Statutory Accounting Principles (E) Working Group
Meeting Agenda
December 9, 2025

A. <u>Consideration of Maintenance Agenda – Pending List</u>

1. Ref #2025-22: IMR Impact to Reinsurance Collateral
2. Ref #2025-23: IMR Proof of Reinvestment
3. Ref #2025-24: Commitments and Contingent Commitments
4. Ref #2025-25: Separate Account Nonadmitted Assets
5. Ref #2025-26: SSAP No. 48 Equity Changes
6. Ref #2025-27: SSAP No. 1 Modco/FWH Code
7. Ref #2025-28: Nonadmittance of Long-Term Repos
8. Ref #2025-29: Reporting Clarifications
9. Ref #2025-30: Administrative Services Contracts Disclosure Clarification
10. Ref #2025-31: Update Coverage Gap Reference
11. Ref #2025-32: Remove Shaded Text
12. Ref #2025-33: Update to Annual Statement Expense Descriptions and Categories
13. Ref #2025-34: Updates on Economic Scenario Generator and Non-Variable Annuities

Ref #	Title	Attachment #
2025-22 (Julie)	**IMR Impact to Reinsurance Collateral**	**A – Form A**

<u>*Summary:*</u>
This agenda item has been prepared to establish clear guidance in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* and Schedule S, Part 4, on how IMR derecognized by the cedent pursuant to a reinsurance transaction should be reflected in determining the amount of reinsurance collateral required from the assuming entity to receive reinsurance credit. The requirement for collateral is only a component for assuming reinsurers that are unauthorized or certified for which full or partial collateral is required under the *Credit for Reinsurance Model Law* (#785) and *Credit for Reinsurance Model Regulation* (#786). It does not apply to reciprocal jurisdiction reinsurers, authorized, accredited or licensed reinsurers where collateral is not required.

Although the existing guidance in SSAP No. 61 requires derecognized net <u>positive</u> IMR to be captured as an increase in the collateral requirement, from what industry communicated during the IMR Ad Hoc Group discussions, this SSAP No. 61 requirement has not been consistently followed. Industry representatives advised that the inclusion of eliminated net positive IMR in the collateral requirement has been driven by the terms of their reinsurance treaties. NAIC staff have highlighted that this is inconsistent with statutory accounting principles, and deviations should have been supported by a permitted or prescribed practice. Through discussions of the IMR Ad Hoc Group, consensus of the group was reached that SSAP No. 61 does appropriately require that any IMR associated with reinsured reserves be included in any collateral requirements under the Credit for Reinsurance Models.

However, there is no current mention of derecognized net negative IMR in the existing SSAP No. 61 for collateral requirements, and the IMR Ad Hoc Group has been discussing if/how derecognized net negative IMR should factor into the collateral requirement for reinsurance credit. If net negative IMR were to be included in the collateral requirement, it would reduce required collateral. As the ad hoc group was not able to arrive at a consensus position between regulators and industry on how this should be treated, this Form A includes two possible options for the Working Group to consider.

One point of note for which the ad hoc group was able to reach consensus was that the consideration of net negative IMR should not consider the admissibility of the IMR for the cedant prior to reinsurance. Rather, the balance should be either fully included or fully excluded from the collateral requirement. This is because the calculation of any surplus-based limitation of negative IMR admissibility would become circular after the reinsurance is in place and unable to be repeated from that point forward.

The question being presented to the Working Group to decide is as follows:

Should the treatment of derecognized net negative IMR reduce required collateral for reinsurance (i.e. be treated symmetrically with positive IMR? If the treatment is symmetrical, then derecognized net positive IMR increases the collateral requirement, and derecognized net negative IMR would decrease the collateral requirement. If the treatment is asymmetrical, derecognized net positive IMR still increases the collateral requirement, but derecognized net negative IMR would not decrease the collateral requirement.

The agenda item includes discussion and illustrations for the two potential options. The arguments for each option are summarized below:

- **Symmetrical Treatment:** Industry advocates for IMR to be treated symmetrically for reinsurance collateral requirements. The rationale for including IMR in the collateral requirement, whether positive or negative, is the view that it represents a valuation adjustment to the ceded reserves. It reflects the partial unlocking of the reserve valuation rate resulting from sales and reinvestments of the supporting fixed income investments. Therefore, the most accurate reflection of the value of the current reserves being ceded is inclusive of the IMR balance. For this reason, any collateral requirements should be inclusive of IMR regardless of direction. Asymmetrical treatment is generally viewed by industry as arbitrary and punitive and may have an unfavorable impact on reinsurance costs for ceding insurers.

- **Asymmetrical Treatment:** The alternative view which is supported by NAIC staff is that net negative IMR derecognized from a reinsurance transaction should not be permitted to influence the collateral required to receive reinsurance credit. In addition to the questions/issues on how this can be perceived to allow IMR to reflect a collateral asset, particularly as IMR (which reflects realized gains and losses) are not transferable assets, this is also recommended to prevent incentivizing reinsurance transactions to eliminate nonadmitted IMR. This is also perceived to be consistent with existing guidance as only IMR liability adjustments are currently captured in SSAP No. 61 and Schedule S.

This agenda item was driven from discussion at the IMR Ad Hoc Group. With differing opinions among staff, regulators and industry reps, it was requested that this issue be presented to the full Working Group.

Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing categorized as a SAP clarification and expose proposed revisions to SSAP No. 61 to clarify how IMR derecognized as part of a reinsurance transaction should influence the reinsurance collateral required to receive reinsurance credit. These revisions reiterate the current requirement to increase reinsurance collateral requirements for net positive IMR derecognized from a reinsurance transaction and the staff recommendation to prohibit a decrease in reinsurance collateral requirements from the derecognition of net negative IMR.

