs our comments below.

Finseca, Financial Security for All, is a national trade association with nearly 15,000 members who serve hundreds of thousands of clients every day in communities across the country. Our membership includes licensed insurance agents and producers, agency leaders, and brokerage professionals, many of whom are also registered representatives of broker-dealers or representatives of registered investment advisers. A meaningful share of our institutional-markets membership consists of licensed insurance professionals who specialize in designing, placing, and administering insurance-based financing arrangements—including ICOLI—that help corporations manage the cost of employee-benefit, deferred-compensation, and key-person obligations. These members work with clients, life insurance carriers, and appropriate tax and legal advisers to ensure that an arrangement is appropriately designed, documented, marketed, and placed within the applicable insurance, tax, and state-law framework.

Executive Summary

Corporate clients engage our members because they need a way to cover the costs of financing current and future employee benefit obligations— and to protect against the financial disruption of losing a key executive. The client purchases life insurance with a regulated carrier, not an interest in the assets that carrier sets aside to back its life insurance obligations.

The insurance policy transaction structure is what should drive the Working Group's accounting analysis. Some policies our members place credit a declared or indexed rate out of the carrier's general account; others allocate premium among separate-account options with more variability in cash value. Either way, the client's legal position is the same: contractual rights against the carrier, not a claim on the underlying assets.

Placing an ICOLI policy means operating within a multi-layered compliance framework on every case. The policyholder's analysis and documentation must support the appropriate treatment under SSAP No. 21; the contract must qualify as life insurance for federal tax purposes under IRC §7702; if a separate account structure is used, it must comply with applicable diversification and investor-control principles; the policyowner must satisfy IRC §101(j)'s pre-issuance notice-and-consent requirements where applicable; the arrangement must satisfy state-law insurable-interest requirements; and the issuing carrier remains subject to the prudential, contractual, and regulatory requirements applicable to its obligations under the policy.

While existing SSAP No. 21 guidance contemplates contemporaneous documentation of the analysis supporting an ICOLI purchase, including its relationship to key-person risk and employee-benefit obligations, it is not explicitly stated. To the extent regulators seek greater visibility into those judgments, Finseca supports appropriately tailored reporting or documentation that allows regulators to understand the program's business purpose, scale, and structure. Our membership strongly agrees that it is not appropriate to redefine, implicitly or explicitly, the policyholder's insurance contract as direct ownership of the assets supporting it.

Why Clients Buy ICOLI, and Where Our Members Fit In

Our members are engaged when a company has employee-benefit, deferred-compensation, or key-person-related obligations that create a continuing cost. They work directly with the client to understand those obligations, evaluate whether insurance-based financing is appropriate, and help design and place a compliant ICOLI arrangement with an issuing carrier. These are long-term policies by design and a core component of employee-benefit financing. Clients expect to hold them until all death benefits are paid—because the benefit liabilities they help offset are similarly long-lived. That is fundamentally different from acquiring an asset for short-term trading or liquidation. Our members design, place and administer these programs for as long as the policy remains in force.

Different Product Structures, One Underlying Placement

The policies our members place are not uniform. Some policies are backed by a carrier's general account and credit a declared or index-linked rate. Others use a separate account with negotiated

guarantees or permit the client to allocate premiums across a menu of investment funds, and a single transaction will often blend more than one of these approaches. Our members' job is helping a client and carrier develop an appropriate structure for the client's objectives.

Policy size is not unlimited. The amount of coverage and premium must be grounded in the client's underlying benefit, compensation, retention, or other legitimate business obligations; the policy's insurance design; carrier underwriting and retention standards; and applicable tax and state-law requirements. Our members work with clients and carriers to calibrate the amount and design of each placement to those facts. The result is not an open-ended allocation to underlying investments, but an insurance arrangement sized and structured around identified obligations, the eligible insured population, carrier underwriting, and the client's broader governance and risk-management process.

Every transaction our members place still rests on the same foundation — a contract with the issuing carrier, not a claim on its underlying assets. The features that add market sensitivity typically come paired with an offsetting client benefit, or provide a stabilized crediting rate or a lower net cost of insurance, that a risk-only reading of the underlying assets would miss.

Compliance Work at Placement

For brokers and their institutional clients, ICOLI placement begins with a substantial compliance, diligence, and documentation process. Our members are licensed insurance professionals with experience designing and placing insurance-based financing arrangements. Working with the client, issuing carrier, and appropriate tax and legal advisers, they help determine whether the proposed arrangement serves a legitimate business purpose and can be structured within the applicable legal and regulatory framework.

Depending on the facts of the case, that process includes confirming that the proposed policy is structured to qualify as life insurance under IRC §7702; evaluating applicable investor-control and diversification limitations; satisfying relevant state insurance-law requirements; confirming that the employer has the necessary insurable interest; establishing an appropriate policy size in relation to the underlying obligations; and ensuring that covered employees receive required notice and provide appropriate consent before issuance.

Our members are essential to how our clients address these requirements, coordinate appropriate documentation, and explain the policy's intended role, material features, limitations, and risks. That includes helping clients assess whether the product design and available contract options are consistent with the stated benefit-financing purpose, risk tolerance, liquidity needs, and governance processes applicable to the program.

Finseca recognizes the Working Group's interest in ensuring that ICOLI is marketed, sold, and explained to institutional clients accurately and with appropriate attention to the product's long-term purpose, liquidity profile, guarantees, limitations, and risks. ICOLI transactions are specialized institutional arrangements that require product-specific expertise, careful due diligence, and clear communications regarding the nature of the insurance contract and the respective roles of the insurer, producer, policyholder, and other service providers.

To the extent the Working Group identifies concerns regarding sales practices, marketing materials, or communications by participants in the ICOLI marketplace, those concerns should be addressed directly through clear, appropriately tailored market-conduct, producer-licensing, and advertising expectations—not through an accounting change that neither regulates sales practices nor measures the risk of a particular contract. Finseca supports marketing that is accurate, complete, transparent, and appropriate to the client's circumstances; explains the policy's long-term purpose, relevant liquidity considerations, applicable guarantees, and material limitations; and makes clear that the client owns an insurance contract, not the underlying investment assets.

Brokers do not manage separate-account assets or direct the holdings of underlying investment funds, and neither does the policyholder. The carrier establishes the available contract options and engages the professionals responsible for managing those options. Accordingly, any regulatory response to identified conduct concerns should distinguish among the respective roles and responsibilities of the insurer, licensed producer, policyholder, investment manager, administrator, consultant, and other service providers.

Compliance and appropriate sales practices continue after placement. Changes in client circumstances, policy ownership, the insured population, applicable law, or the underlying obligations requires ongoing review and administration over the life of the arrangement. Finseca welcomes the opportunity to work with the Working Group, carriers, and other regulators on practical, market-informed guidance that advances these objectives without disturbing established accounting treatment.

Taken together, these compliance obligations, the client's limited rights with respect to underlying investments, and the broker's advisory role support treating ICOLI as an insurance contract for accounting purposes—not as direct ownership of investment assets.

What's Actually Behind the Growth in ICOLI Balances

We understand why the size of ICOLI balances has drawn regulators' attention. A significant share of that growth is arithmetic rather than appetite: broad equity markets have more than doubled over the period regulators cite, and other assets held in ICOLI structures have appreciated substantially as well, increasing the resources available to support employee benefits broadly, including rising healthcare costs.[1] New sales and additional premium on existing policies account for some of the increase, but market appreciation on assets already inside existing policies is doing a lot of the work — meaning a larger balance does not mean the number of policies has grown by

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[1] Employer-paid family coverage increased from **$14,162 in 2018** to **$20,143 in 2025**, a **42% increase**.
(Source: https://www.kff.org/health-costs/2025-employer-health-benefits-survey/)

- Growth was relatively moderate through 2022: **$14,162 → $16,334** (+15%).
(Source: https://www.kff.org/series/employer-health-benefits-survey/)
- The acceleration occurred after COVID: **$16,334 → $20,143** (+23%) from 2022–2025.
(Source: https://www.kff.org/health-costs/2025-employer-health-benefits-survey/)
- **64% of the total increase since 2018 occurred after 2022.** Of the $5,981 increase since 2018, $3,809 occurred during 2022–2025. (Source: https://www.kff.org/series/employer-health-benefits-survey/)
- Post-COVID healthcare inflation has created a growing gap between medical cost growth and traditional asset crediting rates. (Source: https://www.bls.gov/ecec/)

anywhere near the same amount. We think that distinction deserves to be in front of the Working Group as it weighs the materiality of the growth that prompted this exposure.

None of this means larger balances are beside the point — it is reasonable for the Working Group to want better information. Disclosure can deliver that without collapsing the distinction between owning a life insurance contract and owning the assets behind it.

A Targeted Way Forward

Finseca would support a better disclosure-based approach that hands regulators real visibility into the actual risk to the policyholder without touching the underlying accounting treatment. That kind of transparency serves everyone's interest in a well-functioning market; treating the contract as though it belonged on Schedule BA does not. We would submit that an expansion and refinement of the disclosure currently required by SSAP No. 21 would provide more consistent reporting and better information regarding the risks to the policyholder.

If there is concern about how ICOLI gets marketed and sold, we would ask the Working Group to take that on directly rather than through an accounting change that does not actually reach sales practices. That is squarely our members' territory — they are the ones in the room with corporate clients placing these policies — and we would welcome the chance to help the Working Group and other regulators build practice-level guidance on producer conduct and marketing that addresses the underlying concern without disturbing how ICOLI is accounted for.

Where regulators identify a specific concern regarding ICOLI programs, Finseca supports addressing that concern through a targeted response tied to the relevant contract feature, program structure, or conduct at issue, rather than through a blanket reclassification that treats the policyholder as the owner of underlying assets. Schedule BA treatment is not a substitute for that analysis. Accounting presentation, disclosure, and capital treatment serve different purposes and should not be conflated, even where they are informed by common facts.

Conclusion

How an item is presented in the accounts, what gets disclosed about it, and how much capital it carries are three separate questions, and each deserves its own answer even when the same underlying facts inform all three.

ICOLI is a life insurance contract: the client owns the policy, not the assets that support the carrier's contractual obligations. Licensed insurance professionals and carriers design, market, and place these arrangements within an established framework of tax law, state insurance regulation, employee-protection requirements, carrier underwriting, and ongoing compliance obligations. We welcome continued discussion with the Working Group, carriers, and other regulators about disclosures—and, where genuinely helpful, producer-conduct and marketing guidance—that gives regulators confidence in this market without changing what the product is.

Thank you for considering our comments. We look forward to supporting the industry efforts with the Working Group and Regulators on this issue.

Finseca™

Sincerely,

Melissa Bova

Melissa Bova
Senior Vice President, State Affairs & Policy
Finseca
mbova@finseca.org

Date: September 28, 2026

To: Kevin Clark, Chair of the Statutory Accounting Principles (E) Working Group
CC: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden
From: John Blocher, FSA, MAAA

Re: Exposure **2026-08** SSAP No. 21 – ICOLI

Thank you for the opportunity to comment upon ICOLI treatment in SSAP No. 21 and in NAIC RBC. ICOLI is currently an "other than invested asset" and shown on line 25 on the Asset page as an "aggregate write-in". I will leave precise balance sheet geography and description to others.

My focus is on the appropriate ICOLI RBC charge. The current ICOLI RBC charge is 0% for Life entities and that is not appropriate, neither is the 5% RBC charge used for Property & Casualty and Health entities. Both percentages appear to be arbitrary. It does not make sense to look through the ICOLI arrangement to underlying assets as there is a significant intermediary, the insurer offering and maintaining the ICOLI arrangement.

ICOLI balances are quite similar to many other types of noncontrolled or restricted assets in NAIC RBC. Some of the exposure draft language reads as if an ICOLI arrangement is simple to collapse (if it is that simple, no RBC charge is necessary). It is not simple to collapse for various reasons, not the least of which is that the arrangement itself is frequently a Modified Endowment Contract (MEC). Stil even though ICOLI is expected to be a long-term vehicle, it can be fully surrendered with a modest effort, if ever necessary.

As an asset ICOLI is similar to a restricted asset which also can be recovered back to the balance sheet with a little time and effort. Noncontrolled assets bearing some similarity to ICOLI:

1. Subject to repurchase, reverse repurchase, dollar repurchase, or reverse dollar repurchase agreements
2. Placed under option agreements
3. Pledged as collateral/encumbered FHLB assets for funding agreements
4. On deposit with states or other regulatory bodies

For noncontrolled or restricted assets, a company cannot immediately sell that direct asset because the assets are included another agreement, just like ICOLI balances are.

Suggested RBC Treatment:

1. ICOLI balances should receive the same RBC charge as the other restricted assets on NAIC RBC (LR017). This would be a 1.26% RBC charge currently and make this similarly a restricted asset consistently across Life, Property & Casualty, and Health.
2. For ICOLI policy loans, any assets purchased with policy loan proceeds from an ICOLI arrangement would receive the applicable RBC charge for those assets as they are outside of the ICOLI arrangement.

Statutory Accounting Principles (E) Working Group
2026 Fall National Meeting
Embedded ALM Risk Comment Letters Received

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Note: Interested Parties noted support for the ACLI comments in their separate letter.



October 2, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

Re: SAPWG Ref #2026-10, SSAP No. 26, Embedded ALM Risk

Dear Chair Clark:

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the proposed revisions to *SSAP No. 26, Bonds* addressing embedded asset-liability management (ALM) risk.

ACLI supports the objective of ensuring that securities are appropriately classified when their ability to pay contractual principal and interest is materially dependent on the reinvestment of underlying asset cash flows.

Our primary comment is that paragraph 9.d. should more clearly define when embedded ALM risk is considered "significant." The operative text in the exposure "could be impacted" could be interpreted as having any non-zero, even if remote, possibility of impacting cash flows. As drafted, the guidance could capture ordinary changes in reinvestment interest rates or investment spreads, even when those changes would not significantly impair the security's ability to pay contractual cash flows. We discussed this concern with NAIC staff and regulators, and we support considering structural mitigants and applying a severe but precedented stress threshold. We also recommend removing "as scheduled" because the reference to contractual cash flows adequately captures the intended concept.

Accordingly, ACLI recommends revising paragraph 9.d. as follows:

9.d. If the financial assets are self-liquidating, they must produce cash flows that are sufficient to pay all contractual amounts due in order to be considered meaningful. To the extent that the contractual terms permit cash flows of the financial assets to be reinvested rather than used to repay the debt security, the reporting entity should evaluate whether the debt security is subject to significant embedded asset-liability management (ALM) risk. Embedded ALM risk is to be considered significant if, when factoring in any structural mitigants, the ability to pay contractual cash flows of the debt security ~~as scheduled~~ could be significantly impacted by severe but precedented changes in reinvestment interest rates or investment spreads. Securities that include significant embedded ALM risk do not meet the definition of a bond.

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 94 percent of industry assets in the United States.

This revision would establish a clearer threshold for significant embedded ALM risk while recognizing structural features that mitigate that risk.

ACLI also recommends a minor clarification to paragraph 9.c. Consistently referring to the "financial assets" of the ABS issuer would eliminate potential ambiguity regarding the scope of the paragraph.

Accordingly, ACLI recommends revising paragraph 9.c. as follows:

9.c. Financial assets of an ABS issuer can either be self-liquidating or not. Self-liquidating means that the assets convert themselves to cash over a defined period in accordance with their contract terms, as is the case with most types of receivables. If the financial assets of the ABS issuer are not self-liquidating, the rebuttable presumption detailed in paragraphs 6.a.-6.d. must be overcome in order for the security to meet the definition of a bond.

Lastly, we understand that the intention of these provisions is generally not to apply to investments with relatively short reinvestment periods, including those present in commonly traded assets (e.g., CLOs), and we would recommend codifying this intention in the operative language.

We believe these revisions would provide greater clarity and support consistent application of the guidance.

Thank you for your consideration of ACLI's comments.

Sincerely,



Adam Knepp, CPA
Senior Director, Accounting Policy
American Council of Life Insurers
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October 2, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106

Re: Ref #2026-10 – *Embedded ALM Risk*; Proposed Revisions to SSAP No. 26

Dear Mr. Clark:

Thank you for the opportunity to comment on SAPWG agenda item Ref #2026-10 regarding embedded asset-liability management (ALM) risk and the related proposed revisions to SSAP No. 26.

We recognize the need to examine statutory guidance as insurers invest in new asset classes, and we appreciate SAPWG's efforts to address embedded ALM risk. As currently drafted, however, we are concerned that proposed paragraphs 9.c. and 9.d. of the Principles-Based Bond Definition (PBBD) could be interpreted to disqualify a range of well-established asset classes based on structural mechanics that may create some reinvestment exposure, even when that exposure is not significant.

These proposed modifications include language to clarify how to assess whether reinvestment periods are exposed to significant embedded ALM risk. This language would exclude from this presumption ABS where (i) structural mitigants embedded within the debt security protect the ALM risk from becoming significant or (ii) the economic likelihood of creating ALM risk is insignificant.

I. Potential Issues with the Proposed Revisions

We understand that proposed paragraphs 9.c. and 9.d. are intended to identify debt securities with significant embedded ALM risk. We believe the proposal includes one significant ambiguity -- the use of the word "could" in proposed paragraph 9.d., "…Embedded ALM risk is to be considered significant if the ability to pay contractual cash flows of the debt security as scheduled could be impacted…", may be interpreted to establish a significance threshold so low that any structure permitting the reinvestment of collateral cash flows could be interpreted to fail to qualify for bond treatment. As a result, we believe the proposal, without further modifications or guidance, may affect assets commonly held by insurers and other institutional investors even when the embedded ALM risk is, in reality, limited.

Because holdings are spread across U.S. insurers, a significance threshold established with a non-zero probability (e.g., 'could') could create interpretive ambiguities across the industry.

II. Alternative Modifications to SSAP No. 26 and the Meaningful Level of Cash Flows Test

We believe that revisions to SSAP No. 26 would address SAPWG's concerns while also mitigating unintended consequences.

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The preamble to agenda item Ref #2026-10 describes structures that NAIC staff presume to have significant embedded ALM risk and also refers to structures that are presumed not to have significant risk, including those with shorter reinvestment periods. We recommend incorporating the relevant limiting concepts directly into SSAP No. 26 (or other equivalent guidance) as follows:

a) Revise paragraph 9.d. so that significance depends on whether changes in reinvestment interest rates or investment spreads would materially impair the debt security's ability to pay scheduled contractual cash flows, rather than on whether those cash flows could be affected in any respect.
b) Specifically identify structural mitigants of embedded ALM risk in paragraph 9.d., including but not limited to:
    - Interest-rate or basis hedges;
    - Subordination and/or overcollateralization;
    - Diversification;
    - Structural protections, including weighted average spread test, weighted average ratings test;
    - Ability to refinance liabilities;
    - Ability to partially or fully prepay outstanding debt;
    - Bounded reinvestment period with scheduled amortization or a step-up afterwards;
    - Hard-wired spread-compression trigger that ends reinvestment if unable to find suitable assets;
    - Documented access to eligible asset origination capacity at a set multiple of the vehicle's reinvestment needs, under a formal allocation policy; and/or
    - Clear manager alignment of interest (e.g., fee subordination at certain spread compression levels).
c) Add factors to paragraph 9.a. that an insurer should consider when performing the meaningful level of cash flows test, including:
    - Fund-level governance and risk limits, including actions the asset manager must take in response to stress arising from reinvestment risk;
    - Stress testing that demonstrates the effectiveness of the structure and other mitigants for ALM and reinvestment risk;
    - The use of derivatives and other instruments to reduce ALM risk; and
    - Historical and forward-looking macroeconomic data and other factors that could affect reinvestment risk.