With this exposure, regulators are asked to comment on whether different IMR treatment should be considered from what is recommended. Specifically, instead of the asymmetrical approach, whether both positive and negative IMR derecognized from reinsurance transactions should impact the reinsurance collateral treatment

(symmetrical treatment). Additionally, with exposure, a referral is recommended to the Reinsurance (E) Task Force to provide notice of this discussion and request comments.

As discussed within, the recommendation for asymmetrical treatment is supported by NAIC staff for the following reasons:

- **Positive IMR: Both the policy reserve and IMR are needed in the collateral requirement to ensure that the collateral equals the established cedent's liability prior to the reinsurance transaction.**

- **Negative IMR: By including negative IMR eliminated from a reinsurance transaction, the collateral required drops below the required policy reserve. IMR is not permitted to reflect a collateral asset, and as negative IMR simply reflects previously recognized realized losses, IMR is not a transferable asset. Further, if negative IMR was nonadmitted, the process to include negative IMR as a reduction of the collateral requirement could incentivize reinsurance transactions to obtain a surplus bump from the elimination of the nonadmitted IMR.**

Proposed Revisions to SSAP No. 61 to paragraphs 47a and 50a for both certified and unauthorized reinsurers and the calculation of the reserve credits: (Remaining subparagraphs excluded for brevity.)

47. A liability is established by the ceding entity to offset credit taken in various balance sheet accounts for reinsurance ceded to a certified reinsurer in an amount proportionate to any deficiency in the amount of acceptable security that is provided by the certified reinsurer as compared to the amount of security that is required to be provided in accordance with the certified reinsurer's rating. **In determining the amount of this liability, the ceding insurance entity must first determine the net obligations subject to collateral from the certified reinsurer**, which is equal to the following:

47a. Reserve credits taken, which shall include all net positive Interest Maintenance Reserve (IMR) derecognized as a result of the reinsurance transaction, but shall exclude all net negative IMR derecognized as a result of the reinsurance transactions[1] ~~including any Interest Maintenance Reserve (IMR) liability adjustment~~; plus

Footnote: The guidance for derecognized net positive and net negative IMR is required in the collateral requirement calculation for all cedents regardless of the reinsurance treaty terms.

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:

50.a: Reserve credits taken, which shall include all net positive IMR derecognized as a result of the reinsurance transaction, but shall exclude all net negative IMR derecognized as a result of the reinsurance transactions[1]; ~~including any IMR liability adjustment~~; plus

Footnote: The guidance for derecognized net positive and net negative IMR is required in the collateral requirement calculation for all cedents regardless of the reinsurance treaty terms.

Ref #	Title	Attachment #
2025-23 (Julie)	**IMR Proof of Reinvestment**	**B – Form A**

Summary:
This agenda item has been prepared to present the proposed IMR proof of reinvestment requirement discussed by the IMR Ad Hoc Group to the Working Group for consideration. A fundamental concept of a negative interest maintenance reserve (IMR), supporting the deferral of realized loss recognition with amortization over time, is that the proceeds from the sale of the fixed-income instruments have been reinvested into new fixed income instruments with a higher yield. Although the tracking of sales proceeds to specific acquisitions was noted as the ideal approach, such specific investment tracking is not realistic within insurance companies. To facilitate verification without specific investment tracking, a calculation template has been developed to determine whether reporting entities are sufficiently acquiring fixed-income instruments in comparison to their investable premium and sold fixed-income investments, and if the weighted average yield on the investments acquired is greater than the weighted average yield of the investments sold. Under the concepts supported by the IMR Ad Hoc Group, a company would be required to complete and pass both tests (reinvestment and weighted average yield) within the proof of reinvestment in order to move to a net negative IMR balance (from a prior positive IMR position) and/or increase a prior year net negative IMR balance. Reporting entities with a net positive IMR, regardless of the extent of sales resulting in realized losses throughout the year, would not be required to complete the proof. Reporting entities that fail the proof would only be permitted to recognize in IMR current year realized losses that offset current year realized gains. If the reporting entity that failed the proof had additional realized losses, those losses would be recognized as a direct surplus impact and would not be recognized/deferred through IMR. For clarity, although reference is made to fixed-income investments, the proof of reinvestment focuses on bonds and mortgage loans as they comprise the majority of fixed-income investments at reporting entities. This limitation intends to allow for a more simplistic calculation that still meets the spirit of the overall intent of the proof of reinvestment.

The IMR Ad Hoc Group considered the proof concept for the general account and the separate accounts and determined that individual proof calculations should be completed for each filed account separately, based on the position of IMR in each. As such, separate templates have been created for both the general account and the separate account. To be clear on application requirements:

- If the general account went net negative or increased the net negative balance, then a proof would be required for the general account. This would be required regardless of whether any separate account (insulated or non-insulated) was in a positive IMR position.

- If a separate account went net negative or increased the net negative balance, then a proof for that separate account would be required. Again, this would be required regardless of whether the general account or another separate account was in a positive IMR position.

The IMR Ad Hoc Group has also recently indicated support for eliminating the "disallowed" concept for IMR. With this removal, IMR recognition will be fully dependent on the IMR position in that specific account. So, if the general account has a net negative IMR, and a separate account has a net positive IMR, there would be no recognition of a contra-liability offset in the general account. Rather, the general account would show the full negative position on the general account asset page, and the separate account would show the full positive position on its liability page.

The proof of reinvestment is intended to be captured as a disclosure within *SSAP No. 7—Asset Valuation and Interest Maintenance Reserve* for annual completion as required by impacted reporting entities. As shown within the illustrations in this agenda item, the templates have been prepared to maximize specific reporting lines from the financial statements, allowing for ease of regulator and auditor verification.

It is important to highlight that the recognition to IMR throughout the year is not expected to be impacted. Meaning, reporting entities would recognize realized losses to IMR as appropriate throughout the quarters. The disclosure template will be required to be completed annually for current-year information, and if a company does not pass the proof, then the reporting entity will be required to adjust what had been recognized to IMR throughout the year. This will require a year-end adjustment to IMR for companies that do not pass.

The agenda item includes templates planned for the Issue Paper and SSAP No. 7 that will be used to determine when the proof of reinvestment is required and then templates illustrating the calculations. The agenda item also includes key concepts to assist with completing the calculations.

Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing as a new SAP concept and expose the proposed concepts and templates for the IMR Proof of Reinvestment for full Working Group and industry consideration. Although being shared/exposed at this time with a request for feedback, the resulting guidance will be included in the issue paper being developed for SSAP No. 7. As such, subsequent consideration can also occur when the issue paper is also exposed for comment.

Ref #	Title	Attachment #
2025-24 (Wil)	**Commitments and Contingencies Disclosures**	**C – Form A**

Summary:
In September 2025, NAIC staff received an industry inquiry regarding whether private placement commitments should be disclosed in Note 14, Liabilities, Contingencies and Assessments or Note 21, Other Items. Upon review, staff determined that the existing instructions for disclosure of commitments were both unclear and incomplete. While *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets* and Note 14 appeared to be the logical location for disclosure of general commitments, the instructions technically addressed only commitments to SCAs, guarantees, and guaranty fund assessments. NAIC staff also noted that the disclosure requirement in *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures* for non-derivative forward commitments (which would cover private placement commitments) was mapped per the disclosure checklist to "Other Disclosures" in Note 21C rather than to Note 14. Because Note 21C functions as a general catchall for miscellaneous disclosures, there were no specific instructions for completing this disclosure beyond the SSAP language.

Separately, staff received a regulator comment highlighting inconsistencies in reporting commitments by investment schedule. While Schedule BA includes a column for "Commitment for Additional Investment," Schedule D does not. This issue was prompted by a regulator who noted that several Schedule D items included delayed draw provisions, yet there was no mechanism to report such commitments by investment. More broadly, NAIC staff also noted that commitments and contingent commitments are currently disclosed across multiple notes and schedules, making it difficult for regulators to obtain a comprehensive view of the reporting entity's potential obligations.

As insurers increasingly enter into complex financial arrangements, the commitments embedded in these transactions are often not recognized as liabilities on financial statements. Nonetheless, the terms of such arrangements can materially restrict an insurer's ability to exit or modify them without incurring significant costs. From a regulatory standpoint, full transparency of these commitments is essential. Although they may not have an immediate balance sheet impact, they can govern the use of future cash flows, constrain liquidity, and shape the insurer's overall risk profile. This agenda item therefore proposes clarifying existing disclosure requirements and introducing a comprehensive framework to capture all such commitments, enabling regulators to form a more complete assessment of an insurer's financial position.

This agenda item is intended to address these issues by:

(1) Moving the SSAP No. 1 disclosure for non-derivative forward commitments to SSAP No. 5, and re-mapping the disclosure to Note 14.

(2) Add a definition of commitments and contingent commitments to SSAP No. 5.

(3) Clarifying that Note 14A(1) is intended to cover all material commitments and contingent commitments, not only those related to SCAs, guarantees, and guaranty fund assessments.

(4) Adding a new summary disclosure that consolidates commitments and contingent commitments reported in the annual statement.

(5) Removed references to "contingent liabilities" from the Note 14 instructions, excluding the Guarantees disclosure instructions, and clarified that Note 14F should include amounts accrued for loss contingencies and impairments of assets.

(6) Adding a new "Commitment for Additional Investment" column, with instructions, to Schedule D-1-1 and Schedule D-1-2 and revising the instructions for the same column on Schedule BA for consistency.

(7) Added clarifying language to *SSAP No. 21—Other Admitted Assets* to specify the timing for recording non-bond debt securities. It was noted that the existing guidance in SSAP No. 21 does not indicate whether insurers should recognize these securities on the trade date or that private placements should be recorded on the funding date. This omission appears to have been an oversight, and NAIC staff believe that the clarification will simply codify the prevailing accounting practice already in use.

It should also be emphasized that the proposed commitment disclosures apply only to commitments made by the reporting entity to another entity. The disclosure requirements in *SSAP No. 15—Debt and Holding Company Obligations* for unused commitments and lines of credit are not applicable to this agenda item or within the scope of SSAP No. 5, as those represent commitments from other parties to provide funding to the reporting entity.

<u>*Recommendation:*</u>

NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions, to the annual statement instructions, SSAP *No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*, *SSAP No. 5—Liabilities, Contingencies and*

***Impairments of Assets*, *SSAP No. 21—Other Admitted Assets*, *SSAP No. 26—Bonds*, and *SSAP No. 43—Asset-Backed Securities*.** These revisions would consolidate and clarify the disclosure requirements for commitments and contingent commitments, add a definition for commitments to SSAP No. 5, and add a comprehensive commitments and contingent commitments disclosure to Note 14. In addition, trade date language is proposed for SSAP No. 21 as a cleanup item.

NAIC staff have also received inquiries regarding whether statutory accounting guidance should explicitly address investments that include claw back provisions, which are contractual features that allow the issuer or originator to recover previously distributed or paid amounts under specified conditions. Although such provisions are often associated with equity-related investments, NAIC staff have noted that these features were historically found in certain types of debt securities but have become less common.

To better understand current market practices, NAIC staff request industry feedback on the types of investments that include claw back features and the prevalence of these provisions within insurers' investment portfolios. In addition, input is sought on the typical triggers, valuation and accounting treatment, and potential implications for statutory reporting and risk assessment investments with claw back features.

Ref #	Title	Attachment #
2025-25 (Julie)	**Separate Account Nonadmitted Assets**	**D – Form A**

<u>*Summary:*</u>
This agenda item has been prepared to present the proposed change to capture nonadmitted assets on the separate account blank for assets held at the general account basis (often referred to as "book-value" separate accounts). This change is proposed for all insulated and non-insulated separate account filings.