We expect these proposed revisions will greatly reduce the interpretive risk and scope of structured securities with significant embedded ALM risk to what we believe is the intended population as foreshadowed in the preamble to the exposure. To the extent that the Working Group prefers to simplify the language within an Issue Paper Q&A, then we respectfully request that the Working Group addressing the salient points from the preamble into other authoritative regulatory guidance. The aim of doing so would be to preserve the durability of the accounting guidance for use years and decades in the future.

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Additionally, we are supportive of the ACC/LSTA letter. The criteria they recommend to limit the range of assets subject to additional testing and regulatory review, including based on length of reinvestment period and alignment of the ABS issuer's effective maturity with the weighted-average life of the underlying assets, would provide a means to avoid disruption or interpretive confusion to any well-established asset classes

III. Conclusion

We appreciate the Working Group's attention to embedded ALM risk and share the objective of ensuring that insurers hold assets that reliably support policyholder obligations.

The PBBD represents a thorough, principles-based standard developed through substantial consideration and engagement, and updates to this standard should also be thoroughly considered. We would welcome the opportunity to work with the Working Group, NAIC staff, and other interested parties on this project, and we would be pleased to provide additional data or analysis. Please do not hesitate to contact us with any questions.

Respectfully submitted,



Michael Consedine
Executive Vice President
Global Head of Government and Regulatory Affairs
Athene Holding Ltd.





October 2, 2026

VIA EMAIL

Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106

Re: Agenda Item 2026-10 - SSAP No. 26, Bonds (Proposed Treatment of Embedded Asset-Liability Management Risk in Asset-Backed Securities)

Dear Mr. Clark:

LSTA, Inc. ("LSTA")[1] and the Alternative Credit Council ("ACC")[2] respectfully submit these comments on Agenda Item 2026-10, which the Statutory Accounting Principles (E) Working Group ("SAPWG" or the "Working Group") exposed for comment at the 2026 Summer National Meeting. Both organizations' members include, and act as counterparties to, many of the life insurers subject to the Statement of Statutory Accounting Principles ("SSAP") framework, and both organizations have a strong interest in ensuring that the principles-based bond definition ("PBBD") continues to function predictably for the structured credit markets our members build, manage, and invest in.

We understand the regulatory objective underlying Agenda Item 2026-10: SAPWG and state insurance regulators should have the analytical tools and transparency needed to monitor asset-liability management ("ALM") risk. We offer the recommendations below to help the Working Group achieve its stated objective with precision.

[1] LSTA, Inc. is a not-for-profit trade association that has been the leading advocate for the U.S. corporate lending market since 1995. LSTA's mission is to promote a fair, orderly, efficient and growing corporate loan market while advancing and balancing the interests of all market participants. Our 600+ member institutions include commercial banks (ranging in size from GSIBs to community banks), investment banks, broker-dealers, asset managers, and institutional lenders, as well as law firms and market service providers. For more information, visit www.lsta.org.

[2] The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over US$2 trillion of private credit assets. The ACC is an affiliate of AIMA and is governed by its own board, which ultimately reports to the AIMA Council. ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure, and the trade and receivables business. The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research to strengthen the sector's sustainability and wider economic and financial benefits.

I. Background on insurance investments in structured credit and impact of capital charges

Life insurers are among the largest institutional holders of structured credit vehicles that finance non-investment-grade businesses. As of year-end 2024, U.S. insurers held approximately $276.8 billion in CLOs - more than double their 2018 exposure - with life insurers accounting for 82% of that total (approximately $226.5 billion).[3] CLO holdings represented roughly 5.1% of total insurer bond holdings and 3.1% of total cash and invested assets industry-wide, with exposure concentrated among the largest institutions.[4] The treatment of these instruments under the PBBD therefore has an outsized effect both on insurers' investment portfolios and on the cost and availability of credit to the borrowers who depend on this financing.

Most of this exposure is high-quality credit and has performed accordingly. Approximately 90% of insurers' CLO holdings carry investment-grade ratings (39% AAA, 22% AA, 15% A, and 12% BBB), with only about 2% rated below investment grade.[5] This is not simply a product of a benign credit cycle: S&P Global Ratings' 30-year tranche default study found that investment-grade-rated CLO tranches experienced a cumulative default rate of only 0.3% from 1994 through the first quarter of 2024, with those defaults concentrated almost entirely in pre-financial-crisis vintages issued under structural protections weaker than those standard in CLOs today, and confirmed that no CLO tranche rated AAA or AA has ever defaulted.[6] This performance record reflects the structural protections - subordination, overcollateralization and interest-coverage triggers, and typically five-year-or-shorter reinvestment periods - built into conventional, single-collateral-type CLOs, which are not the structures Agenda Item 2026-10 is aimed at.

The stakes of the bond/non-bond determination under Paragraph 9 are unusually high because the accounting classification drives the risk-based capital ("RBC") charge mechanically, with no gradation in between. Life RBC bond factors currently range from roughly 0.4% for the highest-quality designation (NAIC 1) up to 30% for the lowest bond designation (NAIC 6); a security that instead fails the PBBD and is reported on Schedule BA generally defaults to the same approximately 30% factor applied to unaffiliated common stock, unless the insurer subsequently submits the failed bond to the SVO and receives a designation based on their analysis of the credit risk. In addition, the NAIC has separately developed a dedicated 45% pretax factor for CLO residual/equity tranches.[7][8] In practical terms, a well-subordinated, investment-grade-rated debt tranche carrying a 0.4% RBC factor today could see its capital charge increase 75x to well over 100x if it is found to contain "significant" embedded ALM risk and loses bond treatment - a consequence entirely disconnected from any change in the security's actual credit quality or collateral performance.

Because SSAP classification drives RBC charges mechanically, an ambiguous standard is not merely an accounting problem - it is a capital problem. Absent workable, administrable criteria, economically similar structures will be classified inconsistently across filers, producing divergent RBC charges for

[3]NAIC Capital Markets Bureau, U.S. Insurers' CLO Exposure at Year-End 2024 (2025).
[4]NAIC, Private Credit Issue Brief.
[5]NAIC Capital Markets Bureau, U.S. Insurers' CLO Exposure at Year-End 2024 (2025).
[6]S&P Global Ratings, CLO Spotlight: Thirty Years Strong - U.S. CLO Tranche Defaults From 1994 Through First-Quarter 2024 (2024).
[7]NAIC Life Risk-Based Capital Instructions, Investment Risk-Based Capital Factors.
[8]NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Agenda and Materials (June 23, 2026).

identical risk and undermining the cross-industry comparability RBC is designed to ensure. That uncertainty carries real consequences: it risks forcing sales of legacy holdings into an illiquid secondary market precisely when conditions are already stressed, and it injects unnecessary uncertainty into new-issuance and portfolio-construction decisions for a market on which insurers, CLO managers, and private credit fund managers depend for stable, long-term financing.

II. Recommendations

Determining whether a structured security with a fixed-duration, self-terminating reinvestment period results in significant ALM risk requires significant judgment and analysis. We recommend that SAPWG establish a two-stage process to determine what constitutes significant embedded ALM risk. The first stage would be to establish a rebuttable presumption of significant ALM risk. If a structure meets the criteria for the practical expedient described below, then that structure would not be deemed to pose significant embedded ALM risk and would continue to qualify as a bond. If it does not meet either criterion, the structure would need to be analyzed under the criteria in the second recommendation, which adds relevant factors to subparagraph 9.d to determine whether the rebuttable presumption can be rebutted.

Recommendation 1 – Establish a Rebuttable Presumption Regarding Significant Embedded ALM Risk

As a practical expedient, any structure that meets either of the following criteria would not be considered to create significant embedded ALM risk:

(i) the reinvestment period, measured from the closing date of the transaction, does not exceed seven years; or

(ii) the weighted average life (WAL) of the underlying assets exceeds 30-50%[9] of the vehicle's effective maturity.

Seven years reflects the staff memorandum's own reference to reinvestment periods of five years or less as "not uncommon" for conventional structured credit.[10] A seven-year threshold would de-scope well-established structures with reinvestment periods of five years or less, including most CLOs, while accommodating structures that fall modestly above the five-year mark and ensuring that testing and the associated regulatory review are applied only to true outliers. This threshold reduces regulatory burden for insurers and state regulators, and gives insurers the predictability necessary to avoid disruption to conventional asset classes they already hold. By contrast, the appropriate WAL threshold requires further empirical analysis. We propose 30–50% as a starting range to be calibrated through a data-driven process.

These two tests are designed to be both workable in practice and consistent with how the PBBD already approaches structural protection. These two tests give preparers, auditors, and regulators a predictable, administrable path to resolve the overwhelming majority of conventional securitizations - including CLOs, which, as noted above, make up a large, high-credit-quality, and historically well-performing share of insurers' structured credit portfolios - without requiring a full facts-and-circumstances review of each

[9]. Exact percentage to be determined by empirical analysis.

[10]NAIC Statutory Accounting Principles (E) Working Group, Agenda Item 2026-10, SSAP No. 26 - Embedded ALM Risk, Staff Memorandum, content.naic.org/sites/default/files/inline-files/26-10-ssap-no-26-embedded-alm-risk.docx.

transaction, while preserving full scrutiny for the structures the project targets.

Recommendation 2 - Require Structural Mitigants to Be Included When Determining What Constitutes "Significant" ALM Risk

As drafted, the "could be impacted by changes in reinvestment interest rates or investment spreads" test is so broad and undefined that it could be read to compel a "significant" finding based on a wide variety of theoretical concerns, such as the existence of reinvestment-rate sensitivity, without regard to whether the transaction's own structure has already priced in, hedged, or subordinated that risk. We recommend that subparagraph 9.d. require that, before a reporting entity or examiner concludes that embedded ALM risk is "significant," the analysis consider what structural mitigants are present in the transaction, including but not limited to:

(i) the reinvestment period is fixed at issuance and cannot be unilaterally extended by the manager, sponsor, or servicer;

(ii) the reinvestment period is followed by mandatory - not merely permitted - amortization of the debt tranches;

(iii) the transaction includes overcollateralization and/or interest-coverage triggers that force early amortization upon collateral deterioration during the reinvestment period;

(iv) interest-rate or basis hedges executed at the transaction level;

(v) subordination sized with reference to, and sufficient to absorb, reasonably foreseeable reinvestment-rate or spread-related shortfalls - not merely credit losses; and

(vi) active portfolio and ALM governance, including manager modeling and stress-testing of reinvestment risk.

We recommend that SAPWG follow the same principles-based approach that is used elsewhere in the PBBD, in that the examples above of structural mitigants should not be considered an exhaustive list. A strength of the principles-based approach is that it allows for consideration of what structural mitigant is appropriate and needed for each specific type of underlying asset. For instance, overcollateralization may be sufficient for some types of underlying collateral, whereas subordination and/or hedging might be more appropriate for other types of assets.

Incorporating appropriate ALM mitigants aligns with how the PBBD already treats credit risk elsewhere and avoids the perverse incentives an indiscriminate test would create. The PBBD's existing "substantive credit enhancement" concept in Paragraph 10 already asks whether subordination, overcollateralization, or guarantees put the bondholder "in a different economic position" than a direct holder of the collateral would be. The same principles-based, facts-and-circumstances methodology should apply to embedded ALM risk. A structure with a long legal final maturity but hard triggers that force rapid amortization well before any meaningful reinvestment-rate exposure could materialize presents a fundamentally different risk profile than a similarly-tenored structure with no such protections, and the rule should not treat the two identically.

A mitigant-blind rule creates perverse incentives on both sides of the transaction. Sponsors and managers have less reason to build in costly protections that the test will not recognize. And insurers have correspondingly less reason to select for, or pay up for, better-protected structures, since a hedged, over-

collateralized, actively managed deal receives the same Schedule BA treatment as one with none of those features - pushing capital toward whatever structure technically avoids triggering the standard's literal wording, rather than toward the structure with the best actual risk profile.

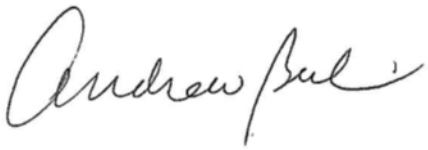
This recommendation is complementary to Recommendation 1 and does not depend on its outcome. Duration-mismatched structures should evaluate mitigants before concluding that risk is "significant," because two structures with the same nominal duration gap can present very different practical ALM risk depending on their protective features.

III. Conclusion

We appreciate SAPWG's willingness to engage with industry on these complex structural questions, and we share the Working Group's interest in ensuring that insurers hold appropriate capital against genuine embedded ALM risk. We believe the recommendations above would allow the Working Group to achieve that objective precisely, while avoiding unintended consequences for the broader and largely unrelated market for conventional structured credit on which insurers, and the companies that depend on this financing, rely. We would welcome the opportunity to discuss these comments further as this project moves forward.

Sincerely,

LSTA, INC.



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ALTERNATIVE INVESTMENT
MANAGEMENT ASSOCIATION



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VIA ELECTRONIC SUBMISSION

October 2, 2026

Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners (NAIC)
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Comments on Agenda Item 2026-10: Proposed Amendments to SSAP No. 26—Bonds (Principles-Based Bond Definition and Embedded ALM Risk)

Dear Members of the Statutory Accounting Principles (E) Working Group:

Dechert LLP submits these comments on Agenda Item 2026-10, exposed by the Statutory Accounting Principles (E) Working Group ("SAPWG") on August 12, 2026. This agenda item proposes revisions to Statement of Statutory Accounting Principles ("SSAP") No. 26, Bonds, that would introduce two new tests under the Principles-Based Bond Definition ("PBBD"): (1) a self-liquidation test for underlying financial assets under proposed Paragraph 9.c, and (2) an embedded Asset-Liability Management ("ALM") risk test under proposed Paragraph 9.d. We submit these comments in our own capacity (having served as counsel to a variety of participants in the structured credit markets), and to better understand how the proposed revisions would affect our ability to advise our clients involved with such structures. As a firm, we have always tried to be constructively engaged in the ongoing dialogue around new regulatory initiatives and in no small part we believe our reputation in the structured credit markets reflects this engagement. As the markets and their investors continue to interconnect, we will increasingly endeavor to provide practical feedback to SAPWG on questions of importance to it.

As an initial matter, we note that we support and appreciate the objectives underlying the proposals and the NAIC's role in bringing to the fore the application of those objectives with respect to multi-collateral structured credit investments. As we consider the concerns identified, they appear to us to be first and foremost disclosure and aggregation questions. In that regard, we would hope there are tools that already exist (or could be enhanced and improved) to adequately address them, including investment characteristic codes and look-through reporting of the kind used for rated note feeders. By corollary, we would respectfully submit that a security-level bond-classification test does not seem to be the right place to address these considerations.

For the reasons explained in more detail below, we would recommend that SAPWG not adopt proposed Paragraphs 9.c and 9.d in their current form. As currently drafted, the proposal does not distinguish structures that genuinely lack cash flow durability and structural protection, which is the risk the agenda item identifies, from established structured finance transactions whose reinvestment, refinancing, and revolving features are already bounded by proven structural safeguards. To assist your further consideration of this topic, we have attempted to lay out in more detail our thoughts with respect to the current proposal.

I. The Self-Liquidating Test (Proposed Paragraph 9.c)

Proposed Paragraph 9.c appears to create a binary test which classifies underlying financial assets as either strictly self-liquidating or not. If an asset does not convert entirely into cash over a defined period under its contractual terms, the reporting entity must overcome the rebuttable presumption framework in Paragraph 6 of SSAP No. 26. In our experience, this approach does not reflect the range of repayment structures routinely found in fixed-income and securitization markets. For example, a wide range of traditional, highly performing debt instruments are not fully self-liquidating; they routinely feature balloon payments, bullet maturities, refinancing features, revolving draws, or other repayment mechanics without calling into question their fundamental character as debt.

Transactions that could be captured by the proposed language include, but are not limited to, credit card ABS, floorplan facilities, CRE structures, CLOs, CFOs, rated feeder notes, structured settlements, whole business securitizations, data center and fiber ABS, equipment and fleet lease, timeshare, solar and residential PACE, and CRE CLOs. These products existed at the time the PBBD was originally developed, and it does not appear to be intended that they would be subject to the rebuttable presumption of Paragraphs 6.a through 6.d of SSAP No. 26 simply because their underlying assets were not, in the strictest sense, fully self-liquidating.

We would also submit that the rating agencies have developed an intricate set of criteria for this same inquiry. Their starting premise for asset-backed securities and closed-end fund debt is that there is no market value in the structure: no asset sales are assumed to repay the debt, and under stress cases the collateral must generate sufficient proceeds to repay the rated notes by legal final maturity. That is the same meaningful cash flows inquiry that the first sentence of proposed Paragraph 9.d already asks, and it is an inquiry that credit rating providers already perform, publish, and monitor on an ongoing basis. Where multi-collateral credit vehicles are rated under established closed-end fund or ABS

methodologies, rating agencies have already confirmed the presence of material structural mitigants to ALM risk and reinvestment mismatch, and at investment-grade ratings these residual risks are established as minimal.

The breadth of the proposed test can be illustrated with a government-guaranteed example and a private-market one. Ginnie Mae MBS carry the full faith and credit of the United States Treasury. When a loan in a Ginnie Mae pool becomes delinquent, the servicer may institute a partial claim principal deferral, structured as a zero-coupon balloon payment due on sale or maturity, to make the monthly payment more affordable for the borrower. A performing Ginnie Mae bond containing a single loan that received such a deferral would not be fully self-liquidating, and would therefore be presumptively not a bond under proposed Paragraph 9.c, even though that presumption would likely be overcome on the facts. The same dynamic is not unique to government-guaranteed collateral: a conventional commercial real estate mortgage loan with a balloon payment at maturity, or a credit card master trust that continuously revolves and replenishes its receivables pool, would also fail a strict self-liquidation test despite decades of performance history and no government backstop. Together, these examples suggest that the proposed test's breadth is not confined to any one asset class or guarantee structure, but rather reflects a structural limitation in the test's design that should be further considered.

Notwithstanding the various ways in which a self-liquidating asset may not fully convert to cash, the broader structured finance market and federal regulatory authorities have not taken such a strict view when determining what constitutes an "asset-backed security" for purposes of the Securities Exchange Act of 1934. In fact, taking such a strict view would theoretically open up loopholes that Congress and regulators did not intend.

To the extent duration is relevant to this analysis, we believe the proposal's focus on stated legal final maturity is the wrong metric. Stated maturity is an outer limit on repayment, not an expected payoff date. The expected weighted average life of a debt tranche, which reflects prepayment assumptions, reinvestment dynamics, and structural amortization mechanics, is typically considerably shorter, and senior investment-grade tranches often have weighted average lives that are half the length of their legal final maturity. A test anchored to stated maturity will systematically overstate the duration exposure these instruments actually present. Market precedent bears this out: whole business securitizations and data center and fiber ABS routinely carry legal final maturities of 25 to 30 years against Anticipated Repayment Dates ("ARDs") of only 5 to 7 years, coupled with post-ARD excess cash flow sweeps and coupon step-ups, and have been bond-eligible throughout. Music and other royalty-based ABS carry effectively perpetual underlying cash flows and legal maturities of

40 to 50 years, yet equally short ARDs, typically 3 to 10 years, with most of the market set at 5 years. A long legal final paired with an ARD sweep is established transaction architecture, tested through many market cycles.

II. The Significant Embedded ALM Risk Test (Proposed Paragraph 9.d)

Proposed Paragraph 9.d disqualifies an asset from bond treatment if it contains significant embedded ALM risk. This is defined as any situation where scheduled contractual debt service could be impacted by future reinvestment interest rates or investment credit spreads. As drafted, there is no materiality qualifier, no probability or likelihood standard, and no safe harbor. Under that framing, we are concerned that virtually any structured instrument with a reinvestment feature could qualify, because the cash flow profile of any reinvesting structure is, in some theoretical sense, sensitive to reinvestment rates and spreads. We respectfully submit that this likely was not the intended scope of the provision, and that, if read literally, it would unintentionally affect the treatment of a large volume of outstanding structured products.

The proposal also treats embedded ALM risk as a single, undifferentiated concept. We think ALM risk is more usefully broken down into three distinct components: (i) interest rate and basis risk, (ii) reinvestment spread risk and (iii) extension risk. The reason we say that is because each is mitigated differently, and to a different degree, by structural features (in our experience) already present in the market. Floating-rate or hedged structures, for example, carry little to no meaningful rate risk, which narrows the relevant inquiry to spread and extension risk, precisely where collateral quality and eligibility covenants are strongest.

The first sentence of proposed Paragraph 9.d, which requires that cash flows be sufficient to pay all contractual amounts due, is a separate test from the embedded ALM risk sentence that follows it, and the two should not be conflated. That threshold cash flow adequacy inquiry is exactly the stressed cash flow sufficiency analysis that credit rating providers already run as part of their surveillance and initial rating processes, and satisfaction of that stressed cash flow test, whether through the safe harbor described in Part III below or through comparable quantitative modeling, should be recognized as the route by which a reporting entity demonstrates compliance.

In our experience, rated revolving structures always contain a number of structural features (and back-ups) that mitigate potential asset-liability mismatch. Short-tenor assets may turn over continuously at high velocity, such as dealer floorplan lines that repay every 30 to 90 days or monthly credit card receivables balances, replenishing the trust with newly

originated, market-priced assets. This dynamic reinvestment is generally subject to legally enforceable eligibility criteria and collateral quality covenants, such as minimum portfolio spread floors, weighted average life limits, and ongoing overcollateralization tests, which constrain the collateral that may enter the pool and help protect against deterioration in collateral economics or credit quality. If eligible replacement collateral becomes unavailable, if performance deteriorates, or if reinvestment or performance triggers are breached, contractually mandated early amortization triggers may end the revolving period and redirect cash flows to amortize the senior notes. SAPWG itself recognizes that structured-credit reinvestment periods are commonly of limited duration and subject to early termination provisions. These protections demonstrate why the mere existence of reinvestment exposure should not determine whether ALM risk is significant. We believe SAPWG should consider whether an objective anchor for that term can be crafted. For example, embedded ALM risk should be considered significant only where it produces a projected shortfall to a rated class under the stress assumptions applied by an NAIC credit rating provider, not merely a theoretical sensitivity to future rates or spreads.

The agenda item's implicit premise appears to be that substantive credit enhancement was designed to absorb credit losses and never contemplated ALM risk. We respectfully submit that this premise warrants further scrutiny. Rating agency cash flow models run stressed interest rate vectors, spread compression, and default timing together, and subordination levels are sized to the combination of those stresses, not to credit risk alone. Embedded ALM risk should be assessed with this existing, integrated stress framework in mind.

III. Some Additional Observations

We would add several further observations drawn from our experience across the structured credit markets.

Complexity is not a perfect proxy for credit risk. The agenda item's concerns about complexity, transparency, and interconnectedness stem from the diversity of collateral within multi-collateral structures, which can make it harder to track an insurer's aggregate economic exposure. But the agenda item itself acknowledges that the credit quality and diversity of the collateral, together with the vehicle's capital structure, often supports a view that credit risk is comparable to, or lower than, equivalently rated single-collateral structures. A structure diversified across many obligors and asset classes is more complex to describe than a single bilateral loan, but that complexity is also what allows idiosyncratic underperformance to be absorbed across a pool and by subordination, rather than concentrated in one credit.

Performance history shows the utility of reinvesting structures. CLOs, the most rigorously tested managed reinvestment vehicle in global credit markets, have reinvested continuously into leveraged loans across multiple credit cycles, including the 2008 to 2009 financial crisis and the March 2020 dislocation, and AAA and AA CLO tranches have suffered no material principal losses across more than two decades of market cycles. That track record reflects the benefit of structured reinvestment managed by experienced investment managers. We believe this is a significant benefit over static structures that should be carefully considered as part of the proposals.

The proposal is, at this stage, premature. Multi-collateral structured credit investments are a relatively new addition to the structured credit landscape, and there is not yet a meaningful body of data documenting defaults, losses, or reinvestment-related underperformance in these structures. We respectfully submit that stripping bond eligibility from a class of instruments before there is data establishing that the targeted risk has actually materialized would be premature.

IV. Recommendation

We strongly believe the best approach to address the concerns motivating the proposals is a collaborative, data-driven approach. In that vein, we would suggest the following for consideration.

a. *Enhanced reporting and disclosure*. Instead of excluding these structures from Schedule D-1, to the extent there are shortcomings in the information available to the investors, the NAIC might consider requiring enhanced reporting disclosures, such as specialized reporting codes or supplemental schedules, that give regulators greater look-through visibility into underlying collateral concentrations, duration profiles, and structural mitigants. This might resolve regulatory concerns about opacity, concentration risk, and circularity.

b. *Objective criteria*. If the NAIC develops ALM guidelines in the future, we believe those criteria it be objective, methodology-anchored criteria. For all involved, it would be best for any such criteria to (i) recognize effective risk mitigants, including appropriate credit support relative to underlying asset credit quality, subordination, active hedging programs, and mandatory contractual cash sweeps, and (ii) provide a path for demonstrating through the meaningful cash flow test or quantitative modeling that ALM risk has been mitigated. SAPWG might also want to consider a safe harbor

under which a security rated by an NAIC credit rating provider whose published methodology meets certain standards is deemed not to carry significant embedded ALM risk. This anchors the test in existing public rating criteria and avoids a duplicative insurer-level model for every CUSIP.

c. *Prospective application and grandfathering*. The exposure draft is silent on effective date and transition. SAPWG should state at the outset that any final revisions will apply only prospectively to new issuances and will grandfather securities already held by insurers, consistent with the treatment insurers relied on when the PBBD was originally adopted.

d. *Clarify interaction with SSAP No. 43R*. Because the proposal operates through the existing rebuttable presumption framework under SSAP No. 26, SAPWG should clarify how the new tests are intended to interact with SSAP No. 43R and the rebuttable presumption more generally, so the two frameworks are not applied inconsistently to the same instrument.

Conclusion

Agenda Item 2026-10 raises valid considerations that, in our view, are not yet supported by empirical data and do not fully account for existing structural mitigants and rating agency methodologies already used in this market. We respectfully urge SAPWG to defer adoption of Agenda Item 2026-10 and to work with market participants on enhanced reporting, objective criteria, and further data collection before proceeding.

We would welcome the opportunity to discuss these comments further and to make ourselves available to SAPWG and its members.

Respectfully submitted,

Dechert LLP

/s/ John M. Timperio
John M. Timperio

/s/ Jay R. Alicandri
Jay R. Alicandri

/s/ Christoper P. Duerden
Christopher P. Duerden

October 2, 2026

Via Electronic Submission

Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners (NAIC)
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Comments on Agenda Item 2026-10: Proposed Amendments to SSAP No. 26—Bonds (Principles-Based Bond Definition and Embedded ALM Risk)

Dear Members of the Statutory Accounting Principles (E) Working Group:

The Structured Finance Association ("SFA") appreciates the opportunity to comment on Agenda Item 2026-10, exposed by the Statutory Accounting Principles (E) Working Group ("SAPWG") on August 12, 2026. This agenda item proposes revisions to Statement of Statutory Accounting Principles ("SSAP") No. 26—*Bonds* that would introduce two new gating tests under the Principles-Based Bond Definition ("PBBD") regarding: (1) self-liquidating financial assets under proposed Paragraph 9.c, and (2) embedded Asset-Liability Management ("ALM") risk under proposed Paragraph 9.d.

SFA supports the NAIC's statutory accounting objectives of preserving solvency, safeguarding policyholder reserves, and ensuring that regulatory reporting accurately reflects underlying economic risk. We recognize that state insurance regulators are seeking to appropriately understand, monitor, and regulate multi-collateral structured credit investments and whether substantial mismatch between the duration of underlying assets and debt tranches create embedded ALM risk that is not adequately reflected in bond classification. Regulators also have legitimate supervisory interests in transparency, portfolio interconnectedness, and potential circularity. SFA agrees that unhedged, speculative reinvestment risk should be appropriately differentiated from fixed-income bond cash flows. At the same time, the mere presence of reinvestment risk features or a degree of mismatch does not, by itself, mean that a debt security lacks the economic substance of a bond.

However, SFA urges SAPWG not to adopt the proposed additions of Paragraphs 9.c and 9.d to SSAP No. 26 as drafted. The proposal in its current form does not adequately distinguish the kind of ALM risk identified in the agenda item, particularly, the risk attributed to multi-decade asset-liability duration mismatch observed in certain multi-collateral structures from more typical reinvestment, refinancing, and revolving features found in established structured finance transactions. SFA's primary objections center on two fundamental flaws:

1. *The Proposed Changes Are Excessively Broad in Scope*: As drafted, the proposed tests extend far beyond the multi-collateral structures with substantial, long-dated duration mismatches that prompted regulatory concern, threatening to disqualify wide swaths of traditional, well-established structured finance asset classes from Schedule D-1 bond classification.

2. *The Proposal Fails to Account for the Use of Structural Mitigants*: The proposal does not distinguish ordinary reinvestment exposure from material dependence on future reinvestment conditions. In particular, the proposed revision does not factor in how structural mitigants are used today in revolving ABS structures to neutralize ALM mismatch risk.

Rather than adopting blunt, disqualifying accounting exclusions that penalize prudent portfolio diversification and more typical reinvestment structures and disrupt the secondary market, SFA advocates for enhanced transparency, robust reporting schedules, and ongoing education.

I. Analysis of the Two Proposed Tests

a. The "Self-Liquidating" Test (Proposed Paragraph 9.c): Binary Approach & Allocation of Burden

Proposed Paragraph 9.c creates an overly rigid gating test: underlying financial assets are either strictly "self-liquidating" or they are not. Under the proposal, if an asset does not convert entirely into cash over a defined period in accordance with its contractual terms, the reporting entity must overcome the intensive rebuttable presumption framework in Paragraph 6 of SSAP No.26.

That approach does not adequately reflect the range of repayment structures routinely found in fixed-income and securitization markets. A wide range of traditional, highly performing debt instruments are not fully self-liquidating; they routinely feature balloon payments, bullet maturities, refinancing features, revolving draws, or other repayment mechanics without calling into question their fundamental character as debt. Established structured finance transactions may likewise incorporate revolving or controlled reinvestment periods before entering amortization. As a result, transactions that could be captured by the proposed language include, but are not limited to, credit-card ABS, floorplan facilities, CRE structures, CLOs, and rated feeder notes. Structured products with these features existed at the time the PBBD was initially developed, yet at no point was it contemplated by the industry that such instruments would be subject to the rebuttable presumption of paragraphs 6.a-6.d of SSAP No.26 simply because their underlying assets were not—in the strictest sense—fully self-liquidating.

The potential breadth of the proposed test can also be illustrated by considering its application to Ginnie Mae MBS, which carry the full faith and credit of the United States Treasury. When a loan in a Ginnie Mae pool goes delinquent, the servicer will work with the borrower to institute a partial claim principal deferral so that the monthly payment is more affordable for the borrower. This partial claim amount is attached to the first lien but structured as a zero-coupon balloon payment that is due on sale or maturity. The presence of this balloon payment would mean that a performing Ginnie Mae bond containing a

single loan that received a partial claim deferral is not fully self-liquidating, and therefore presumptively *not* a bond under paragraph 9.c of the PBBD. While it is true that this presumption is likely to be overcome in this fact pattern, the fact that Ginnie Mae MBS can be presumed to not be a bond demonstrates that the revised text of Paragraph 9.c may result in the rebuttable presumption scoping in more securities than intended.

Treating self-liquidation as a rigid either/or test ignores established market mechanics and forces routine debt instruments into an onerous rebuttable presumption regime that was originally designed for equity-collateralized structures.

b. The "Significant Embedded ALM Risk" Test (Proposed Paragraph 9.d): Ambiguity and Scope Creep for Revolving ABS Structures

Proposed Paragraph 9.d categorically disqualifies an asset from bond treatment if it contains "significant embedded ALM risk," defined broadly as any situation where scheduled contractual debt service could be impacted by future reinvestment interest rates or investment credit spreads. The proposal fails to define what level of interest rate sensitivity constitutes "significant" embedded ALM risk and could even be read as saying that any impact at all on the ability to pay contractual cash flows is deemed “significant”. Without objective metrics or quantitative thresholds, this test creates immense regulatory uncertainty, leaving reporting entities unable to assess whether standard reinvestment flexibilities will disqualify their holdings from Schedule D-1. In particular, this proposal risks scoping in existing revolving ABS structures even when reinvestment risk is controlled, bounded, and substantially mitigated by structural protections.

Under proposed Paragraph 9.d, any vehicle that redeploys principal collections during a reinvestment or revolving period could be subject to significant embedded ALM risk analysis if its cash flows could be affected by future interest rates or spreads. In practice, the revolving mechanic contains a number of features to mitigate potential asset-liability mismatch. In these structures, short-tenor assets may turn over continuously at high velocity (such as dealer floorplan lines that repay every 30 to 90 days or monthly credit card receivables balances), replenishing the trust with newly originated, market-priced debt assets. Crucially, this dynamic reinvestment is generally subject to legally enforceable eligibility criteria and collateral quality covenants—such as minimum portfolio spread floors, weighted-average life limits, and ongoing overcollateralization tests. These covenants constrain the collateral that may enter the pool and help protect against deterioration in collateral economics or credit quality that could impair debt service.

There are additional protections in place if eligible replacement collateral is unavailable, if transaction performance deteriorates, or applicable reinvestment or performance triggers are breached. In these cases, contractually mandated early amortization triggers may conclude the revolving period and redirect cashflows to amortize the senior notes. The overall dynamic between collateral velocity, binding eligibility criteria, credit enhancement, and turbo-amortization triggers can materially mitigate ALM risk associated with revolving structures. Indeed, SAPWG itself recognizes that other structured-credit investments commonly contain reinvestment periods of more limited duration and provisions that can

terminate reinvestment early if specified triggers are breached. In short, these protections demonstrate why the existence of reinvestment exposure alone should not determine whether ALM risk is "significant". The relevant inquiry should consider the magnitude and duration of the ALM mismatch, the extent to which repayment depends on future investment conditions and the structural protections available to limit exposure.

II. Recognizing Structural Mitigants and the Value of Multi-Collateral Credit

Insurers—particularly life insurers with long-tail liabilities—must hold long-dated, high-quality fixed-income assets to match obligations. Prudently engineered multi-collateral credit structures could help reduce idiosyncratic credit risk across uncorrelated asset classes. Importantly, well-structured transactions do not expose senior noteholders directly to unhedged reinvestment risk. They incorporate structural mitigants like substantive credit enhancements & first-loss tranches, contractual reinvestment covenants, dynamic hedging & liquidity facilities, and mandatory amortization of senior notes. As discussed above, embedded ALM risk should be assessed after taking these contractual protections into account, rather than based solely on the existence of a reinvestment period or duration mismatch within the structure.

The PBBD was established to determine whether an instrument represents a bona fide creditor relationship supported by substantive credit enhancement. A debt security that uses overcollateralization, subordination, and hedging to protect scheduled payments functions as a true bond in economic substance. Pushing these investments onto Schedule BA could impose disproportionate, equity-like RBC charges that directly penalize prudent portfolio diversification.

III. SFA Recommendations: Transparency, Objectivity, and Education

Rather than enacting punitive accounting disqualifications that are overly broad in scope and not based on observed empirical findings, the NAIC should pursue a collaborative, data-driven approach to first help inform whether and to what degree amendments to the PBBD may be appropriate. Along these lines, SFA suggests the following for consideration:

a. *Enhanced Reporting and Disclosures*: Instead of excluding these structures from Schedule D-1, the NAIC should implement enhanced reporting disclosures—such as specialized reporting codes or supplemental schedules—that provide regulators with look-through visibility into underlying collateral concentrations, duration profiles, and structural mitigants. This would resolve regulatory concerns regarding opacity, concentration risk, and circularity without destabilizing bond accounting.

b. *Objective Use of Structural Mitigants:* If the NAIC develops ALM guidelines in the future, it must establish explicit bright-line guardrails that: (1) recognize effective risk mitigants, such as

appropriate credit support relative to underlying asset credit quality, subordination, active hedging programs, and mandatory contractual cash sweeps; and (2) provide a path for demonstrating through the meaningful cash-flow test or quantitative modeling that ALM risk has been mitigated. This is especially important for existing ABS using revolving structures coupled with proven structural ALM mitigation features.

c. *Industry Education and Collaborative Data Gathering:* SFA is actively working across the structured finance ecosystem—including life insurers, asset managers, rating agencies, and accounting firms—to foster a comprehensive understanding of emerging products with novel structural features. We would be happy to continue our work with the NAIC to bring together market participants and policymakers to discuss the path forward.

Conclusion

The Structured Finance Association shares the NAIC's commitment to solvent, transparent insurance markets. However, Agenda Item 2026-10 introduces a self-liquidation test and an undefined ALM threshold that would both benefit from further refinement.

We urge the SAPWG to defer adoption of Agenda Item 2026-10 and partner with market participants on enhanced reporting and data collection.

Respectfully submitted,



Dallin Merrill
Head of Policy, Structured Finance Association

Statutory Accounting Principles (E) Working Group
2026 Fall National Meeting
Comment Letters Received

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October 2, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Ste 1000
Kansas City, MO 64106-2197

RE: SAPWG Ref # 2023-14 – Interest Maintenance Reserve (IMR)

Submitted Electronically

Dear Chair Clark:

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on SAPWG Ref #2023-14 – Interest Maintenance Reserve (IMR) from the Statutory Accounting Principles (E) Working Group (Working Group), which re-exposes the comprehensive revisions to SSAP No. 7, the related Issue Paper, revisions to other SSAPs, and proposed annual statement reporting changes. ACLI appreciates the continued constructive engagement among the Working Group, NAIC staff, regulators, and industry throughout the development of the long-term IMR framework.

ACLI supports the continued effort to establish durable guidance that appropriately distinguishes non-economic interest-rate-related gains and losses from credit-related and liquidity-driven losses. We also appreciate that many revisions in the current exposures reflect industry feedback and improve alignment among SSAP No. 7, the Issue Paper, other affected SSAPs, and the Annual Statement Instructions.

Our comments below focus on the technical, operational, and reporting provisions in the current re-exposure. ACLI is separately engaged with SAPWG regarding the requested industry plan for compliance and reporting accuracy associated with admission of net negative IMR and does not address that issue in this letter.

Revised SSAP No. 7

ACLI offers the following comments on specific provisions of the revised SSAP No. 7:

- Asset Valuation Reserve. ACLI supports the clarifications regarding realized losses on sales of fixed income investments and derivatives. We suggest the following edit for additional clarification (i.e., that derivative counterparties, which may have an NAIC designation, are not allocated to AVR per this paragraph).
  - 9. Realized losses on sales of fixed income investments and derivatives that otherwise would qualify for the IMR under paragraph 10 are allocated to AVR if the investment or derivative counterparty has experienced credit deterioration, as defined as one of the following: (IP 21)

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 94 percent of industry assets in the United States.

i. For those with NAIC designations[3] (excluding derivative counterparties), if the NAIC designation has declined by more than 3 designation changes and does not have an ending NAIC 1 designation.