The concept to add reporting for nonadmitted assets is driven from the IMR Ad Hoc Group discussions and the assessment of a long-term approach for IMR. Under historical concepts, net negative IMR on the separate account blank was immediately charged to surplus and eliminated from the financial statements. With the provisions permitted in *INT 23-01: Net Negative (Disallowed) IMR*, net negative IMR in the separate account previously charged against surplus is permitted to be reinstated and reported as an admitted asset if the company had not fully reached the 10% admittance limit in the general account. The IMR Ad Hoc group noted that this process is not sustainable as a long-term solution for recognizing IMR in the separate account. If a change was not incorporated to report nonadmitted assets, then assessment would occur on limiting the recognition/admittance of net negative IMR in the separate account to the extent of current year realized losses. Meaning, if a company had exceeded the admittance threshold for the current year, remaining net negative IMR would be charged to surplus, without potential for reinstatement in future years. Whereas, if nonadmitted assets were reported, then net negative IMR that exceeded the admittance threshold could be reported as a nonadmitted asset, with future admittance permitted when the reporting entity goes below the admittance limit.

With the discussion, it was also noted that the "general account basis" separate account assets pertain to general account products that have been segregated within a separate account. The assets backing these products shall be subject to the same admittance provisions as if they were held in the general account. With the current separate account reporting, there is no mechanism to identify whether the assets qualify as admitted assets. The addition of the nonadmitted reporting columns on the balance sheet will enable regulators to identify and assess the presence of nonadmitted assets for these "general account basis" assets. Although the guidance in *SSAP No. 56—Separate Accounts*, paragraph 18 indicates that assets that do not qualify for admittance are not permitted in a book value separate account, this restriction may not be realistic with the various admittance requirements.

(For example, a previously admittable asset transferred to the separate account could subsequently not qualify for admittance.) Incorporating guidance that requires identification of nonadmitted assets would allow for identification of these assets and be consistent with the general account reporting.

Separate account assets held at fair value generally represent products where the contract holder bears the investment risk, often with investment directives determined by the contract holder. These assets are not proposed to be subject to the nonadmitted reporting requirements.

Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing as a new SAP concept and expose revisions to SSAP No. 56 to explicitly address nonadmittance for assets held under the "general account basis" in the separate account, and to expose the proposed separate account annual statement revisions to incorporate the concept of nonadmitted assets within the separate account balance sheet and corresponding schedules. With exposure, it is recommended that the Working Group sponsor a corresponding blanks proposal. These revisions are proposed to be effective January 1, 2027.

Ref #	Title	Attachment #
2025-26 (Julie)	**SSAP No. 48 Equity Changes**	**E – Form A**

Summary:

This agenda item has been prepared to review the overall guidance as well as the process in which equity changes are reported for investments in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*. Questions have been raised as to the timing of the requirement for the audited financial statements, and inquiries on the specific guidance in the standard for determining the amount reported (book/adjusted carrying value) for a SSAP No. 48 investment. In reviewing reported information on Schedule BA, questions have also been identified on the reporting provisions and if they are clear / consistently applied.

Under existing guidance in SSAP No. 48, investments shall be reported using the equity method. If a reporting entity holds a minor ownership interest (less than 10%) or lacks control, the equity calculation is limited to the guidance in SSAP No. 48. If there is a more-than-minor ownership interest, then the equity method is calculated pursuant to the guidance in *SSAP No. 97—Investments in Subsidiaries, Controlled and Affiliated Entities*, paragraphs 8.b.i-8.b.iv, which determines the equity method based on the investee (e.g., insurance company, non-insurance company, foreign insurance company). The general concept of the equity calculation is the same in both SSAP No. 48 and SSAP No. 97. The equity method adjusts a reporting entity's cost basis in an investment to reflect the audited undistributed gains/losses of the investee. Under both SSAP No. 48 and SSAP No. 97, audited financial statements are required to support the equity method calculation and for the investment to be admitted. Calculations also include amortization of a "basis difference" or goodwill – both concepts discussed within.

This agenda item is very detailed with many concepts from SSAP No. 48 identified for potential discussion. Ultimately, as shown within the recommendation, this agenda item proposes a review of several concepts to ensure intended guidance is clear and consistently applied. It's also noted that this review would be in line with historical agenda item 2013-36: Investment Classification Project. Although SSAP No. 48 was identified for review within that project, a review of SSAP No. 48 has yet to be completed.

Recommendation:

NAIC staff recommend that the Statutory Accounting Practices (E) Working Group move this item to the active listing initially categorized as a SAP Clarification, with an initial exposure and request for feedback on noted

aspects and the extent of a SSAP No. 48 review. Consideration as to whether revisions reflect SAP Clarifications or new SAP Concepts can be reassessed once extent of review and potential revisions are further considered.

Ultimately, this agenda item proposes a review of several SSAP No. 48 concepts, and how they are applied, to ensure intended guidance is clear and consistently applied. This review is in line with a historical agenda item, Ref #2013-36: Investment Classification Project, which was undertaken to review the investment SSAPs, including SSAP No. 48. However, after completion of numerous revisions (pre-bond project), the agenda item was closed, with a note that future revisions under the project would be captured in new agenda items to allow for easier tracking. A review of SSAP No. 48, although originally identified, was not completed under that project.

The agenda item includes a discussion and summary of several items noted within SSAP No. 48, originating from inquiries into the potential for day-one gains when acquiring investments at a discount. After exposure, and assessing the comments on how guidance is applied, the Working Group can decide to provide individual responses to the various items for limited revisions, or can direct NAIC staff to undertake a more comprehensive review of the accounting guidance and reporting requirements for SSAP No. 48 investments:

Specific Items for Exposure / Discussion:

A. <u>Timing of Recognition of Equity Value Increases and Decreases</u> – Feedback is recommended on how equity changes are reflected per industry's application (prior to audited support) and if changes are needed to the guidance to clarify application and improve reported information.

i. Consideration could be given to clarify the intent for audited support prior to the recognition of any equity changes or clarification as to industry practice, in which equity changes are reflected when known (e.g., when the SSAP No. 48 entity provides updated reports), with a "true-up" to the audited financial statements once available.

ii. This item also inquires whether additional Schedule BA information (perhaps via electronic columns) that identifies the date of the last audited financial statement, when that information was received, and the audited equity value at that time, would be beneficial. For example, it could assist in verifying that the BACV has audited support and identifying significant equity changes from the last audit.