- Known liquidity sale losses. ACLI supports immediate recognition of known liquidity sale losses and the related controls and attestation framework. However, ACLI's goal is to ensure the guidance is drafted in a manner that clearly conveys its intended application and minimizes ambiguity for reporting entities. ACLI believes this can be accomplished by further aligning the language in paragraphs 13 and 29 and providing additional specificity where appropriate. To support this objective, ACLI worked with NAIC staff to develop the following proposed revisions.
-
  - 13. ~~Known l~~iquidity sale losses are realized losses that occur when an IMR qualifying fixed income investments are sold and the proceeds are not reinvested into other IMR qualifying fixed income investments. While it is impractical to track sales and reinvestment on an asset-by-asset basis, reporting entities shall not defer losses from sales for which it is known that proceeds will not be reinvested into other IMR qualifying fixed income investments. ~~These include s~~Situations in which reinvestment may be known to not occur include, ~~such as,~~ but are not limited to, sales used to fund surrenders/withdrawals, derivative collateral calls, or other needs that lead to a decision to sell investments. ~~as well as any other situation (e.g., derivative collateral calls or any other business entity expenses).~~ Additionally, ~~R~~reporting entities shall implement control procedures designed to identify material known liquidity sale losses. The reporting entity ~~and~~ shall attest to having identified and recognized all material known liquidity sales losses in the quarterly and annual financial statement disclosures. (IP 25)

  - 29. Reporting entities are required to complete the following disclosures in the annual and quarterly financial statements: (IP P 102)
    - b. Reporting entities shall include an attestation regarding know liquidity sales losses: (IP 103)
      i. The reporting entity has a documented process to identify material known liquidity sales losses, as addressed in paragraph 13. ~~Including but not limited to sales used to fund surrenders/withdrawals as well as other liquidity needs (e.g., derivative collateral calls or other business entity expenses).~~

- Treatment when the proof is not completed or passed. Paragraph 19 should expressly distinguish entities that are not required to complete the proof from entities that are required to complete it but do not do so or do not pass both tests. This distinction will avoid an unintended implication that all entities are subject to the same adjustment.
  - 19. Reporting entities (other than those described in paragraphs 17a and 17b) that do not pass both tests within the proof of reinvestment disclosure are only permitted to defer current year realized losses to the IMR that can be offset by current year IMR realized gains. Any realized losses in excess of realized gains must be recognized as realized capital losses. This guidance shall be followed regardless of whether a reporting entity admits net negative IMR. If a reporting entity does not complete or pass the proof of reinvestment, the reporting entity is permitted to recognize current year IMR losses beyond what is offset by current year IMR realized gains resulting from the following two exceptions only. These exceptions are permitted ~~as~~ because the net negative losses are

not from the sale of fixed-income investments~~, such as~~; therefore, these IMR impacts are outside the parameters of the proof of reinvestment calculations. (IP P. 28)

Issue Paper for SSAP No. 7

ACLI appreciates the expanded historical discussion and the revisions made to conform the Issue Paper to SSAP No. 7. Because the Issue Paper will provide the supporting rationale and implementation history for the new framework, its terminology and examples should closely track the final authoritative guidance.

ACLI offers the following comments on specific provisions of the revised Issue Paper:

- Realized gains on liquidity sales should be allocated to IMR.
  - 104. Pursuant to the discussion involving excess withdrawals and the elimination of the excess withdrawal calculation, reporting entities shall include an attestation regarding known liquidity sale losses: (SSAP P.29b)
    - b. The reporting entity has not allocated any ~~gains or~~ losses to IMR from known liquidity sales. Realized losses allocated to the IMR are attributable to investment activity related to a block of recognized insurance liabilities, whereby the proceeds have been reinvested in fixed income investments.
- Appendix B & C – Proof of Reinvestment for both general and separate account: The proceeds of a liquidity sale are the transaction cash flows that are no longer available for reinvestment by the insurance company. The realized capital loss recognized on the disposal of the investment is an accounting value, not a cash flow.
  - **Line 6 of Proof of Reinvestment:** Proceeds of ~~K~~known liquidity sales where a realized capital loss was recognized
  - We also suggest paragraph 108c have the following changes:
    - c. Proceeds from Investments: Include the proceeds from sales of bonds and mortgage loans. As of year-end 2025, there was no data-captured disclosure that identified the proceeds from bond sales specifically, as available information aggregated proceeds from both sales and maturities. Revisions for year-end 2026 will include new data-captured disclosures for bonds to separately detail proceeds from sales and maturities. Upon implementation of the new disclosure, the proof of reinvestment calculation will refer to the location of that specific disclosure. Company internal records will be used for mortgage loans, which are not activity traded and have limited sales occurrences. The proceeds from the sales of bonds and mortgage loans in the proof is then adjusted to remove ~~realized capital losses that were recognized directly to capital losses due to known~~ the proceeds of all known liquidity sales in which a realized capital loss was recognized, where the proceeds were not reinvested into new qualifying fixed-income investments.

  - Additionally, ACLI recommends adding a checkbox to both the General Account and Separate Account proof of reinvestment forms that would allow a company to indicate whether it was eligible to defer losses but elected not to complete the proof, versus completed the proof and did not satisfy the requirements. While the practical outcome is the same in both cases, namely that losses cannot be deferred, this distinction would provide regulators with additional compliance information and greater transparency

regarding whether a company chose not to perform the proof or was not eligible to defer losses because it did not meet the applicable requirements.

- Suggestions for Separate Account Proof of Reinvestment:
  - **Line 7:** The Data Source should read "Sum of lines 4 + 5 – 6" to properly remove known liquidity losses in Line 6.
  - **Line 11:** The Description should read as follows to ensure the proper value is carried over from the Green Book - Bonds (General Account Basis Only) - Net Admitted
  - **Line 12:** The Description should read as follows to ensure the proper value is carried over from the Green Book - Mortgages (General Account Basis Only) - Net Admitted

Revisions to Other SSAPs

ACLI generally supports the related revisions intended to align other SSAPs with the revised SSAP No. 7. We recommend a final consistency review of all cross-references, defined terms, and transition provisions before adoption.

Proposed Reporting Changes

ACLI supports enhanced transparency by way of the included IMR rollforward. ACLI proposes the tracked changes included in Appendix I to improve the clarity, readability, and usability of the instructions. The proposed edits are intended to make the guidance more concise and user-friendly while preserving the underlying intent. Brief explanations accompanying the tracked changes provide the rationale for each proposed revision.

- ACLI has also worked closely with NAIC staff to review and provide input on the proposed Exhibit of Capital Gains and Losses. The discussions have been constructive and focused on maintaining consistency with other statutory exhibits, appropriately addressing the treatment of taxes, and reflecting both IMR and AVR in a manner that supports the objectives of regulators while preserving the integrity of statutory reporting. ACLI appreciates the opportunity to provide feedback and looks forward to the revised exposure.

Implementation and Transition

ACLI appreciates the adopted January 1, 2028, effective date. The revisions will require coordinated changes across investment accounting, actuarial, reinsurance, financial reporting, data governance, and control environments. Vendors and reporting entities will need sufficient time to develop, integrate, test, and validate the required calculations, data flows, disclosures, attestations, and reconciliations.
To support orderly implementation, ACLI recommends that the Working Group:

- Finalize the accounting guidance, Annual Statement Instructions, forms, note disclosures, and interrogatories as a coordinated package sufficiently in advance of the effective date.
- Coordinate the final IMR guidance with the related ALM derivatives, replications, reinsurance, actuarial, and blanks projects to avoid conflicting effective dates or reporting requirements.

ACLI welcomes the opportunity to continue working with NAIC staff and SAPWG to resolve the remaining technical and implementation matters and to support a clear, durable, and operational long-term IMR framework.

Sincerely,

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Cc: Julie Gann, NAIC

Appendix I

INTERIM MAINTENANCE RESERVE

Proposed New "Form for Calculating the Interest Maintenance Reserve"

New Rows are shaded and separate the adjustments to the reserve for transparency.

	Amount
1. Reserve as of December 31, prior year	
2a. Current year's net realized pre-tax capital gains (losses) of $_____transferred into the reserve net of taxes of $_____.	
2b. Net realized losses removed from IMR as a result of not completing or failing the proof of reinvestment tests at year-end.	
3. IMR Balance Before Adjustments and Amortization (Line 1+2a+2b)	
Adjustments to the Reserve:	
4. Reinsurance Ceded ~~– Subtraction from Reserve~~	
5. Reinsurance Assumed ~~– Addition to Reserve~~	
6. Market Value Adjustment: Gain ~~– Addition to Reserve~~	
7. Market Value Adjustment: Loss ~~– Subtraction from Reserve~~	
8. Other IMR Adjustments	
9. Net Adjustment to Reserve *(Sum of 4-8~~6~~)*	
10. Balance before reduction for current year amortization (Line 3+9 ~~1 + 2 + 7~~)	
11. Current Year's Amortization Recognized in Summary of Operations	
12. Reserve as of December 31, current year (Line 10 + 11)	

Note – With the proposed change to the Exhibit of Capital and Gains, the amount reported in 2.a (gross transfer to IMR) should agree to the "Allocated to IMR" from that schedule. The amortization schedule is not expected to be revised. (It is shown below abbreviated for space purposes.)

INTERIM MAINTENANCE RESERVE

Proposed Instructions – Shown Clean.

The prior ASI are proposed to be deleted. Any key reporting concepts will be brought in separately.

This exhibit is designed to capture the realized capital gains (losses) that result from changes in the overall level of interest rates and amortize them into income over the approximate remaining life of the investment sold pursuant to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

These instructions cover the Interest Maintenance Reserve (IMR) for both the General Account and Separate Accounts. If an IMR is required for investments in a Separate Account, IMR recognition shall follow all rules applicable to the general account IMR. IMR in a Separate Account shall be kept separate from the General Accounts IMR and all other Separate Accounts.

Line 1 – Reserve as of December 31, Prior Year

Enter the net negative IMR balance or net positive IMR balance from Page 2 or Page 3, respectfullyrespectively, ~~amount from~~ ~~Line 6~~ of the prior year's ~~schedule~~.

Line 2a – Current Year's Realized Pre-tax Net Capital Gains (Losses) of $_____ Transferred into the Reserve Net of Taxes of $_____

In accordance with SSAP No. 7, include interest-rate-related realized capital gains (losses) net of capital gains tax, using the federal marginal tax rate. in accordance with SSAP No. 7.

By capturing the realized capital gains (losses) net of tax, the capital gains tax associated with those capital gains (losses) due to an interest rate change is charged or credited to the IMR and amortized in proportion to the before-tax amortization.

The amount captured in this line shall reflect the total amount of net IMR allocated throughout the year (each quarter and at year-end) prior to the removal of any new capital losses due to the incompletion or failure of the proof of reinvestment tests.

Net capital gains shall be reported as a positive number. Net capital ~~gains~~ losses shall be reported as a negative number.

Line 2b

Current year net realized losses removed from IMR as a result of not completing or failing the proof of reinvestment tests.

In accordance with SSAP No. 7, reporting entities must complete the proof of reinvestment to support an initial recognition of a net negative IMR balance (from a prior positive IMR balance) or the increase of a net negative IMR balance. Reporting entities that do not complete the proof of reinvestment, or that fail the proof of reinvestment, are only permitted to retain in IMR current year losses that can be offset by current year gains.

The amount shall be reported as a positive number, as the proof of reinvestment shall only be required if the amount reported on line 2a is a net negative.

~~This reduction from IMR shall exclude current year adjustments to IMR from ceding or assuming reinsurance transactions or transfers to/from the separate account.~~

Line 3

IMR Balance Before Adjustments and Amortization (Line 1+2a+2b)

Line 4 – Adjustment for Reinsurance Ceded ~~Released from the Reserve – Subtraction from Reserve~~

Ceding Company means an insurer who has sold, transferred or reinsured a block of its in force liabilities under an agreement that qualifies for reinsurance accounting as described in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*. Pursuant to SSAP No. 7, amounts shall be removed from IMR when the policyholder obligations or related treaty balances to which those amounts were attributed have been eliminated. Amounts eliminated shall include:

- IMR from past sales attributed to a reinsured block of business. This includes remaining, unamortized interest related realized gains or losses taken to IMR from prior asset sales associated with the reinsured block of liabilities.

- IMR from current sales incurred, or from the transfer of assets to provide reinsurance premium. This includes the interest related gains and losses generated from the sale or transfer of qualifying fixed-income investments supporting the reinsurance transaction. Such amounts shall be recognized initially to IMR and then derecognized as part of the reinsurance transaction.

Insurers ceding business under a modified coinsurance or funds withheld agreement shall follow the guidance in SSAP No. 7 for the immediate IMR derecognition or subsequent pass-through of IMR amortization in accordance with the reinsurance agreement. Insurers with immediate derecognition

shall include the elimination of IMR in this line as a subtraction to the reserve. (~~Enter subtraction amount as a negative number~~ Net positive ceded IMR amounts shall be input as negative values and net negative ceded IMR amounts shall be input as positive values.)

Line 5 – Adjustment for Reinsurance ~~Ceded~~ Assumed ~~to the Reserve – Addition to Reserve~~

Ceding Company means an insurer who assumed a block of its in-force liabilities under an agreement that qualifies for reinsurance accounting as described in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*.

Pursuant to SSAP No. 7, a U.S. domiciled reporting entity that has assumed business via a qualifying reinsurance transaction from another U.S. domiciled insurer, shall set up an IMR balance that reflects an equal amount of IMR derecognized by the ceding insurance entity. This IMR recognition shall reflect the unamortized IMR balance of gains and losses from prior assets sales associated with the reinsured block of business and interest-related realized gains and losses from the current dispositions the ceding entity incurred to transfer the reinsurance obligation. (~~Enter addition as a positive number~~ Net positive assumed IMR amounts shall be input as positive values and net negative assumed IMR amounts shall be input as negative values.)

For insurers assuming business under a modified coinsurance or funds withheld agreement where the cedent is retaining the IMR shall not set up a corresponding IMR reserve.

Line 6 – Market Value Adjustment: Gains ~~– Addition to the Reserve~~

Gains, net of marginal tax impact, recognized by the insurance reporting entity as a result of market value adjustments that were backed by fixed-income investments. Market value adjustments shall not be captured for separate account products held at fair value. (Enter ~~addition~~ positive IMR as a positive number)

Line 7 – Market Value Adjustment: Losses ~~– Subtraction from the Reserve~~

Losses, net of marginal tax impact, recognized by the insurance reporting entity as a result of market value adjustments that were backed by fixed-income investments. Market value adjustments shall not be captured for separate account products held at fair value. (Enter ~~subtraction~~ negative IMR as a negative number)

Line 8 Other IMR Adjustments

Include additional IMR adjustments to reflect current year increases or decreases to the IMR not driven from reinsurance arrangements or market value adjustments.

This reporting category shall include IMR impacts from asset transfers to/from the general account and the separate account pursuant to SSAP No. 56. (Enter ~~additions to the IMR~~ positive IMR as a positive number and ~~subtractions to the IMR~~ negative IMR as a negative number.)

Line 9 – Net Adjustment to the Reserve

Sum of adjustments reflected in lines 4-8. This total shall be reflected in line 1, column 3 of the amortization schedule.

Line 10 – Balance Before Reduction for Amortization

Beginning balance, plus current year IMR, plus net adjustments. (Line 3 + Line 9)

Line 11 – Current year's amortization recognized in the Summary of Operations

Amount should agree to line 1, column 4 of the amortization schedule.

For reporting entities that do not complete or fail the proof of reinvestment and are required to eliminate current year realized losses in excess of realized gains at year-end, any associated amortization recognized previously in the year shall be recorded as an adjustment to column 3 of the amortization schedule to eliminate such amortization.

Line ~~10~~ 12 – Reserve as of December 31, current year.

Sum of Line 10 and Line 11. Amount shall be reported on the corresponding line on the asset page (negative IMR) or on the liability page (positive IMR).

Admittance of negative IMR on the asset page shall be determined in accordance with SSAP No. 7.



October 2, 2026

Mr. Kevin Clark
Chair, Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

Re: SAPWG Ref #2024-15: SSAP No. 109 – ALM Derivatives

Dear Chair Clark,

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the Statutory Accounting Principles (E) Working Group (SAPWG) exposure draft, Ref #2024-15: Asset Liability Management (ALM) Derivatives, released for comment at the Summer National Meeting. We strongly support the proposed statutory accounting guidance for interest-rate hedging derivatives used for ALM.

We appreciate SAPWG's continued engagement with stakeholders and offer the following comments for consideration:

We support the revisions included in the latest exposure draft, including the treatment of deferred gains and losses upon derecognition of a hedged liability portfolio due to reinsurance, the inclusion of deferred gains and losses in principles-based reserving (PBR), asset adequacy testing (AAT), cash flow testing (CFT), and the elimination of accelerated amortization.

During prior discussions, regulators indicated that "Effective Duration" could serve as an appropriate effectiveness testing methodology. ACLI would support explicitly identifying Effective Duration in paragraph 13 as an acceptable method.

The mechanics included in the exposure draft are essential to ensuring SSAP No. 109 operates as intended and are consistent with the framework established under SSAP No. 86. Importantly, the exposure draft permits admission of deferred gains and losses associated with highly effective hedges recognized under the ALM derivative standard, thereby avoiding unintended disincentives to prudent risk management activities. This is consistent with the entire purpose of the hedge (i.e., shielding surplus from interest rate impacts).

1) Upon maturity or termination, admission of the deferred asset or liability results in an initially surplus-neutral outcome, as the deferred offsets the cash received or paid upon settlement. The deferred amount is subsequently amortized over the life of the hedged liabilities, causing the hedge's ultimate surplus impact to align with that of the hedged items. This treatment appropriately reflects the economics of a highly effective hedge

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 94 percent of industry assets in the United States.

because amortization of the deferred derivative balance offsets changes in credited interest, product liabilities, and bond net investment income over time.

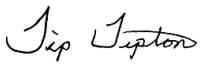
2) ALM derivatives are used as part of a prudent risk management framework and mitigate surplus volatility arising from asset-liability mismatches. These derivatives incorporate extensive safeguards in the form of effectiveness tests and other limitations on eligible derivative types. Failure to admit deferred gains and losses upon termination or maturity would create a timing mismatch between the hedge and the underlying risk exposure it is intended to offset. Such a result would undermine the purpose of the proposed accounting framework by disconnecting recognition of the hedge from recognition of the associated liability cash flows.

Admitting deferred gains and losses with qualifying ALM hedges promotes sound asset-liability management practices and helps ensure that statutory accounting appropriately reflects insurers' long-term risk management objectives rather than introducing artificial surplus volatility.

ACLI strongly supports the exposure draft and appreciates SAPWG's efforts to develop a practical and effective accounting framework for ALM derivatives. Thank you for the opportunity to provide comments on this important proposal.

Sincerely,





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October 2, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
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Re: SAPWG Ref #2026-09, SSAP No. 86, Replication Synthetic Asset Transactions

Dear Chair Clark:

The American Council of Life Insurers ("ACLI") appreciates the opportunity to comment on Ref. #2026-09 (the "Exposure") regarding the accounting and reporting guidance for replication synthetic asset transactions ("RSATs") in SSAP No. 86, *Derivatives*. We support continued discussion with regulators as this proposal progresses and look forward to participating in the planned public educational session.

RSATs play an important role in life insurers derivative usage and portfolio construction processes. By pairing liquid derivative products with existing assets on a life insurer's balance sheet, insurers are better able to manage market risks including credit, interest rate, and foreign currency risk by matching replicated assets with their liabilities. RSATs help to bridge the gap between what types of assets are currently available in the market, versus those necessary to match a given liability profile. They can be part of a long-term asset allocation or as a tool to help facilitate portfolio transitions. Also, RSATs can give insurers additional flexibility to efficiently adjust portfolios rapidly to changing market conditions. The Safe Harbor for RSATs provides many examples of structures that are beneficial to life insurers including (but not limited to):

A Bond paired with a Fixed-Float Interest Rate Swap: A floating rate security can be paired with a receive fixed – pay floating rate swap to produce a synthetic fixed rate security. An example of this would be a floating rate AAA Collateralized Loan Obligation (CLO) paired with a swap. AAA CLOs are most commonly issued with floating rate coupons. This RSAT structure can potentially reduce a life insurer's interest rate exposure when this RSAT is matched against a long duration liability. It is an example of an RSAT that does not involve a change in credit profile.