B. <u>Acquisition of SSAP No. 48 Investments at a Discount with Negative Goodwill</u> – Feedback is recommended on the application of the goodwill guidance (positive and negative) for SSAP No. 48 items and if there are adequate reporting on Schedule BA to identify the goodwill impact.

i. As detailed in the agenda item, under existing guidance, reporting entities shall not immediately recognize an increase in equity value if acquiring a SSAP No. 48 item at a discount. Rather, negative goodwill shall be recognized, and that goodwill should be amortized to unrealized gain over when the acquiring entity benefits economically, not to exceed 10 years. (Also noting that the guidance does not mandate a minimum amortization timeframe for negative goodwill.) Comments are requested on this guidance and whether modifications or clarifications are needed.

ii. Also as detailed in the agenda item, it does not appear that there is a way to identify whether a SSAP No. 48 item was acquired at a premium or discount on Schedule BA and if there is unamortized goodwill. Feedback is required on whether this information would be beneficial for inclusion. Feedback is requested on modifying the Schedule BA information, so this information can be reported more transparently.

C. **<u>Application of Goodwill and Goodwill Disclosures</u> – Feedback is requested regarding the lack of SSAP No. 68 disclosures involving goodwill for SSAP No. 48 investments and whether the goodwill from these acquisitions should be captured with the other goodwill disclosures. Without inclusion in the SSAP No. 48 disclosures, the goodwill from these acquisitions is likely not being subject to admittance limitations or being used to calculate the adjusted capital and surplus for other thresholds (e.g., IMR admittance).**

   i. Although the guidance in SSAP No. 68, paragraph 4, is explicit that all SSAP No. 48 entities are subject to goodwill, there is a question whether acquisitions of SSAP No. 48 investments are following the guidance and are captured in the goodwill disclosures.

   ii. Consideration can be given to expanding the SSAP No. 48 disclosures to ensure clarity on how the goodwill from these acquisitions should be reported.

D. **<u>SSAP No. 48 – Reference to "Basis Difference"</u>** – **To ensure consistency in interpretation and application, this agenda item proposes consideration of minor revisions to replace the term "basis difference" in SSAP No. 48, paragraph 11, with goodwill.**

   i. The term "basis difference" is not a statutory accounting concept, there is nothing in SAP that explains this term or establishes the amortization timeframe. As its reference intends to reflect goodwill, that term/guidance should be utilized to prevent confusion / inconsistent misapplication.

E. **<u>SSAP No. 48 Negative Investment Income and Impairment Assessment</u> – Feedback is requested on what generates negative investment income reported on Schedule BA as well as information on what causes an unrealized loss reporting dynamic, especially when BACV is greater than original cost.**

   i. As discussed in the agenda item, from a review of the 2024 data (limited to 2024 acquisitions), a number of SSAP No. 48 investments were reported with negative investment income (Schedule BA – Column 20). Comments are requested to help explain how a negative investment income would be reported and what it reflects. The instructions are explicit that amounts that reflect a return of capital should not be captured within the investment income column.

   ii. Further, from a review of the data, there are questions as to the reporting of unrealized valuation decreases, as often the BACV is greater than original cost (which would indicate an unrealized increase/gain) or the reported BACV is unchanged from acquisition. Although this could reflect positive goodwill, it was noted to be unlikely given the size of the reported unrealized declines in the first year of acquisition. Comments are requested to help explain the cause and calculation of the reported unrealized declines (losses), particularly when the reported BACV is greater than acquisition cost.

F. **<u>SSAP No. 48 Ownership Percentage and Related Party Codes</u> – Feedback is requested on how related party codes are being used as many instances have been noted where the entity has a significant majority ownership (50% or higher) and the reported code is a "6 – No Related Party Relationship."**

   i. Under the provisions of SSAP No. 48 for determining "minor" (less than 10% or lacks control) as well as the SSAP No. 25 guidance in determining a related party relationship, these investments with more than 10% reporting entity ownership reflect a related party relationship. Although the criteria may not be met for "control" and affiliation, it seems that at a minimum, related party codes 2-5 would be applicable based on what is held within the SSAP No. 48 investment.

G. **<u>Schedule BA Column – "Date Originally Acquired"</u> –** To ensure consistency in reporting, this agenda item proposes consideration of blanks reporting revisions to clarify the "date originally acquired" on Part 1 to identify that it should not be updated to reflect additional interests / funding towards an existing investment. For Schedule BA, Part 2, consideration will be given towards minor revisions to specifically address how to report subsequent additions.

Ref #	Title	Attachment #
2025-27 (Jake)	**SSAP No. 1 Modco/FWH Code**	**F – Form A**

Summary:
The Working Group has recently adopted several changes to reporting of funds withheld and modified coinsurance (modco) arrangements. This agenda item intends to update the required disclosures in *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*, in the restricted assets disclosure, to separately show modco and funds withheld assets within the Note 5L disclosures and to add them as a reporting code category within the investment schedules within the annual statement blanks. During the most recent update to Note 5L for restricted assets, these categories had been added to the restricted asset note with the adoption of the Blanks (E) Working Group's agenda item 2025-06BWG.

There are two distinct actions with the agenda item. First, there are draft revisions to the restricted asset disclosure requirements in SSAP No. 1 to add categories for 1) modco assets, 2) funds withheld assets, and 3) collateral assets received and on the balance sheet, excluding collateral held under security lending and repurchase agreements reported on the balance sheet. These three categories had previously been added to the Note 5L disclosure, and these revisions will update SSAP No. 1 to match. Second, this agenda item includes a recommendation to the Blanks (E) Working Group to add these 3 categories into the restricted asset codes included in the investment reporting schedules.