A Bond paired with a Credit Default Swap (CDS): The Markit CDX North American Investment Grade Index ("CDX IG") and the Markit CDX North American High Yield Index ("CDX HY") are two of the most liquid products within the credit markets today. By pairing exposures in these indices with bonds, life insurers have the ability to rapidly shift credit exposures in their portfolios in a

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 94 percent of industry assets in the United States.

diversified way, with minimal transaction costs. Index CDS liquidity persists when cash credit markets gap or close, so insurers can continue to manage exposure in stressed conditions rather than being forced into distressed cash sales. They can play an important part of life insurers' overall credit portfolio strategy. This RSAT changes the credit profile of the cash component, and these risks must be appropriately captured within a company's risk based capital calculations.

A Bond paired with Foreign Currency Swap: U.S. Insurers can hold liabilities in currencies other than USD. To match those liabilities, an Insurer could purchase a USD-denominated asset and pair it with a foreign currency swap. This would exchange the USD cash flows of the asset with foreign-denominated flows. In this RSAT, the insurer takes advantage of the depth of U.S. capital markets to originate the underlying cash component, and the resulting synthetic asset can then be matched against foreign-currency liabilities. This RSAT does not result in a change of credit profile.

Ever since their inception in 2003, RSATs have been subject to a significant regulatory governance structure. This governance structure enhances the regulatory transparency around RSATs, and places important limits on the amount and types of permissible RSAT structures the life insurers can use. These include:

1. In some jurisdictions, a company's use of RSATs is addressed through a Derivative Use Plan or other filings with its domiciliary regulator.
2. Every RSAT must be reported to the Securities Valuation Office (SVO). Any changes to existing RSAT structures must be reported within 30 days, and any changes that break RSAT effectiveness terminates the RSAT immediately.
3. All RSATs are publicly reported on Schedule DB Part C.
4. Types of RSATs are generally confined to those defined in the Safe Harbor[1]. Each structure outside of the Safe Harbor is subject to review and approval by the SVO.
5. Every RSAT carries an NAIC Designation assigned by the SVO — that of the Cash Component, or of the Reference Security where the transaction changes the credit profile.
6. All RSATs must satisfy six separate effectiveness tests:
    a. The transaction is deemed to be an approved RSAT if it fits into a Safe Harbor Defined RSAT structures or has been reviewed and approved by the SVO pursuant to the "Transactions Subject to RSAT Approval Review" process.
    b. The Replicated (Synthetic Asset) must be an otherwise permissible investment.
    c. The insurer's maximum potential loss in the replicated asset cannot exceed the combined book/adjusted carrying value of the cash and derivative components.
    d. At no time is there derivative exposure without a corresponding Cash Component assigned exclusively to the replicated asset.
    e. The derivative maturity cannot be longer than the maturity of the cash component.
    f. At inception, the market value of the cash and derivative components must not be materially different from the market value ascribed to the RSAT.
7. In some jurisdictions, state law establishes limits or parameters governing RSAT usage relative to admitted assets.

ACLI supports the core objectives of the Exposure: ensuring that RSATs are used only to replicate otherwise permissible investments, taking into account applicable state investment limits, and that the risks embedded in RSATs are appropriately reflected in a company's Risk Based Capital (RBC) calculations. ACLI believes these objectives can be achieved through enhanced disclosures, clear reporting requirements, and a distinction between RSATs that change the credit profile of the cash component ("Credit RSATs") and those that do not ("Non-Credit RSATs"), without unnecessarily limiting the ALM benefits these transactions provide. Additionally, ACLI supports continuing to allow structured products and high yield assets in the allowable scope of the cash components of RSATs, as well as allowing them as the replicated assets in RSATs, including as illustrated in examples earlier in this letter.

As the NAIC continues to evaluate potential updates to the framework, ACLI believes continued engagement with industry would be beneficial in clarifying the eligibility of existing RSAT structures and addressing remaining ambiguities. We appreciate the opportunity to provide these comments and look forward to continued engagement, including through the planned public educational session.

Sincerely,



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[1] Purposes and Procedures Manual of the NAIC Investment Analysis Office, Part Two, "Replication (Synthetic Asset) Transactions," ¶¶ 30–31, "Safe Harbor – Defined RSATs" and "Transactions Subject to RSAT Approval Review" (effective Dec. 31, 2025).

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October 2, 2026

Mr. Kevin Clark, Chairman
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National Association of Insurance Commissioners
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Kansas City, MO 64106-2197

RE: Interested Parties Comments on Items Exposed for Comment by the Statutory Accounting Principles Working Group with Comments due October 2.

Dear Mr. Clark:

Thank you and the NAIC Statutory Accounting Principles (E) Working Group (the Working Group) for the opportunity to comment on the above-referenced items, which were exposed for comment by the Working Group during the NAIC Summer National Meeting in Columbus.

Ref #2023-14: SSAP No. 7, Asset Valuation Reserve and Interest Maintenance Reserve

The Working Group took the following actions:

1) Adopted an extension to the effective date of *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve* through December 31, 2027. The INT is nullified effective January 1, 2028. The proposed *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* will reflect an effective date of January 1, 2028.

2) Exposed a revised SSAP No. 7, issue paper, proposed revisions to other SSAPs and reporting changes with edits recommended by NAIC staff. With this exposure, continued interim work with industry was supported.

3) Requested industry to develop a plan to ensure compliance and accuracy of reporting for subsequent consideration. This industry request included the development of a disclosure or reporting component for inclusion in the statutory financial statements that would allow on-going verification of how admitted net negative IMR has been included in actuarial provisions and reconciliations.

Interested parties support the comment letter submitted by the ACLI on this exposure.

Ref #2024-15: Asset Liability Management Derivatives

The Working Group exposed a revised SSAP and issue paper, with a revised January 1, 2028 effective date, to establish statutory accounting guidance for interest-rate hedging derivatives used for asset liability management. Revisions reflected in the SSAP and issue paper include:

- Requirement to eliminate derivative deferred assets and liabilities upon derecognition of the hedged liability portfolio due to a reinsurance agreement.
- Requirement to include derivative deferred gains and losses in actuarial projections, with a reconciliation of admitted deferred derivative losses to the reported deferred amounts reflected for principles-based reserving and cash flow testing.
- Elimination of the elective accelerated amortization provisions.

In addition to the exposure of the revised SSAP and issue paper, the Working Group directed a Life Actuarial (A) Task Force referral with a request to review and assess the proposed derivative guidance and to consider facilitating a pilot review in early 2027. The pilot proposed to focus on the specific hedge effectiveness tests and how effectiveness testing should be performed. Lastly, the Working Group directed NAIC staff to proceed with sponsoring a blanks proposal to incorporate new reporting lines for these derivatives on Schedule DB.

Interested parties support the comment letter submitted by the ACLI on this exposure.

Ref #2026-02: Valuation of Funds Withheld Liability

The Working Group exposed modified guidance for SSAP No. 61, as illustrated in the exposure draft. 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 28th. Additional modifications to the blanks proposal will be developed after finalizing the SSAP No. 61 guidance.

Interested parties appreciate the NAIC's collaboration and consideration of our feedback throughout the development of the proposed amendments to SSAP No. 61R. Interested parties are supportive of the proposed amendments to SSAP No. 61R and the objectives of the exposure. We do, however, have two minor editorial suggestions that we believe would further improve the clarity of the guidance:

1. Minor grammatical edits to paragraph 22(f)(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 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.*

2. Paragraph 22(e)(ii) discusses reporting treatment where the funds withheld is underfunded (and a receivable is recorded) but is silent on the treatment where it is overfunded. As such, we are proposing a few edits to clarify how to report an overfunded arrangement where the overfunding is contractually due to the reinsurer:

   "*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*."

With respect to 2026-10BWG, there were significant changes proposed to the related SAPWG exposure, Ref #2026-02, during the Summer National Meeting that have not yet been reflected in 2026-10BWG. Interested parties recommend that the NAIC and regulators revisit the proposed changes in the blanks exposure after the SSAP No. 61 guidance has been finalized to ensure that the annual statement instructions are not in conflict with SSAP No. 61.

Ref #2026-04: ASU 2025-10, Accounting for Government Grants Received by Business Entities

The Working Group exposed a revised draft of the proposed revisions to SSAP No. 24 which incorporates interested parties' recommendation to include additional guidance for asset-related grants.

Interested parties do not have any comments regarding the proposed conclusion to account for grants related to income as a gain contingency. However, we believe the guidance that accounts for a grant related to an asset (e.g., a data center) as a gain contingency only addresses the timing of recognition and is incomplete in contrast to ASU 2025-10. We recommend that the guidance for grants related to an asset be consistent with US GAAP, including the following requirements:

> A grant related to an asset should be recognized on the balance sheet as a business entity incurs the related costs for which the grant is intended to compensate, either as:
>
> 1. Deferred income (the deferred income approach)

2. An adjustment to the cost basis in determining the carrying amount of the asset (the cost accumulation approach).

The resulting asset should be reported as either an admitted or non-admitted asset based on the nature of the asset and the applicable SSAP.

Interested parties have discussed the current exposure draft with staff and believe the re-exposure of the edits currently being developed by staff are more aligned with U.S. GAAP. We will provide comments on the revised draft once it is exposed during the NAIC Fall National Meeting.

Ref #2026-06: Fair Value Disclosures

The Working Group received a referral from the Investment Analysis (E) Working Group on the Note 20C fair value disclosure and re-exposed this agenda item with a specific request for industry to propose guidance and reporting categories that could be established to differentiate equity-method investments by "operating entities" and structures that hold investments ("holding entities").

Interested parties note that the term "operating entity" is currently used in SSAP No. 22, *Leases*, to distinguish entities in a service concession arrangement and in SSAP No. 26, *Bonds*, in the context of distinguishing entities that provide credit support. Additionally, investments in real estate are frequently structured as operating entities as described in the proposed wording below rather than just holding real estate for the purpose of generating investment income and/or capital appreciation. In order to avoid confusion with the use of the same term in SSAP No. 100, we recommend the following wording:

For purposes of this SSAP, an operating entity is any business entity that conducts business operations other than holding investments for the purpose of generating investment income and/or capital appreciation. This is distinguished from a holding entity which is an entity that does not conduct business operations and holds investments for the purpose of generating investment income and/or capital appreciation.

Insurers' investments in real estate are frequently structured as operating entities that acquire, develop, and/or manage the real estate.

Operating entities include, but are not limited to, investments in scope of paragraphs 8.b.i, 8.b.ii and 8.b.iv. of SSAP No. 97 - *Investments in Subsidiary, Controlled and Affiliated Entities*. In addition, operating entities may include certain 8.b.iii. SCAs that conduct business operations other than holding investments for the purpose of generating investment income and or capital appreciation.

Investments in scope of SSAP No. 93 – *Investments in Tax Credit Structures* are not considered investments for the purpose of generating investment income and or capital appreciation.

Ref #2026-08: SSAP No. 21 – ICOLI

The Working Group exposed this as a concept agenda item with a request for comments on whether the amounts reported under SSAP No. 21, paragraph 9, should be captured on Schedule BA with a new reporting category for "Realizable Amounts Under ICOLI Policies," with reporting lines to capture the amount outside of an investment vehicle, and the amounts within an investment vehicle, divided by investment category. Consideration of comments will occur before formally moving this item to the SAPWG active agenda. The Working Group also directed a referral to the Capital Adequacy (E) Task Force to notify them of this exposure and request initial feedback on the potential inclusion of these items as an invested asset, with assessment of RBC factors.

Interested parties held several conference calls to discuss this item to ensure that we had input from all parties involved, including the life companies that issue ICOLI contracts, the organizations that market ICOLIs, and the insurers that purchase ICOLIs. From those discussions, we offer the following comments:

Overview

Insurance company-owned life insurance, or ICOLI, is an insurance product where an insurance company is the purchaser (and policyholder), beneficiary, and owner of life insurance policies placed on selected senior executives and other key officers or employees to offset the cost of long-term employee benefit and risk management objectives. Like other life insurance products, ICOLI contracts are acquired through the payment of premiums for insurance coverage, and the purchaser does not have direct ownership of investments. Instead, the policyholder's rights arise from the insurance contract itself, including cash surrender value, death benefits, guarantees, and other contractual features.

Qualifying ICOLI operates within a framework of federal tax requirements and state insurance laws and regulations, including IRC §7702 requirements, insurable-interest standards, employee notice and consent requirements, investor-control limitations, and diversification requirements. As part of the governance over the purchase of ICOLI, management provides an assertion that, at acquisition, the reported amount that could be realized from the life insurance policies did not exceed the present value of expected costs related to employee benefit obligations or the loss of key persons.

Included in the state insurance requirements is the accounting guidance contained in SSAP No. 21 – *Other Admitted Assets*, which measures qualifying ICOLI on the statutory balance sheet at the cash surrender value, i.e., the amount realizable under the insurance contract as of the reporting date.

Cash surrender value is an objective reporting measure but is not a representation of the contract's overall economic value that is paid at maturity, i.e., the amount of the death benefit. Because ICOLI is generally acquired to support long-term employee benefit and risk

management objectives, the contracts are expected to be maintained through maturity rather than surrendered in the ordinary course of business.

ICOLI Contract Structures

ICOLI products span a range of structures that allocate investment risk differently between the issuing insurer and the policyholder. Some products place substantially all investment risk on the issuing insurer, while others provide the policyholder with exposure to the performance of particular asset classes based on the contractual features offered by the issuer and selected by the policyholder. Contractual guarantees, stable-value features, surrender provisions, and other policy terms can materially influence the economic relationship between the insurer and policyholder, and ultimately the amount paid at maturity.

As noted above, the cash surrender value of a policy does not necessarily reflect the policyholder's economic exposure over the expected duration of the contract.

The Purchasers' Financial Statement Disclosures

The life insurance companies that issue ICOLI already report the associated liability for the contracts on their balance sheet with the required disclosure in their notes to financial statements and have a prescribed risk charge in their risk-based capital (RBC) requirements. Accordingly, the risks to the issuing company are already reflected in their RBC calculation.

From the purchaser's perspective, enhanced disclosures in the notes to financial statements may provide regulators with greater transparency. Since the purchaser acquires an insurance contract and not the underlying reserve assets, we do not believe it would be appropriate for the cash surrender value of the insurance policy to be reported in the purchaser's Schedule BA.

We believe the following additional disclosures would be helpful in providing increased transparency into the risks associated with an insurer owning ICOLI, and would also support the consideration of appropriate risk-based capital charges:

- Risk characteristics of underlying investments, if applicable
- Affiliated investment manager relationships, if any
- Whether there are contract guarantees and/or stable-value features that materially reduce volatility

Risk-Based Capital Treatment

Although not explicitly requested in the exposure, interested parties understand that one of the regulators' key concerns relates to the risk-based capital treatment of ICOLI balances reported by insurers that own ICOLI. As noted above, the ICOLI assets are reported at cash surrender value by the purchaser with changes to the cash surrender value recognized in earnings (surplus). If the value of the underlying investments decreases, the cash surrender value, and therefore surplus will decrease. This is in contrast to many other assets on the statutory balance sheet which are carried at amortized cost.

As noted above, the risks to the issuing company are already reflected in their RBC calculation. From the purchaser's perspective, there is a wide range of contractual features that impact the economics and risks to the purchaser. As a result, interested parties considered a couple of approaches that could be used for incorporation of the risk into the purchaser's RBC.

The first approach would be to develop and implement a single RBC charge that would be applied to the owned ICOLI asset for contracts that expose the reporting entity to investment risk, regardless of the features included in the ICOLI insurance contract. Interested parties believe it would be difficult to identify a single charge that would encompass the range of features currently offered in ICOLI insurance contracts and believe this approach would not capture the diversity and complexity of risks present in the contracts.

The second approach would be to apply a range of RBC charges based on the risks associated with the range of features currently offered and that are calibrated to the associated risk. We believe this approach is more consistent with the risks resulting from the contracts but realize it would take additional work to identify the range of features and identify the appropriate RBC factors. Interested parties are willing to work with staff to develop a data-captured disclosure that would provide sufficient information about the risks in the contracts and, if desired, provide a basis for the development of appropriate RBC factors to be applied in the purchaser's RBC calculation. The data points described above would provide an appropriate starting point for this discussion.

Alternatively, if regulators prefer a different approach, we also offer to work with staff on the appropriate disclosure needed to capture the relevant information.

Ref #2026-09: SSAP No. 86 - RSATs

The Working Group exposed a concept agenda item to assess potential revisions to the accounting and reporting guidance for replication synthetic asset transactions (RSATs) in SSAP No. 86. The exposure solicits consideration of revisions to key RSAT definitions and effectiveness requirements, consolidation of existing guidance within SSAP No. 86, and evaluation of whether guidance addressing RSATs with derivatives measured at fair value should be retained. It also requests comments on whether existing statutory accounting guidance should be clarified regarding permissible cash components and the types of investments that may be synthetically replicated to better align RSAT structures with their intended regulatory purpose, as well as clarifications intended to improve consistency in Schedule DB and RBC reporting. The exposure further contemplates referrals to the Capital Adequacy (E) Task Force to evaluate related RBC reporting and formula implications, and to the Investment Designation (E) Working Group to incorporate corresponding revisions into the P&P Manual.

Interested parties support the Working Group's efforts to review the statutory accounting and reporting framework governing replication synthetic asset transactions (RSATs) and, where warranted, pursue targeted modernization. RSATs are an important tool utilized by insurers to

manage asset-liability matching, efficiently access desired investment characteristics, and respond to changing market conditions in support of insurance obligations. When appropriately structured, RSATs provide insurers with flexibility to manage interest rate, credit, and currency exposures in a manner that can enhance risk management and align investment portfolios with underlying liabilities.

Interested parties note that RSATs are not a new or unregulated activity. Existing statutory accounting guidance, Securities Valuation Office oversight, public reporting, state investment law requirements, and RBC risk assessments collectively provide a substantial framework of regulatory safeguards governing their use. These provisions are intended to ensure that RSATs remain tied to otherwise permissible investment objectives and that the risks associated with such transactions are subject to regulatory review, transparency, and ongoing monitoring.

Interested parties support the objective of ensuring a clear and comprehensive understanding of the economic exposures created by RSATs and the way those exposures are reflected in statutory reporting and RBC. We look forward to collaborating with regulators and NAIC staff in assessing potential opportunities to refine the clarity, accessibility, and consistency of the guidance governing RSATs, as well as the transparency and usefulness of statutory reporting as a tool for evaluating activity and associated exposures. Interested parties encourage consideration of whether modest enhancements to existing disclosures could provide regulators with clearer visibility into the economic characteristics of a company's RSAT structures and facilitate efficient evaluation of distinct exposure cohorts, such as by distinguishing between RSATs that transform the credit profile of the cash component and those that do not. Consolidating core accounting concepts and effectiveness requirements into a common authoritative source, clarifying how separately reported investment and derivative components across statutory holdings schedules collectively establish traceability and provide regulators with an integrated and accessible view of the resulting synthetic exposure as reflected in Schedule DB Part C, and enhancing alignment across accounting, reporting, and RBC instructions may further strengthen regulators' ability to assess these transactions. Collectively, such enhancements could provide a more comprehensive and accessible framework for monitoring existing and emerging exposures while preserving the risk management and asset-liability management benefits of appropriately structured RSATs.

Accordingly, interested parties encourage continued collaboration among regulators, NAIC staff, and industry participants. Additional dialogue, educational sessions, and representative transaction walkthroughs may help identify targeted improvements that address regulatory concerns while preserving the legitimate benefits that RSATs provide to insurers. Interested parties stand ready to work with the Working Group and other interested regulators to support these efforts.

Ref #2026-10: SSAP No. 26 – Embedded ALM Risk

The Working Group exposed revisions to *SSAP No. 26—Bonds*, as illustrated in the exposure, to expand on the requirements for asset-backed securities to qualify for bond reporting.

Interested parties support the comment letter submitted by the ACLI on this exposure.

Ref #2026-11: Residential Mortgage Loan Definition

The Working Group received a referral from the Investment Analysis (E) Working Group and exposed this as a concept agenda item. This is considered an SAP clarification as the intent to incorporate a definition into the SSAPs that is consistent with the existing definition in other statutory guidance of "one-to-four family properties" as the definition for residential mortgage loans and to assess different characteristics and risk components of properties that meet that definition for more granular reporting and/or accounting guidance. Comments are specifically requested on the items noted above.

After discussions with several insurers that invest in residential mortgage loans, interested parties offer the following responses to the items requested for comment in this exposure:

1. We agree the Federal definition (12 CFR § 1266.1) should be adopted for one-to-four family property and multifamily properties. This would provide consistency with the definition used by other financial institutions such as banks.
2. Possible modifications to the 12 CFR § 1266.1 definitions:
    a. For mixed use real estate, i.e., retail and residential use in the same building, should be classified as residential if use is more than 50% residential based on square footage or LTV.

       The entire mortgage balance should be reported as either one-to-four family or multifamily property. No allocation should be made between the residential and commercial portions.

    b. A multifamily property with 1-4 units should be classified as residential; 5 or more units should be classified as commercial.

    c. A mortgage loan, including a construction loan, secured by a project involving multiple one-to-four properties should not be reported as a single residential loan when the collateral is the project or the development as a whole. Such loans should be reported as commercial. We agree that each individual one-to-four family property, including condominium dwelling units within the scope of one-to-four family property definition, may qualify for residential mortgage loan reporting if each property is reported individually and the mortgage is legally separate and divisible from other properties in the project, development, or condominium.

    d. Loan-to-value limits should be set by the lending insurance company based on the insurer's risk tolerance.

e. Accessory dwelling units (ADUs), including units known as a "mother in law" involves one or more buildings on the same land as the primary residence and is part of the title to the same land. We consider this to be a residential mortgage loan. For non-owner occupied one-to-four family properties, we consider this to be a residential mortgage loan, no different from an owner-occupied property. For residential construction loans, we believe the classification is the same as (c) above, a commercial loan. For fix and flip loans, we view these as commercial loans as these are loans made with the intent to "fix" the property and sell it in a short period (loans generally six months to two years) for profit. These properties are not occupied, similar to a construction loan. For lines of credit, the classification should be the same as home equity loans; home equity loans can be first or second liens, closed or open ended, but a lien on the property paid by the occupant would be considered residential loan. Loans on transitional properties are a form of the fix and flip category (see above), which is a form of commercial loan.

3. This question is not related to the accounting for mortgage loans and is more closely aligned with differentiating risk for purposes of assigning an appropriate risk charge in the RBC calculation. We recommend this question be referred to the Capital Adequacy Task Force.
4. This question is not related to the accounting for mortgage loans, and the suggested level of granularity would likely be needed for RBC, not accounting. We recommend this question be referred to the Capital Adequacy Task Force.

We note that the data necessary to evaluate and properly classify mortgage loans is available at origination and is not updated as long as the loan is outstanding.

Ref #2026-12: Retroactive Reinsurance Exception

The Working Group exposed revisions to the disclosures in *SSAP No. 62—Property and Casualty Reinsurance* as illustrated in the exposure and requested comments regarding whether the existing exception to retroactive accounting in SSAP No. 62, paragraph 36.d, should remain unchanged, be considered for elimination, or be narrowed.

As noted in the related Form A, the intercompany reinsurance exception detailed in SSAP No. 62, paragraph 36.d. existed prior to statutory codification, in the *Property and Casualty Accounting Practices and Procedures Manual*, Chapter 22, Reinsurance. The guidance for retroactive reinsurance contracts was adopted by the Property Casualty Reinsurance Study Group on December 13, 1995. Most of the reinsurance guidance in SSAP No. 62 was adopted as part of the review of *FASB Statement No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* (FAS 113) and a related *Emerging Issues Task Force Issue No. 93-6, Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises* (EITF 93-6).

Prior to the adoption of FAS 113, reinsurance agreements covering events that occurred prior to the effective date of the reinsurance agreement generally resulted in an underwriting gain to the ceding insurer. FAS 113 changed reinsurance accounting to require gains from retroactive reinsurance to be deferred and recognized over the claims-paying period. When the guidance from FAS 113 was evaluated by the Property Casualty Reinsurance Study Group, the Study Group adopted most of the provisions of FAS 113 for statutory accounting, including the accounting for retroactive reinsurance between ceding insurers and unaffiliated reinsurers. However, for retroactive reinsurance among companies 100% owned by a common parent or ultimate controlling person, the affiliated insurers were exempt from retroactive reinsurance accounting as long as there was no gain in surplus from the transaction. This exception was adopted so that new intercompany reinsurance agreements and amendments to existing intercompany reinsurance agreements would continue to be accounted for as prospective reinsurance and continue to be reported in loss reserves and captured in the loss development reported in Schedule P.

The exception guidance in SSAP No. 62, paragraph 36.d. was adopted by the membership of the NAIC at the March 1996 Plenary Session. This same wording was incorporated into SSAP No. 62 with initial statutory codification (Issue Paper No. 75). The wording has consistently noted 100% common ownership since adoption.

For these reasons, interested parties do not recommend the elimination of paragraph 36.d. We recommend retaining the exception, clarifying its interaction with risk transfer and paragraph 37, and offer to work with NAIC staff on targeted disclosures.

Ref #2026-13: Medicaid Updates

The Working Group exposed revisions to *SSAP No. 47—Uninsured Plans* and *SSAP No. 54—Individual and Group Accident and Health Contracts*, as illustrated in the exposure, to add a principles-based statement that Medicaid contracts payments classified as capitated payments are included in insured plans. The Working Group also directed NAIC staff to send a referral to Health Risk-Based Capital (E) Working Group so that group can determine if the amounts previously classified as pass through payments should be considered for a risk charge that is to be similar to pass through payments.

Interested parties have no comments on this item.

Ref #2026-14: Updates to INT 18-03 - OBBBA

The Working Group exposed revisions to nullify INT 18-03, effective Jan. 1, 2027, and to add language in *SSAP No. 101—Income Taxes* for NCTI. These revisions provide updates to guidance that was originally created by the TCJA, and subsequently updated by the OBBBA, or for guidance from the TCJA that included an ending date for the provisions. With nullification of the INT, it will move to the Appendix H – Superseded SSAPs and Nullified Interpretations of the Accounting Practices and Procedures Manual for historical purposes. Appendix H is available on the Working Group website.

Interested parties have no comments on this item.

Ref #2026-15: SSAP No. 23 – Canadian Translations

The Working Group exposed revisions to *SSAP No. 23—Foreign Currency Transactions and Translations* to remove the Canadian exception for foreign currency translation. With this change, all foreign currency operations will be required to be translated to U.S. dollars within each financial statement reporting line. The Working Group also requested comments from regulators and industry regarding the impact of this change, whether the Canadian exception should be retained, and (if applicable) rationale supporting retention of the exception approach.

Insurance operations in a Canadian branch of a U.S. domiciled insurance entity are conducted in Canadian dollars. As a result, the assets, liabilities, and results of operations are all reported in the functional currency (Canadian dollars). This reporting convention aligns with the manner in which the operations are reported to the Canadian regulator (the Office of the Superintendent of Financial Institutions, or OSFI). The net risk exposure to the U.S. entity that owns the branch is the net equity of the branch translated to U.S. dollars, consistent with the current accounting requirements in SSAP No. 23.

As noted in the Form A for this proposal, Canadian insurance operations resulting in less than 10% of a reporting entity's admitted assets, less than 10% of the reporting entity's liabilities and less than 10% of the reporting entity's net premium, can be translated to U.S. dollars by making an adjustment to the net assets of the foreign operation. (This is not a translation to each financial statement line item.) In accordance with SSAP No. 23 paragraph 5a., the adjustment is calculated by summarizing the assets and liabilities in the foreign currency and in U.S. dollars. The net value is then converted to U.S. dollars at the current rate of exchange and compared with the net value in U.S. dollars recorded by the reporting entity. Any difference in the net value to current exchange rates is recorded as a separate asset or liability and the change in the foreign exchange adjustment is recorded as an unrealized capital gain or loss.

If current guidance were changed, there would also be significant complexities with implementing such changes to Schedule P. If all the financial statement lines were converted to Canadian dollars for statutory reporting, one of the biggest impacts would be on Schedule P. The changes in foreign currency exchange rates would become inseparable from changes in loss development and would make any analysis of loss development difficult, if not impossible.

As noted above, the net value of the branch represents the net risk exposure to the entity that owns the branch and was the rationale for the current guidance when it was put into place. Accordingly, interested parties recommend that the current guidance remain in place as it provides a reasonable threshold for when full translation of foreign exchange for each financial statement line item is required while still reporting the amount of net risk to the U.S. domiciled entity to the state of domicile.

* * * *

Thank you for considering interested parties' comments. We look forward to working with you and the Working Group on these items. If you have any questions in the interim, please do not hesitate to contact either one of us.

Sincerely,

D. Keith Bell

Rose Albrizio

cc: Julie Gann, NAIC staff
Robin Marcotte, NAIC staff
Wil Oden, NAIC staff
Jake Stultz, NAIC staff
Interested parties

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August 20, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners

Re: Ref #2026-06 — SSAP No. 100R, Fair Value Disclosures; request for proposed guidance differentiating equity-method investments held in operating entities from those held in investment-holding structures

Dear Mr. Clark,

I write in response to the Working Group's August 12, 2026 re-exposure of Ref #2026-06, which requested that industry propose guidance and reporting categories to differentiate equity-method investments by operating entities and by structures that hold investments. I offer a single, narrow suggestion on the categorization question.

My background is in valuation of assets that lack observable market prices, including intellectual property and intangible assets — work performed at Aon on engagements up to $226.5 million in subject value. I have no client interest in the outcome of this exposure and represent no reporting entity.

The categorization problem

The difficulty the re-exposure identifies is real, and it is a valuation problem before it is a reporting problem. The two categories require different methodologies:

- **An investment-holding structure** is valued by reference to the assets it holds. Fair value is derived by look-through, and the hierarchy tier of the interest is largely a function of the tiers of the underlying holdings.
- **An operating entity** is valued as a going concern. Fair value derives from earnings capacity, market comparables, or discounted cash flows, and is a Level 3 measurement in substantially all cases.

A single classification cannot serve both. Requiring look-through of an operating business produces a meaningless number, and applying going-concern methodology to a holding vehicle obscures the underlying asset risk the disclosure exists to reveal.

Proposed test

I suggest the distinction be drawn from the composition of the investee's own balance sheet, rather than from its legal form, its name, or the reporting entity's stated intent. Specifically:

1. Classify an equity-method investee as an **investment-holding structure** where financial instruments held for investment return constitute a majority of its total assets, measured at the investee's most recent audited balance sheet date. Classify it as an **operating entity** otherwise.
2. Where the classification is not determinable from available financial statements, require the reporting entity to disclose the investee as an operating entity and to state that the classification could not be determined. Absence of information should default to the more conservative and less informative category, so that the reporting entity bears the cost of opacity rather than the user of the statement.
3. Require disclosure of which category was applied to each aggregated line, so a user can see how much of the reported fair value rests on look-through and how much on going-concern methodology.

I suggest a majority threshold rather than a higher one because a bright line is more auditable than a facts-and-circumstances judgment, and because a threshold near 50% is difficult to manipulate through incidental balance sheet composition. If the Working Group prefers to reduce reclassification between periods, a persistence condition — that the threshold be breached for two consecutive annual periods before the classification changes — would achieve that without reintroducing judgment.

Why this test is operable with information already collected

The principal practical objection to this exposure, raised in industry comment on the related Blanks proposal, is that significant issues must be resolved before the reporting change can be effective. I take that concern seriously. The test proposed above is intended to be answerable from documents reporting entities already obtain.

Under SSAP No. 97, an entity carrying a subsidiary, controlled or affiliated investment already obtains audited financial statements of the investee, or is subject to specific limitations where it does not. The asset composition test requires nothing beyond that same balance sheet. It introduces no new data collection, no new counterparty request, and no new audit procedure — only the reading of a statement the reporting entity already holds.

That property matters more than the precise threshold. A categorization rule that requires new information from general partners or portfolio companies will not be operable by the first reporting period, whatever its conceptual merits. A rule answerable from existing audited statements can be.

On measurements that are not practicable

For interests where fair value is genuinely not practicable to estimate, I suggest the Working Group consider permitting disclosure of a **range** with a stated basis, rather than requiring either a point estimate or the "not practicable" category alone. A defensible range accompanied by its methodology is

more informative to a regulator than a point estimate carrying false precision, and more informative than a blank.

I note this approach has precedent in the Working Group's adjacent work: in the collateral loan discussions supporting Proposal 2025-16-L, industry commenters suggested a range of valuations rather than a single figure. The same reasoning applies here, and consistency between the two disclosures would reduce implementation cost for entities subject to both.

A closing observation

Whatever categorization is adopted, the evidence supporting these measurements will sit in unstructured documents — audited investee financial statements, partnership capital account statements, operating agreements, and Schedule K-1s — rather than in a general ledger. The durable question is therefore not only how the categories are defined but how a reporting entity substantiates a figure to a specific source, and how an examiner or auditor later retraces it.

To the extent the Working Group finds it useful, requiring that reporting entities retain the document and page underlying each reported fair value — without prescribing a format — would materially improve examinability at very low incremental cost, because the documents are already in hand. I raise it only as a consideration for the instructions, not as a proposed amendment to this exposure.

Thank you for the opportunity to comment, and for the Working Group's decision to seek input on the categorization question before finalizing the reporting change. I am happy to expand on any of the above if it would be helpful.

Respectfully submitted,

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cc: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, William Oden — NAIC staff

REINSURANCE ASSOCIATION OF AMERICA

September 30, 2026

Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners (NAIC)

Re: Ref. 2026-12, Retroactive Reinsurance Exception SSAP No. 62R, Paragraph 36.d

Dear Mr. Clark:

The Reinsurance Association of America (RAA) represents reinsurers doing business in the United States, including U.S.-headquartered and internationally headquartered groups that serve the U.S. market through U.S.-domiciled companies, U.S. branches and cross-border reinsurance. Many of our members operate through multiple affiliated legal entities across jurisdictions, making the coordinated management of risk and capital within the group, subject to applicable regulatory oversight, an important aspect of their operations.

Purpose of Our Comments

RAA appreciates the opportunity to comment on Ref. 2026-12. The exposure proposes disclosures identifying use of paragraph 36.d and requests comments on whether the exception should be retained, narrowed or eliminated. We oppose rescinding the exception and recommend retaining it, clarifying its application and improving transparency through targeted disclosures.

Paragraph 36.d permits prospective accounting for qualifying reinsurance agreements and amendments among companies 100% owned by a common parent or ultimate controlling person, provided there is no gain in surplus from the transaction. The exception was adopted in March 1996 and carried into initial codification.[1] In its subsequent historical explanation, INT 03-02 described the intent as accommodating amendments to wholly owned intercompany reinsurance agreements without surplus gains.[2] This accounting accommodation supports group risk and capital management today, but does not replace risk-transfer requirements, credit-for-reinsurance requirements or applicable holding company review.

Transactions Affected by the Exception

Intercompany Pooling
Intercompany pooling is a reinsurance arrangement through which affiliated insurers combine their business and allocate premiums, losses and expenses among participating companies according to agreed percentages. SSAP No. 63, paragraph 8, addresses modifications to pooling arrangements, and paragraph 14 incorporates the retroactive reinsurance provisions of SSAP No. 62, including paragraph 36.d. Changes in participation, acquisitions, dispositions and reorganizations typically

require amendments to or replacement of the pooling agreement. The exception allows each participant to continue prospective accounting for its revised share of the pooled business.

Without paragraph 36.d or a replacement exception, a pooling modification covering past insured events would generally be subject to retroactive reinsurance accounting under paragraph 34. The ceding participant would report the affected reserves in its regular loss reserve accounts and schedules, with the reinsurance offset reported separately as a contra-liability. The assuming participant would likewise report the assumed retroactive reserves separately. This presentation could cause the reserves reported in each participant's regular schedules to differ from its revised share of the pool. Because property and casualty risk-based capital (RBC) uses Schedule P net reserves and loss development data, the change could also affect reserve-risk inputs and RBC ratios, subject to applicable adjustments. RAA recommends coordinating any change with the Casualty Actuarial Task Force and the Property and Casualty Risk-Based Capital Working Group.

Loss Portfolio Transfers and Adverse Development Covers

An affiliated loss portfolio transfer (LPT) reinsures specified liabilities for losses from past insured events within the same group. An affiliated adverse development cover (ADC) protects against further development of those losses above an agreed attachment point, subject to contractual limits. These agreements can support reorganizations or the management of non-core or run-off business by aligning prior-year liabilities with capital, diversification and claims expertise.
Amendments may serve the same purpose. An affiliated LPT or ADC should be evaluated separately from the cedent's pooling arrangement unless it changes that arrangement.
Participation in a pool alone does not make the transaction a pooling modification.

Separately managing these portfolios can give regulators and rating agencies a clearer view of continuing operations. Under indemnity reinsurance, the issuing insurer remains liable to policyholders and retains counterparty and liquidity risks. Review should assess the assuming affiliate's ability to perform as claims develop and are paid, considering its capital, liquidity, retrocessional protection and other financial support. The enforceability, duration and release or termination conditions of that support are relevant to its continued availability.

RAA Position and Recommendations

Retain the Exception and Preserve Regulatory Review

Paragraph 36.d is an important tool for managing a group's risk and capital profile. Applicable state holding company laws establish transaction standards and approval or prior-notice and non-disapproval requirements. Review should address business purpose, fair consideration and projected financial and capital effects on each insurer. For material affiliated LPTs and ADCs, it should also consider adverse loss development, related reinsurance and provisions governing distributions, collateral releases or termination. Group-level capital neutrality does not establish fair consideration or policyholder protection. Regulatory approval does not independently establish eligibility for the exception.

Legal restrictions, collateral obligations and liquidity needs limit the movement of capital within international groups. The assessment must therefore consider each insurer's financial capacity rather than rely solely on the group's financial position. To inform consideration of any change to the exception, we would welcome further discussion of the specific accounting or supervisory concerns the Working Group seeks to address and whether targeted clarification or disclosure could resolve them.

A reduction in the cedent's required RBC should not be confused with a gain in statutory surplus. A qualifying transaction may leave surplus unchanged while reducing reserve-risk exposure and required capital, subject to applicable charges and adjustments. The no-surplus-gain condition does not, by itself, establish the adequacy or continuing availability of resources supporting the assumed liabilities. The capital effects should be assessed together with the assuming affiliate's financial capacity and the risks retained by the cedent. An improved RBC ratio alone does not establish that policyholder protection has weakened.

Clarify Risk Transfer and the No Surplus Gain Condition

We agree that agreements using paragraph 36.d must satisfy applicable risk-transfer requirements. Paragraph 36.d does not specify whether its no-surplus-gain condition applies to the cedent or both parties; paragraph 37 expressly addresses gains to the ceding entity. We recommend clarifying that the condition applies to the cedent at inception. Subsequent recoveries or development under the original terms should not, by themselves, cause a qualifying agreement to lose the exception. Material amendments should be evaluated for their incremental effect, including any gain to the cedent when entered into. Paragraph 37 should be conformed as necessary.