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. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures* to expand paragraph 23b to add reporting for assets held under a modco and funds withheld arrangements. These changes had been made previously when the Blanks (E) Working Group adopted blanks agenda item 2025-06BWG in Note 5L, so our recommendation is to add these categories to SSAP No. 1, to include disclosure of 1) modco assets, 2) funds withheld assets, and 3) collateral assets received and, on the balance sheet, excluding collateral held under security lending and repurchase agreements reported on the balance sheet. NAIC staff also recommend that these categories be added to the restricted asset disclosure in the investment schedules.

Ref #	Title	Attachment #
2025-28 (Julie)	**Nonadmittance of Long-Term Repos**	**G – Form A**

Summary:
This agenda item has been prepared to discuss and clarify the guidance requiring nonadmittance of long-term repurchase and reverse repurchase transactions. This item has been raised due to questions on the existing guidance requiring nonadmittance, inconsistent treatment by reporting entities, permitted practices to admit

long-term repurchase agreements, and an identified potential disparate treatment for repurchase agreements in comparison to other types of borrowing structures.

Under existing guidance in *SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, repurchase and reverse repurchase transactions are collectively referred to as "repos." The existing nonadmittance guidance refers to both types collectively, with nonadmittance required for agreements with maturity dates in excess of 365 days. This is detailed in footnote 6 of SSAP No. 103:

> [6] Only short-term repo agreements (with a stated short-term maturity date) are allowed as admitted assets. Long-term repo agreements (agreements with maturity dates in excess of 365 days) are nonadmitted.

Questions and comments have been received on this guidance, particularly noting the following:

1. Repurchase and reverse repurchase agreements are different transactions, serving different purposes for reporting entities, therefore should be assessed separately in determining how nonadmitted guidance should be applied and if nonadmittance should be required for maturities in excess of one year.

2. For repurchase transactions, the nonadmittance recognition has been noted to present an punitive financial position when the agreement is open. If the repurchase transaction was to default, the resulting surplus position after default would be an improved financial presentation than what is shown with nonadmittance.

3. For repurchase transactions, the treatment has been identified to be disparate from other borrowing arrangements. For example, borrowings from the FHLB and securities lending agreements are not subject to admittance provisions based on the length of the borrowing agreement.

4. For all transactions, questions have been received on the application, particularly on the component that should be nonadmitted in the financial statements, and if that nonadmitted status should be eliminated once the contract enters the last year of its contract. (For example, if a 3-year agreement was nonadmitted, would that agreement be admitted once there is only 1 year left to maturity.)

As background, the definitions of repurchase and reverse repurchase agreements are as follows:

- Repurchase Agreements - For secured borrowing repurchase transactions, the insurance reporting entity sells a security, and receives collateral (generally cash) in an exchange that does not qualify as a sale. The insurer is the "cash taker" in these transactions, meaning they are borrowing funds from the counterparty. An insurer could enter into repurchase agreements for spread investing, this could be considered similar to the purposes of entering into a borrowing agreement with FHLB. For repurchase transactions, the counterparty to the insurer bears the asset risk (risk of decline in collateral value for the transferred asset).

- Reverse Repurchase Agreements - For secured borrowing reverse repurchase transactions, the insurance reporting entity is buying a security and providing collateral (generally cash) in an exchange that does not qualify as a sale. The insurer is the "cash provider" in these transactions. For these transactions, the insurer bears the asset risk (risk of decline in collateral value for the acquired asset).

The agenda item then details repurchase and reverse repurchase transactions separately with illustrations and discussion components. With the assessment in the agenda item, NAIC staff recommend the following:

- Repurchase Agreements: If a repurchase agreement satisfies the initial and ongoing SSAP No. 103 collateral requirements (i.e., collateral equal to at least 95% of the fair value of the transferred/sold security), the agreement's maturity length should not affect its admittance. If there is concern that longer dated repurchase agreements can be puttable and terminated early, leaving an insurer to liquidate invested assets, then NAIC staff would recommend establishing provisions that address the puttable nature of all borrowing agreements, rather than limiting a specific form of a long-term borrowing transaction.

- Reverse Repurchase Agreements: Continue to require nonadmittance of reverse repurchase agreements with maturity dates that exceed 1-year. Based on questions received, it is believed that clarification of the nonadmittance provisions would be beneficial, therefore the following is proposed:

    - Clarification that long-term reverse repurchase agreements shall be reported as "Any Other Asset" on Schedule BA, coded as a restricted asset subject to a reverse repurchase agreement, and nonadmitted.

    - Clarification that in the last year to maturity, the long-term reverse repurchase agreement would not move reporting schedules (it would remain on Schedule BA) but could be admitted.

These positions are supported based on the party that holds the asset risk:

- In a repurchase agreement, the reporting entity has transferred an asset to the counterparty for cash. In the event the asset declines in value, the reporting entity could decide to default on the transaction and not take back the devalued asset. This would put the reporting entity in a better financial position, as they received cash for the original fair value of the asset. The valuation risk (decline in asset value) is assumed by the counterparty.

- In a reverse repurchase agreement, the asset valuation risk has been assumed by the reporting entity. As such, if the reporting entity is holding the bond, and its value has declined, the counterparty could decide to default, leaving the reporting entity with only the devalued bond as the remaining asset. This dynamic would result in the reporting entity having a diminished financial position because of the reverse repurchase agreement:

Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing as a new SAP concept and expose revisions to SSAP No. 103 to revise the guidance to allow long-term repurchase agreements to be admitted. This would then identify that only reverse repurchase agreements with maturity dates in excess of one-year are nonadmitted. This will alter historical guidance that required repurchase agreements with maturity date in excess of one-year to be nonadmitted. Although this is a new SAP concept, due to the limited scope of the change and documentation within this agenda item, NAIC staff does not recommend an issue paper. The rationale is detailed within the agenda item and can be referred to for future use as needed. With the nonadmittance revision, it is recommended that the Working Group include clarifying edits on how reverse repurchase agreements shall be reported in the financial statements.

As discussed in the agenda item, if there is concern that longer-dated repurchase agreements can be puttable and terminated early, leaving an insurer to liquidate invested assets (similar to what could occur when collateral from overnight securities lending transactions are reinvested in longer-term assets), then NAIC staff would recommend establishing provisions that address the puttable nature of all borrowing agreements, rather than limiting a specific form of a borrowing transaction. Comments are requested from industry on the prevalence of puttable provisions in repurchase agreements. Comments are requested from regulators on the need to include admittance restrictions if repurchase agreements (as well as perhaps other borrowing agreements)

have puttable provisions and if borrowing agreements with puttable conditions need additional disclosure (e.g., terms of puttable conditions, potential mismatches in maturity or valuation if the cash collateral has been reinvested, etc.)

This item was identified to be addressed separately from the broad repo project captured in agenda item 2024-24. That project will continue as time allows.

Proposed Revisions to SSAP No. 103: (Revisions are to footnote 6).

[6] Only short-term reverse repurchase ~~repo~~ agreements ~~(~~with ~~a~~ stated ~~short-term~~ maturity dates of 365 days or less~~)~~ are allowed as admitted assets. Long-term reverse repurchase ~~repo~~ agreements ~~(agreements~~ with maturity dates in excess of 365 days~~)~~ are nonadmitted~~.~~ and shall be reported on Schedule BA as an "Any Other Asset" and nonadmitted. A long-term reverse repurchase agreement shall not be moved to Schedule DA when the remaining maturity date is within 365 days of the reporting period date. However, when the maturity date is within 365 days of the reporting period date and the fair value of the acquired asset is 102% or more than the original purchase price paid by the reporting entity, the reverse repurchase agreement may be admitted for the remaining duration (365 days or less) until maturity. If the reverse repurchase agreement is renewed for a period in excess of 365 days, the agreement shall again be nonadmitted. This footnote is specific to reverse repurchase agreements and has no impact on the admittance of long-term repurchase agreements.

Ref #	Title	Attachment #
2025-29 (Julie)	**Reporting Clarifications**	**H – Form A**

Summary:
This agenda item has been prepared to modify and/or clarify reporting for certain aspects involving debt securities predominantly incorporated with the implementation of the principles-based bond definition. The reporting items within have been identified from questions from insurance reporting entities. Additional items may be added to this agenda item from interested parties' comments as well as from a review of the 2025 financial statements.

The following items are initially captured. NAIC staff proposals are included within the agenda item.

- Payment Due at Maturity - Questions have been raised as to what should be reported as "payment due at maturity" on D-1-1 for issuer credit obligations, and whether this reporting category should only be applicable for certain structures on the ABS schedule. For example, for self-liquidating ABS investments, there would be no explicit, separate payment at maturity. For most ICO structures, the amount due at maturity at acquisition is likely par value of the bond.

- Origination Balloon Payment %: Clarification was requested to allow use of "acquisition data" when origination data is not available. Although the initial implementation incorporated such transition provisions, it has been noted that origination data may not be available for companies that acquire bonds on the secondary market (after origination). It was commented that getting the necessary documents for the bond could be challenging depending on the time between original acquisition and when it was acquired on the secondary market.

- Rated Notes or Rated Feeder Funds*:* Comment has been received to clarify the reporting location of debt securities from rated notes or rated feeder funds that qualify for bond treatment. This comment noted potential reporting of these items as issuer credit obligations. The reporting line for rated notes or rated feeder funds is not currently defined in existing guidance. The classification of a debt security as an issuer credit obligation (ICO) is specific to debt securities backed by the general creditworthiness of an operating entity. A rated note or rated feeder fund, by design, would not qualify within those provisions. A rated note or rated feeder fund would need to be assessed as an asset-backed security, which is a structure where the primary source of repayment is derived from cash flows associated with the underlying defined collateral. There is not a common definition for these investments. They typically involve a special purpose vehicle (SPV) holding underlying collateral. The nature of that collateral may vary widely and can be other investment securities, equity interests or limited partnership interests in funds.

- Aggregate Deferred Interest - Clarification for this reporting element was requested particularly for bank loans reported on Schedule D-1-1 as Issuer Credit Obligations. Industry representatives indicated that it is common for bank loans to accumulate interest from underlying bank loans before paying the holder the interest. The interest accumulation within the bank loan may occur differently from the set payment dates to the holder.

- Schedule BA – Residuals Maturity Date: Clarification has been requested on whether residuals should report a maturity date on Schedule BA. A review of 2024 reporting identified several residuals that were reported without a maturity date. Although the residual absorbs losses first, and may not have contractual principal or interest, it is anticipated that the overall structure would have a maturity date. The instructions require reporting for investments that have a stated maturity date.

- Schedule BA – Investments in SSAP No. 48 Entities with Underlying Characteristics of Mortgage Loans - Questions have been received on whether this reporting category can include SSAP No. 48 structures that hold RMBS or CMBS if the reporting entity can look through the RMBS/CMBS structures to complete a detailed property analysis on the mortgages that comprise the securitization structures.

Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing as a SAP clarification with exposure of the agenda item with a request for comment on the proposed clarifications as detailed in the agenda item. NAIC staff requests comments on the items exposed as well as additional reporting elements for which clarity would improve consistency in reporting. With adoption, propose sponsoring of a blanks proposal to incorporate the clarifications in the annual statement instructions.