A reasonable possibility of loss to the reinsurer does not necessarily produce a net surplus gain to the cedent. For example, an increase in gross loss liabilities may be offset by an increase in reinsurance recoverables. Risk transfer and eligibility require consideration of the complete arrangement, including limits, adjustable features, timing provisions and related agreements. The requested clarification should distinguish the inception test from subsequent accounting for recoveries and loss development.

The clarification should address an assuming insurer's gain without creating a separate basis for gain recognition. Affiliated reinsurance remains subject to SSAP No. 25, including applicable economic-substance requirements and demonstrable support for any arm's-length representation. Paragraph 4 directs accounting and valuation of pooling modifications to SSAP No. 63.[3] For other affiliated transfers, consideration above carried reserves should be supported by the coverage and obligations assumed; the difference alone does not establish either overpayment or fair pricing. The clarification should preserve applicable recognition, measurement and holding company requirements and should not permit unsupported transfers of value between affiliates.

Enhance Transparency Through Targeted Disclosure

We understand the Working Group's concern that use of the exception is not readily identifiable in the annual statement. Targeted disclosure is a reasonable way to address that concern. Ref. 2026-12 proposes adding paragraph 126 to SSAP No. 62 to require disclosure of contracts entered into during the reporting period that use the paragraph 36.d exception. We recommend distinguishing

REINSURANCE ASSOCIATION OF AMERICA

pooling modifications from other affiliated transactions so the disclosures reflect their different purposes and reporting requirements.

For pooling, we recommend addressing identified gaps through SSAP No. 63 and Note 26 without overlapping requirements. For other new or materially amended agreements, disclosure should identify the counterparties and domiciles, common-ownership basis, business purpose, principal coverage terms, reserves reinsured, aggregate consideration, inception surplus effect for each party and required approval or non-disapproval status. For affiliated LPTs and ADCs, initial disclosure should also describe material financial support, including relevant retrocessional or other capital arrangements. Cross-references should be permitted where existing filings provide the information. Amendment disclosures should explain what changed and the incremental financial effect.

The new transaction disclosure should be required only for the reporting year in which the agreement is entered into or materially amended, with prior-year information retained in the following year only to the extent needed for comparative presentation. Remaining recoverables, continued coverage or routine loss development should not require repetition of the historical transaction disclosure in later years. Existing reporting obligations would continue. Any new ongoing disclosure of changes in financial support should address an identified information gap and be separately exposed with materiality and implementation criteria. Before requiring ceded premiums by line, the Working Group should assess whether existing allocations and reconciliations meet the supervisory need.

Conclusion

For these reasons, RAA opposes eliminating paragraph 36.d. We recommend retaining the exception, clarifying that the no-surplus-gain condition applies to the cedent at inception and limiting new transaction disclosures as described above. Any change to eligibility, recognition or measurement should be separately exposed as a substantive accounting change, with coordinated Schedule P and RBC analysis and transition provisions for existing agreements. We appreciate the Working Group's consideration and would welcome further discussion.

Sincerely,



Jeff Alton
Senior Vice President, Accounting, Finance & Risk
Reinsurance Association of America

1. NAIC Ref. 2026-12, Description of Issue and proposed paragraph 126. The current Manual uses "SSAP No. 62"; the subject retains the familiar "62R" designation.
2. INT 03-02, paragraphs 7–8, cited for its historical explanation. The interpretation was subsequently nullified by Ref. 2022-12 and is not cited as current authority.
3. SSAP No. 25, paragraphs 2, 4, 16 and 23. Paragraph 23.b excludes reinsurance from that specific transaction-description disclosure, not from the statement as a whole.



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October 2, 2026

Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Agenda item 2026-11, residential mortgage loan definition (SSAP No. 37)

Dear Chairman and Members of the Statutory Accounting Principles (E) Working Group,

The Alternative Credit Council,[1] the private credit affiliate of the Alternative Investment Management Association Ltd (AIMA), appreciates the opportunity to comment on agenda item 2026-11, Residential Mortgage Loan Definition, which the Statutory Accounting Principles (E) Working Group (Working Group) exposed as a concept agenda item on August 12, 2026. The agenda item responds to the May 26, 2026 referral from the Investment Analysis (E) Working Group and asks whether SSAP No. 37, Mortgage Loans, should define

[1] The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over US$2 trillion of private credit assets. The ACC is an affiliate of AIMA and is governed by its own board, which ultimately reports to the AIMA Council. ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure, and the trade and receivables business. The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research to strengthen the sector's sustainability and wider economic and financial benefits. Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. The ACC seeks to explain the value of private credit by highlighting the sector's wider economic and financial stability benefits.



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residential mortgage loans, how certain loan and property types should be classified, and whether Schedule B reporting should capture additional loan risk characteristics.

I. Introduction and summary

ACC members include private credit managers that originate, acquire and manage residential mortgage loans on behalf of US insurers, through separately managed accounts, funds and trusts. Insurers are important long-term investors in this market, and private credit managers have provided financing in segments where banks have reduced their participation, including construction lending to small homebuilders. Our members therefore have a direct interest in a classification framework that is clear, consistent across reporting entities and aligned with the credit risk of the loans insurers hold.

We support the Working Group's objective. A Level 1 definition of residential mortgage loan in SSAP No. 37, anchored in the one-to-four family property definition in 12 CFR § 1266.1, will resolve the reporting inconsistency the referral identifies and align SSAP No. 37 with Model Law 280, SSAP No. 58 and the Annual Statement Instructions. We also agree that current Schedule B reporting does not give regulators the loan characteristics they need to assess a growing asset class.

Our comments focus on two principles that should govern the next stage of this project:

- Identification of key risk attributes should be the basis for any updated categorization. Lien position, loan-to-value (LTV) ratio, borrower credit score, occupancy, loan purpose and documentation drive the credit performance of residential mortgage loans. The Working Group should capture these attributes in Schedule B reporting and use them to differentiate loans within the one-to-four family definition, rather than excluding categories of loans on the basis of product labels or loan balance.

- Pools of residential mortgage loans should be in scope of residential mortgage loan reporting to the extent that the collateral of each underlying loan meets the one-to-four family property definition and each parcel can be sold separately. This would apply whether the insurer holds a pool of individual loans, a single loan cross-collateralized by multiple such properties, or a loan to a borrower that owns many such properties. These loans carry credit risk tied to the value of individual homes, which is the risk that the residential mortgage loan category is designed to capture.

II. Identification of key risk attributes should be the basis for any updated categorization

The referral and the exposure identify the same set of risk factors: lien position, LTV, borrower credit quality measured by FICO score, owner-occupied versus investment use, and loan type, including construction loans, bridge loans and home equity lines of credit. We agree that these are the attributes that matter. The question for the Working Group is how to use them.

Industry experience and regulatory practice confirm that a small number of loan-level attributes explain most of the variation in residential mortgage credit risk. In its March 24, 2026 presentation to the Invested Assets (E) Task Force, Neuberger Berman explained that borrower credit score and LTV together account for the majority of the predictive power in the internal models insurers use to estimate default probability and loss severity, with debt-to-income ratio, property cash flow coverage and loan seasoning as secondary drivers. The presentation also noted that prime loans originated between 2001 and 2005 experienced principal losses of approximately 60 basis points through the global financial crisis, and that the ability-to-repay requirements adopted under the Dodd-Frank Act have since strengthened underwriting across the market. Nationally recognized statistical rating organizations calibrate residential mortgage credit models on the same loan-level attributes, and the Basel Committee's standardized approach differentiates residential real estate exposures by LTV and by whether repayment depends materially on cash flows generated by the property, rather than by product label.

Categorization by attribute is more precise than categorization by product label. A label such as non-owner occupied, accessory dwelling unit or fix-and-flip describes the use of a property, not the credit risk of the loan. A stabilized single-family rental loan at a 60 percent LTV, underwritten to property cash flow with personal recourse to the borrower, may present lower expected loss than an owner-occupied second-lien loan at a 90 percent combined LTV. Excluding the first loan from the residential category while retaining the second would move classification further from the underlying economic risk, which is the outcome the referral seeks to avoid.

The same reasoning applies to loan value limits. Loan balance is a relevant reporting field and a relevant input to concentration analysis, but it is not a reliable proxy for credit risk. A jumbo loan to a borrower with a high credit score and a 50 percent LTV is not riskier than a conforming loan with weaker attributes because of its size. The referral itself notes that some of the high balances observed in Schedule B reflect aggregated reporting driven by the 99,995 row limit rather than individual loans. A balance cap applied as a definitional test would reclassify loans on the basis of a reporting artifact.

Attribute-based categorization also addresses the Working Group's concern about development-stage and transitional collateral more precisely than exclusion. Loan purpose and property status, whether purchase, refinance, construction, renovation or bridge, and whether the property is stabilized, are themselves attributes. Identifying them on Schedule B would allow regulators to isolate loans whose repayment depends on a future business plan, while retaining in the residential category loans secured by individually divisible one-to-four family homes under construction or renovation.

Recommendation. Retain the one-to-four family property definition as the scope of the residential mortgage loan category, and base any subcategories, disclosures or future RBC

differentiation on a defined set of loan-level attributes reported on Schedule B. At a minimum, those attributes should include:

- Lien position, distinguishing first-lien loans from second-lien loans and home equity lines of credit.
- LTV at origination, combined LTV where a subordinate lien is present, and an optional current LTV based on an automated valuation model or other updated valuation.
- Borrower credit score at origination, measured on a consistent basis across reporting entities.
- Occupancy, distinguishing owner-occupied primary residences, second homes and investor properties.
- Loan purpose and property status, identifying purchase, refinance, construction, renovation and bridge loans and whether the property is stabilized.
- Documentation type and, for investor loans, the debt service coverage ratio at origination.
- Property state, which should replace the "various" and "multiple" location entries the referral identifies.

We encourage the Working Group to define each attribute precisely in the Annual Statement Instructions, including the measurement date and valuation method, so that reported data are comparable across reporting entities. Consistent attribute data would also give the Life Risk-Based Capital (E) Working Group the basis it currently lacks to calibrate a risk-sensitive charge. The referral notes that the current 68 basis point charge was anchored to pre-CM framework commercial mortgage factors without calibration to residential mortgage data. Loan-level attributes are the predicate for replacing that factor with one that reflects the risk of the loans insurers actually hold.

III. Pools of residential mortgage loans secured by individually divisible one-to-four family properties should be in scope

Insurers commonly acquire residential mortgage loans as pools, through bulk purchases or flow arrangements with originators, and often through an investment manager. Insurers also lend against portfolios of one-to-four family properties, including single-family rental portfolios, through a single loan cross-collateralized by the individual homes. In both cases the collateral is a set of individual one-to-four family properties, each on its own legal parcel and each capable of being sold separately. The Neuberger Berman presentation described typical portfolios as containing hundreds or thousands of individual exposures diversified across loan types, borrowers and geographies. Recovery on these exposures depends on the value of individual homes that can be sold one at a time into the broad residential resale market. Borrower-level factors, including credit score and debt service coverage,

are captured through the risk attributes previously outlined in Section II. Together with the value of each individual home, borrower-level factors make up the risk profile the residential mortgage loan category is intended to capture.

The manner of acquisition, holding or reporting should not change that classification. The Working Group recognized this principle in agenda item 2025-13, which expanded the scope of SSAP No. 37 to permit residential mortgage loans held in qualifying statutory trusts to be reported individually on Schedule B as if held directly. The Life Risk-Based Capital (E) Working Group applied the same look-through logic in Proposal 2026-02-L, which aligns with the treatment of residential mortgage loans held through unaffiliated Schedule BA structures with direct ownership. SSAP No. 37 should state expressly that a loan, or a pool of loans, remains within the residential mortgage loan definition where the collateral consists of individually divisible one-to-four family properties, regardless of the number of borrowers, loans or properties involved.

The same principle should govern the staff's proposed clarification in question 2c, which we ask the Working Group to revise. As drafted, the clarification would bar a loan secured by a project involving multiple one-to-four family properties from residential mortgage loan reporting whenever the collateral is the project or development as a whole. That test looks at the form of the lending relationship rather than the substance of the collateral. Where a project has been divided into individual one-to-four family parcels and a single loan is secured by a mortgage on each of them, the insurer's recovery depends on the value of those individual dwellings, each of which can be released and sold on its own. That is residential mortgage credit risk. The loan should remain a residential mortgage loan, reported with the Section II attributes measured across the underlying properties.

Staff's concern is properly directed at collateral that cannot be divided into individually saleable homes, such as a horizontal multifamily community on a single parcel. Homes operated as one rental property on a single parcel, and not separately conveyable without subdivision or condominium conversion, reflect collateral that is commercial. Where the collateral does consist of individually divisible and saleable homes, the loan purpose and property status attributes in Section II identify development and business-plan risk more precisely than classification would.

This clarification would not extend residential mortgage loan treatment to securitized exposures. Residential mortgage-backed securities remain within SSAP No. 43, Asset-Backed Securities, and the principles-based bond definition. The clarification applies only to whole loans in which the insurer holds, directly or on a look-through basis, the note and a mortgage lien on each underlying property.

Pool reporting also offers a practical answer to the Working Group's concern about the length of Schedule B. We support permitting reporting entities to report pools of residential mortgage loans, and loans secured by multiple individually divisible and saleable one-to-four family properties, in aggregated lines, provided each aggregated line discloses the

key attributes described in Section II as distributions rather than single values. An aggregated line could report the number of loans, total balance, weighted average and stratified LTV and credit score, the share of loans by lien position, occupancy and loan purpose, and the largest state concentrations, with loan-level data available to the domiciliary regulator on request. Therefore, insurers should maintain loan-level and property-level data for every aggregated line and make it available to the domiciliary regulator and examiners in a consistent format. This approach preserves the analytical value of Schedule B and ensures that regulators do not mistake an aggregated line for a single high-balance loan.

Recommendation. Add to SSAP No. 37 a statement that (1) a loan is within the residential mortgage loan definition where its collateral consists of individually divisible one-to-four family properties, whether held as a pool of individual loans or as a single loan secured by multiple properties, and regardless of the number of borrowers; (2) a loan secured by a horizontal multifamily community is a commercial mortgage loan where the individual homes cannot be conveyed separately; and (3) qualifying residential mortgage loans are permitted aggregated Schedule B reporting of such loans subject to attribute-level disclosure and availability of loan-level and property-level data to regulators and examiners upon request.

IV. Responses to specific questions

Question 1, other definitions. We support 12 CFR §1266.1 as the starting point. It is consistent with the one-to-four family references in Model Law 280, SSAP No. 58 and the Annual Statement Instructions, and adopting it at Level 1 of the statutory hierarchy achieves the staff's objective without redefining the category.

Question 2a, mixed-use properties. We support a primarily residential test consistent with the federal definition, measured by the residential share of appraised value or property income. Where a property meets the test, the full balance should be reported in the residential category with a mixed-use flag. Allocating a single loan between categories would add complexity without improving risk information.

Question 2b, multifamily properties. The existing residential and commercial mortgage loan classifications can accommodate multifamily loans without a new reporting category. Consistent with 12 CFR § 1266.1, multifamily loans secured by residential real property would be reported as residential mortgage loans, with the proposed Schedule B attribute disclosure identifying dwelling units, property type, and related loan characteristics. This approach gives regulators visibility into multifamily exposures while keeping reporting aligned with the current Schedule B structure.

Question 2c, project-level collateral. We do not support the clarification as drafted. A loan secured by a whole project should remain a residential mortgage loan where the collateral consists of individually divisible and saleable one-to-four family properties, for the reasons in Section III. Collateral that cannot be conveyed separately, such as a horizontal multifamily community on a single parcel, would be a commercial mortgage loan.

Question 2d, loan value limits. We oppose loan value limits as a test for classification, for the reasons in Section II. Loan balance should be a reported attribute and an input to concentration analysis.

Question 2e, specific loan types. Loans secured by accessory dwelling units or non-owner-occupied properties, residential construction loans, fix-and-flip loans, lines of credit, home equity loans and loans on transitional properties should be identified through the lien position, occupancy and loan purpose attributes described in Section II, rather than excluded from the category by label.

Question 3, risk factors in Schedule B. Yes. The attributes listed in Section II should be incorporated into Schedule B through new columns or reporting codes, defined consistently in the Annual Statement Instructions.

Question 4, aggregated reporting. Yes, for pools of loans and loans secured by multiple individually divisible and saleable one-to-four family properties, subject to the attribute-level disclosure described in Section III.

V. Conclusion

The ACC supports the Working Group's objective of a clear, Level 1 definition of residential mortgage loans and more informative Schedule B reporting. We respectfully request that the Working Group:

- Adopt the one-to-four family property definition in 12 CFR § 1266.1 as the scope of the residential mortgage loan category in SSAP No. 37.
- Base any updated categorization, disclosure or referral for RBC differentiation on identified key risk attributes, including lien position, LTV, borrower credit score, occupancy, loan purpose and documentation, rather than on product labels or loan value limits.
- Clarify that a loan is within scope where its collateral consists of individually divisible and saleable one-to-four family properties, regardless of the number of borrowers, loans or properties, whether held directly, through a qualifying statutory trust or through a look-through structure.
- Revise the proposed clarification in question 2c so that classification turns on whether the project collateral consists of individually divisible and saleable one-to-four family properties.
- Permit aggregated Schedule B reporting of such pools, subject to attribute-level disclosure and availability of loan-level and property-level data to the domiciliary regulator and examiners upon request.

- Expose proposed SSAP No. 37 language together with the corresponding Blanks (E) Working Group proposal, so that the definition and the reporting fields can be evaluated as a package before adoption.

We appreciate the opportunity to comment and would welcome the chance to discuss these points with the Working Group or NAIC staff, including by facilitating discussions with ACC members that originate and manage residential mortgage loans for insurers.

If you have any questions or would like to discuss further, please do not hesitate to contact us at jkrol@aima.org or Joe Engelhard, Head of Private Credit & Asset Management Policy, Americas, at jengelhard@aima.org.

Sincerely,





Jiří Król
Global Head of Alternative Credit Council

Joe Engelhard
Head of Private Credit & Asset Management Policy, Americas

ATHENE

October 2, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Ref #2026-11 — *Residential Mortgage Loan Definition (SSAP No. 37—Mortgage Loans)*

Dear Mr. Clark:

Athene Holding Ltd. (Athene) appreciates the opportunity to comment on agenda item 2026-11, *Residential Mortgage Loan Definition*, which the Statutory Accounting Principles (E) Working Group (Working Group) exposed on August 12, 2026, in response to the May 26, 2026 referral from the Investment Analysis (E) Working Group. Our comments distinguish the definition of an RML from the measurement of risk within that category.

The capital issue should remain central. The current 0.68% Life Risk-Based Capital (RBC) factor is flat and was not calibrated to residential mortgage loss data. It is appropriate that SAPWG revisits definition of the category and add Schedule B fields for the attributes that distinguish risk. The Life Risk-Based Capital (E) Working Group (Life RBC WG) should then use those data fields to develop risk-sensitive charges. Reclassification is not a substitute for that work.

Classification should follow the collateral. A loan secured by one-to-four-family properties should remain an RML when each property is separately saleable, regardless of occupancy, borrower purpose, construction or renovation status, intent to resell, loan size, or whether several properties secure one loan. Those features affect risk and should be reported as part of enhanced disclosures in Schedule B, but they do not change the nature of the collateral.

Accordingly, Athene recommends the following of the Working Group, with the collateral test applied to illustrative loan types in **Appendix A** and responses to the exposure's questions in **Appendix B**:

1. Adopt a Level 1 definition based on the federal one-to-four family property framework, including the related terms needed to address construction-stage, multifamily, mixed-use, and nonresidential property consistently.

2. Confirm that pools and cross-collateralized loans qualify when the underlying one-to-four family properties are individually divisible and saleable.

3. Add defined risk attributes to Schedule B, permit aggregated reporting with attribute distributions and loan-level support, and reject loan balance or product labels as classification tests.

4. Expose the SSAP No. 37 definition with the related Blanks proposal, then refer RBC differentiation to the Life RBC WG for calibration using the reported attributes.

Athene's growing allocation to residential mortgage loans is deliberate. As of December 31, 2025, Athene's U.S. statutory entities reported $86.8 billion of mortgage loans on Schedule B, including $52.1 billion of residential mortgage loans, of which 98.9% was in good standing.

That allocation reflects the characteristics of the underlying assets. Athene's residential mortgage loans are secured by individually saleable one-to-four-family homes, amortize on contractual schedules, and have historically shown limited correlation to corporate credit. This includes single-family rental portfolios, construction loans on individual lots, and renovation and bridge loans, all of which are secured by homes that can be sold individually into the residential resale market. These characteristics align well with the duration and cash-flow profile of our annuity liabilities and help us provide guaranteed lifetime income to American savers.

I. Classification should follow the nature of the collateral

12 CFR 1266.1 provides the operative federal anchor. It defines property by its physical character and residential use, expressly includes land to be improved or being improved by the construction of dwelling units, and distinguishes one-to-four family, multifamily, mixed-use, and nonresidential property. Bringing that framework into Level 1 guidance would resolve inconsistent Schedule B classification without creating a new asset taxonomy.

For a loan secured by several one-to-four family properties, the relevant question is whether each home is a separate legal parcel that can be conveyed and released from the lien independently. If so, the insurer's recovery is tied to homes that can be sold individually into the residential market. The loan should remain residential whether it is a pool of separate notes, a cross-collateralized loan, or a loan to a borrower that owns multiple properties.

The same test applies to non-owner-occupied homes, one-to-four family debt-service-coverage loans, residential construction and renovation loans, bridge loans, and fix-and-flip loans. Occupancy, borrower credit, property cash flow, completion status, and holding period may change expected loss. They should therefore be visible in reporting and underwriting, not used to convert residential collateral into commercial collateral.

A single Schedule B line should not determine classification. Conversely, a loan against one undivided project does not qualify for one-to-four family treatment if the homes cannot be conveyed separately without subdivision or condominium conversion. The distinction is the collateral available for recovery, not the number of borrowers, properties, or reporting rows.

II. Enhanced Schedule B reporting to capture risk attributes

Athene supports new Schedule B reporting codes for risk attributes that include lien position, loan-to-value (LTV) ratio at origination and combined LTV ratio for subordinate liens, borrower credit quality at origination measured by FICO, occupancy, loan purpose, construction status, documentation type, debt-service-coverage ratio (DSCR) for investor loans, dwelling-unit count and property type, and property state. The Annual Statement

Instructions should define each field and its measurement date so that the data are comparable across insurers.

Pools and loans secured by multiple qualifying properties should remain on Schedule B and may be reported in aggregated lines. Each line should show the number of loans and properties, total balance, LTV and credit-score distributions, shares by lien position, occupancy and purpose, and material geographic concentrations. Insurers should retain the underlying loan-level and property-level data and provide it to regulators and examiners on request.

Loan balance should be reported and used for concentration analysis rather than as a boundary between residential and commercial mortgage loans. A large Schedule B line may represent many separately saleable homes rather than one large exposure. A reporting balance cap would therefore confuse reporting form with substantive collateral risk.

Additionally, because the new fields will require system and vendor changes, we ask that the effective date allow at least one full annual reporting cycle after the related Blanks proposal is adopted for reporting entities and vendors to build the new fields.

III. Conclusion

In summary, we recommend that SAPWG define RMLs by the nature and separate saleability of the collateral, including pools and cross-collateralized loans, and add Schedule B risk attributes without treating loan balance or product labels as classification tests. The SSAP No. 37 and subsequent Blanks changes should be exposed together, with RBC differentiation referred to the Life RBC WG once consistent data is available.

Athene appreciates the opportunity to comment and stands ready to provide loan-level data for the collateral types illustrated in Appendix A to inform further discussion and the Life RBC WG's calibration work.

Respectfully submitted,



Michael Consedine
Executive Vice President
Global Head of Government and Regulatory Affairs
Athene Holding Ltd.

Appendix A—Classification of mortgage loans by illustrative collateral type

A loan is classified as a residential mortgage loan or a commercial mortgage loan based on the collateral that secures it. A one-to-four family property is individually divisible and saleable where it is a separate legal parcel with its own legal description that can be conveyed, and released from the lien, independently of the other properties securing the loan.

Loan type	CML classification	RML classification	Where Reported
One-to-four family property	The collateral does not meet the one-to-four family property definition.	The collateral meets the one-to-four family property definition in 12 CFR § 1266.1.	Schedule B, as residential or commercial according to the classification
Condominium	The loan is secured by the building as a whole, and the units have not been established as separate legal parcels under a recorded condominium declaration	Each unit is a separate legal parcel, so a loan secured by a unit is an RML regardless of the number of units in the building.	Schedule B, residential, by unit or in an aggregated line as proposed in Section II
Townhomes	Multiple townhomes sit on a single legal parcel and cannot be conveyed separately.	Each townhome is a separate legal parcel that can be conveyed separately.	Schedule B, as residential or commercial according to the classification
Mixed-use, single property	Commercial use accounts for 50 percent or more of appraised value or property income.	Residential use accounts for more than 50 percent of appraised value or property income. The full balance is reported as residential.	Schedule B, residential, with a mixed-use flag
Cross-collateralized pools w/ mixed use	More than 50 percent of the allocated loan amount is secured by properties that are not individually divisible and saleable one-to-four family properties.	At least 50 percent of the allocated loan amount is secured by individually divisible and saleable one-to-four family properties. Each property is listed on the mortgage with a property-level allocated loan amount and can be released independently.	Schedule B, residential, in a single line reporting the number of properties and the attribute distributions proposed in Section II
Build-to-rent	The loan is secured by a horizontal multifamily community: detached homes on a single legal parcel that cannot be conveyed separately without a subdivision or condominium process.	The loan is secured by a community platted into separate legal parcels, each individually saleable.	Schedule B, as residential or commercial according to the classification
Loans held through a qualifying statutory trust	The collateral securing an underlying loan meets the CML tests above.	The collateral securing an underlying loan is an individually divisible and saleable one-to-four family property. Classification follows the underlying loan and collateral, not the trust.	Schedule B, each underlying loan reported individually as if held directly, or in an aggregated line as proposed in Section II

Appendix B—Responses to specific questions in exposure

Question 1 Other definitions

Response. Use 12 CFR 1266.1 as the Level 1 anchor. The related definitions should be incorporated together to provide one framework for one-to-four family, multifamily, construction-stage, mixed-use, and nonresidential property. Any competing industry definition is unnecessary.

Question 2a Mixed-use property

Response. Classify the full loan by the property's predominant use rather than splitting one balance between categories. A property should be residential when residential use represents more than 50 percent of appraised value or property income, with a mixed-use flag reported on Schedule B.

Question 2b Multifamily property

Response. Treat one-to-four family properties as residential mortgage loans, but identify them separately by property type and dwelling-unit count on Schedule B. This preserves the distinction without creating another mortgage reporting category.

Question 2c Project-level collateral

Response. Do not make seriatim reporting a condition of classification. A single loan may qualify when it is secured by separate one-to-four family parcels that can each be conveyed and released independently. An project with indivisible units that cannot be sold home by home should not receive one-to-four family treatment.

Question 2d Loan value limits

Response. Do not use a balance cap to determine asset type. Balance is relevant to concentration and should be disclosed, but it does not change the nature of the collateral securing the loan.

Question 2e Specific loan types

Response. Classify accessory dwelling unit, non-owner-occupied, one-to-four family DSCR, residential construction, fix-and-flip, home equity, line-of-credit, bridge, and transitional loans by the underlying collateral. Report their lien, occupancy, purpose, and property status as risk attributes in Schedule B.

Question 3 Schedule B risk factors

Response. Yes. At a minimum, Schedule B should capture lien position, LTV, borrower credit score, occupancy, loan purpose, property status, documentation, investor-loan DSCR, dwelling-unit count, property type, and state, using definitions and measurement dates in the Annual Statement Instructions.

Question 4 Aggregated reporting

Response. Keep residential mortgage loans on Schedule B. Permit aggregated lines for pools and loans secured by multiple qualifying properties when the line reports attribute distributions and that the insurer maintains loan-level and property-level data for regulators and examiners.

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October 2, 2026

Kevin Clark, Chair
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Via email: Julie Gann, jgann@naic.org
Robin Marcotte, rmarcotte@naic.org
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Jason Farr, jfarr@naic.org
Wil Oden, woden@naic.org

Re: 2026-13, Medicaid Updates

Dear Chair Clark:

On behalf of AHIP[i], we appreciate the opportunity to provide comments on the above referenced item that was exposed (the Exposure) during the August 12, 2026 meeting of the Statutory Accounting Principles (E) Working Group (SAPWG). For purposes of this SAPWG Exposure, please find below AHIP's comments.

The Exposure proposes to revise *SSAP No. 47—Uninsured Plans* and *SSAP No. 54—Individual and Group Accident and Health Contracts* to add a so-called "principles-based" statement that Medicaid contracts payments classified as capitated payments are included in insured plans. While the Exposure does not address whether any corresponding changes should be made to the health risk-based capital formula or its risk charges, it does note that a referral is being made to the Health Risk-Based Capital (E) Working Group for its consideration as to whether Medicaid state directed payment and separate payment terms should receive a risk similar to Medicaid pass through payments. The Exposure notes that the Health Risk-Based Capital (E) Working Group has previously determined that the risk associated with pass through payments is more administrative in nature and similar to uninsured plans.

The Exposure's proposal to include Medicaid contracts payments classified as capitated payments in insured plans seems intended to align with federal rules pertaining to Medicaid Managed Care Organization (MCO) contracts. In this letter and relative to the Exposure, AHIP does not dispute the federal Medicaid rules for the purposes to which they apply, but believes it is important to understand that they do not directly apply to statutory accounting principles (SAP) utilized by

state-regulated insurers pursuant to state solvency regulation. Rather, SAP is driven by its own principles and must be evaluated in that light.[ii]

A key aspect of SAP is the recognition of the substance of a transaction over its form. While federal Medicaid rules may prescribe that all Medicaid contracts be treated as underwritten for federal purposes (such as Minimum Loss Ratio reporting to CMS), the terms of Medicaid contracts vary by insurer, as well as by state, and may include terms including exceptions and grandfathering provisions that, in substance, alleviate most if not all potential risk to the insurer for some of its Medicaid business payments in a particular state. Indeed, the Exposure itself, while first observing that the federal rules include provisions such as treating all state-directed payments "at risk", then also observes that "some MCOs view some state directed payments and state directed payments from separate payment terms as low- to near-zero-risk because the state directs the payment to specified providers, and historically some MCOs exclude state directed payments from MLR reporting on a pass-through analogy."

Ideally, there would be symmetry between SAP and RBC, such that insurance contracts that present very little risk would be reported for SAP as non-underwritten and receive a correspondingly low RBC charge, whereas other contracts that present higher degrees of risk would be reported for SAP as underwritten and receive a correspondingly higher RBC charge. For Medicaid contracts, the determination of the degree of risk presented differs by insurer and state and can only be made on a case-by-case basis based on the terms of the Medicaid contracts that pertain specifically to it in a specific state.

Whether all of an insurer's Medicaid payments are to be reported for SAP as insured as currently proposed in the Exposure or split between underwritten and non-underwritten as determined by the insurer based on the substance of the terms of its Medicaid contracts, the impacts on SAP earnings and surplus should be the same. The difference would be one of presentation, i.e., whether premiums and claims are reported at gross amounts or netted out in the income statement.

The Exposure characterizes its proposal to include all Medicaid contracts payments classified as capitated payments in insured plans as principle-based. AHIP respectfully views the proposal differently. As drafted, the approach appears more prescriptive than principle-based because it would require "at risk", or underwritten, SAP reporting treatment regardless of the underlying contractual terms and risk exposure. As presented, the proposed revisions may be better understood as a practical expedient rather than a principles-based approach. Framing the Exposure's proposal as a practical expedient would appear to be more consistent with our understanding of NAIC staff's objectives of developing revisions to SSAPs 47 and 54 that avoid unnecessary complexity.

While the impact on SAP income and surplus would be the same whether or not Medicaid contracts payments classified as capitated payments are included in insured plans, the RBC impact would not necessarily be the same. If all such Medicaid payments of an insurer are treated as underwritten when, in substance, some are not, the resulting risk charges could be materially overstated relative to the actual underlying risk exposure. Thus, a practical expedient that says all Medicaid contracts

are underwritten/ at risk for SAP purposes should not be relied on by the Health Risk-Based Capital (E) Working Group to determine the degree of risk in the establishment of risk factors.

While RBC provisions will be addressed later by the Health RBC (E) Working Group, AHIP believes it is important that any future RBC framework appropriately differentiate between Medicaid contracts and payment arrangements that transfer minimal risk and those that expose insurers to meaningful underwriting risk. Such differentiation would better align RBC requirements with the underlying economic substance of these arrangements, recognizing that the RBC framework will likely be more granular than SAP in order to distinguish not just between underwritten and non-underwritten, but also between relative degrees of underwriting risk.

AHIP is concerned that changes to SSAPs 47 and 54 could be interpreted to imply a level of underwriting risk that may later be relied upon by the Health RBC (E) Working Group's consideration of related RBC charges. To avoid that unintended result, AHIP respectfully recommends a principle-based SAP approach under which insurers would classify Medicaid payments as underwritten or non-underwritten based on the substance of the applicable contract terms and actual risk exposure.

Thank you for the opportunity to provide these comments. AHIP looks forward to continuing to discuss these important matters with you and your colleagues at SAPWG.

Sincerely,

Miranda Motter
AHIP Senior Vice President of State Affairs and Policy

[i] AHIP is the national association whose members provide health care coverage, services, and solutions to hundreds of millions of Americans every day. We are committed to market-based solutions and public-private partnerships that make health care better and coverage more affordable and accessible for everyone. Visit www.ahip.org to learn how working together, we are Guiding Greater Health.

[ii] Differences between the application of federal rules and SAP have been previously recognized e.g., INT 24-02: Medicare Part D Prescription Payment Plan, paragraph 23: "Note that the statutory reporting of the written off (impaired) recoverable from MPPP participants in Medicare prescription claims is different from CMS treatment of such amounts in the MLR. The CMS requires Part D plan sponsors to report losses from impairment write-offs of uncollectible recoverables from MPPP participants as administrative amounts and, thus, such losses are excluded from the numerator in the CMS MLR. For loss ratios determined under statutory accounting, and pursuant to the guidance in this INT 24-02, such amounts are reported as claims expense and included in the numerator of the loss ratio."

October 9, 2026

VIA ELECTRONIC MAIL TO RMarcotte@naic.org

Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners (NAIC)

Re: SAPWG Ref. 2026-12, Retroactive Reinsurance Exception in SSAP 62, Paragraph 36.d.

Dear Mr. Clark:

The North Carolina Department of Insurance is providing the following observations and recommendations for the Working Group's consideration.

We support retaining the exception to retroactive reinsurance accounting in paragraph 36.d. for certain affiliated transactions when prospective accounting is less disruptive and provides more useful and comparable information, but do not believe that it should be the default treatment for all reinsurance agreements among affiliates. As discussed in more detail below, we believe certain affiliated reinsurance agreements should be scoped out of the exception and instead follow the specific accounting guidance tailored to retroactive reinsurance in paragraphs 34 and 35 of SSAP 62 and be included in the related disclosure requirements.

Transactions that should Remain in Scope of the Exception

We believe the guidance in paragraph 36.d. is appropriate for intercompany pooling agreements, as well as for modifications to existing intercompany pooling agreements, regardless of whether they impact only future policy years or also impact prior policy years, and should be retained for those purposes. We also support the exception being retained for amendments or modifications to other (non-pooling) intercompany reinsurance agreements that originally incepted on a prospective basis, as long as there is no surplus gain consistent with paragraph 36d. Without the exception permitting prospective accounting for these transactions, retroactive accounting would produce unusual fluctuations and financial statements that are opaque and inconsistent. It would also make it practically impossible to implement changes to intercompany pooling agreements over time. We believe the exception was originally only intended for these types of transactions.

Transactions that should be Scoped Out of the Exception

For reinsurance agreements between affiliates that incept on a retroactive basis, like loss portfolio transfers (LPT) and adverse development covers (ADC), we believe retroactive accounting should be required. This is more consistent with the intent of retroactive reinsurance accounting in paragraph 33 of SSAP 62, namely to prevent "potential abuses involving the creation of surplus to policyholders and the distortion of underwriting results…" Allowing the exception to extend to these affiliated transactions, which are inherently more susceptible to abuse and can provide significant and immediate RBC relief, seems contrary to the stated purpose of the guidance. In other words, we see no clear rationale for why an LPT with an affiliate should receive the accounting and reporting benefits of prospective reinsurance accounting while an arm's length LPT with an unaffiliated reinsurer is subject to the more stringent limitations of retroactive reinsurance accounting and reporting. We have also recently seen in practice affiliated LPTs that were structured with deferred premiums or other mechanisms that obscure a gain in surplus to qualify for prospective accounting under the paragraph 36.d. exception and avoid the more punitive accounting in paragraph 37. Often times the reinsurer in these cases is a U.S. or offshore captive affiliate, which is concerning.

For these reasons, we believe that reinsurance agreements between affiliates that incept on a retroactive basis should be scoped out of the paragraph 36.d. exception and be subject to the guidance in paragraphs 34 and 35 of SSAP 62. If prospective accounting treatment is ever appropriate for such a transaction, we believe it should be approved on a case-by-case basis as a permitted practice, after appropriate regulatory review and related notice requirements, and not by default.

Recommendations

The nature of the risks assumed by a reinsurer under a retroactive agreement when an insured event has already occurred is fundamentally different than under a prospective agreement, and we believe the accounting should follow the nature of the transaction (prospective or retroactive) and not who the counterparty is (affiliated or unaffiliated). We therefore recommend retaining the exception in paragraph 36.d. for new and amended intercompany pooling agreements and for amendments to other intercompany reinsurance agreements that incepted on a prospective basis, but revising the exception to exclude affiliated reinsurance agreements that incept on a retroactive basis. We believe this puts true retroactive reinsurance agreements with affiliates and non-affiliates on equal footing and provides for more consistent financial statement presentation and disclosures.

If this approach is followed, those transactions scoped out of paragraph 36.d. should likely also be considered for scoping out of the requirements of paragraph 37 to prevent creative contract structuring designed to avoid a gain in surplus. Given the time value of money is a core economic driver behind true LPTs and discounting is a key input in their pricing, they often result in an initial gain, which paragraph 34 of SSAP 62 recognizes and prescribes very specific recognition,

measurement and disclosure guidelines for. The exposed disclosure may also need to be amended to only address amendments or modifications to other (non-pooling) intercompany reinsurance agreements that originally incepted on a prospective basis, since disclosure of affiliated reinsurance agreements accounted for as retroactive would be captured in Note 23F and intercompany pooling agreements should continue to be disclosed in Note 26.

Thank you for considering our views and recommendations on this important matter and we are happy to answer any questions or participate in additional discussions. I can be reached at 919-807-6143 or marwan.zabaneh@ncdoi.gov.

Sincerely,

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