Ref #	Title	Attachment #
2025-30 (Robin)	**Administrative Services Contracts Disclosure Clarification**	**I – Form A**

Summary:
The purpose of this agenda item is to provide clarifications to the Administrative Services Contracts (ASC) disclosure in *SSAP No. 47—Uninsured Plans* and the related annual statement note 18B. Under an Administrative Services Contract plan the reporting entity pays claims from its own bank accounts, and only subsequently receives reimbursement from the uninsured plan sponsor. The purpose of annual statement note 18B is to disclose the gain or loss from ASC contracts. However, the existing disclosure wording and annual statement instructions have resulted in inconsistent reporting.

The queries that NAIC staff received were regarding annual statement cross checks and instructions for the table which data captures the required disclosure. Although the SSAP No. 47 disclosure does not have a formula, the existing data captured Note 18B includes a formula that does not result in a net gain or loss on the ASC contract After review, NAIC staff are recommending updates to the disclosure in SSAP No. 47 and updates to the annual statement instructions and data captured table for note 18B to more accurately reflect the objective of showing the profitability of ASC contracts.

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. 47 and the related annual statement note 18B as illustrated below. The main reason for this clarification is to have a result that details the net gain or loss on the ASC plans. With the exposure, NAIC staff will also prepare a Blanks proposal for simultaneous exposure.

Because the insurer pays the claims on an ASC contract and is subsequently reimbursed, the note is data capturing gross inflows for reimbursements and gross administrative fees accrued. The existing other income interest line could reflect both inflows and outflows. To make the data capture easier, the other amounts/ interest received are proposed to be reported on a separate line from the other amounts/ interest paid by the insurer. The formula in the annual statement instructions is also proposed to be updated. The proposed revisions should result in consistent reporting of net gains from operations on ASC contracts.

SSAP No. 47:

Disclosures

13. The statutory financial statements shall provide the following (bolding added):

a. Information with regard to the profitability to the administrator of all ASO plans and the uninsured portions of partially insured plans for which the reporting entity serves as an ASO administrator;

For the total and each category separately provided: (i) net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses, (ii) total net other income or expense (including interest paid to or received from plans), and (iii) total net gain or loss from operations and (iv) the claim payment volume;

b. Information with regard to the profitability to the administrator of all ASC plans and the uninsured portions of partially insured plans for which the reporting entity serves as an ASC administrator;

For the total and each category separately provided: (i) gross reimbursement for medical cost incurred, (ii) gross administrative fees accrued, (iii) other ~~income or expense~~amounts received by the insurance reporting entity (including interest paid to the insurer or received from ASC plans), (iv) other amounts paid by the insurance reporting entity (including interest paid to or on behalf of the ASC plans), (~~i~~v) gross expenses incurred (claims and administrative), and (vi) total net gain or loss from operations.

c. Information with regards to Medicare or similarly structured cost based reimbursement contracts shall include: (i) major components of revenue by payor, (ii) receivables from payors with account balances the greater of 10% of gross amounts receivable relating to uninsured accident and health plans or $10,000, (iii) recorded allowances and reserves for adjustment of recorded revenues, (iv) adjustments to revenue resulting from audit of receivables related to revenues recorded in the prior period.

Annual statement Instructions:
Drafting Note: The formula has been updated to better reflect net gain or loss on the ASC plans.

Note 18 - Gain or Loss to the Reporting Entity from Uninsured Plans and the Uninsured Portion of Partially Insured Plans

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

- B. ASC Plans

The gain from operations from Administrative Services Contract (ASC) uninsured plans and the uninsured portion of partially insured plans was as follows during 20___:

		ASC Uninsured Plans	Uninsured Portion of Partially Insured Plans	Total ASC
a.	Gross reimbursement for medical cost incurred	$ ____________	$ ____________	$ ____________
b.	Gross administrative fees accrued	$ ____________	$ ____________	$ ____________
c.	Other ~~income or expenses~~amounts received by insurance reporting entity (including interest paid to the insurer or received from ASC plans)	$ ____________	$ ____________	$ ____________
d.	Other amounts paid by the insurance reporting entity (including interest paid to or on behalf of the ASC plans)	$ ____________	$ ____________	$ ____________
e.	Gross expenses incurred (claims and administrative) ~~(a+b+c-d)~~	$ ____________	$ ____________	$ ____________
~~e~~f.	Total net gain or loss from operations (a+b+c)-(d+e)	$ ____________	$ ____________	$ ____________

Ref #	Title	Attachment #
2025-31 (Robin)	**Update Coverage Gap Reference**	**J – Form A** **K – INT 05-05**

Summary:
The objective of this agenda item is to update references to the Coverage Gap Discount Program within *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*. In accordance with the Inflation Reduction Act of

2022, the Coverage Gap Discount Program ended as of December 31, 2024. It has been replaced by the Manufacturer Discount Program, and corresponding updates to INT 05-05 are proposed to reflect this change.

The CMS Manufacturer Discount Program is a new Medicare Part D program that began on January 1, 2025. It requires participating pharmaceutical manufacturers to sign an agreement with the Centers for Medicare & Medicaid Services (CMS) to make their drugs eligible for Medicaid coverage. The participating drug manufacturers are required to provide discounts on eligible medications. After discussion with health industry representatives, the new program is also proposed to follow the guidance in *SSAP No. 47—Uninsured Plans.*

<u>*Recommendation:*</u>
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage* to note the December 31, 2024, end of the Coverage Gap Discount program and add relevant references to the CMS Manufacturer's Discount Program. The revisions to INT 05-05 are shown as a separate attachment from the agenda item. The Working Group should discuss whether adoption is needed prior to the 2025 annual statement filing.

Ref #	Title	Attachment #
2025-32 (Wil)	**Remove Shaded Text**	**L – Form A**

<u>*Summary:*</u>
The *Accounting Practices and Procedures Manual* (APPM) historically used shaded text to indicate substantive revisions as deleted text in the Statements of Statutory Accounting Principles (SSAPs). This approach is no longer used for SSAPs. However, *SSAP No. 40—Real Estate Investments* still includes shaded text representing superseded guidance that was replaced when *SSAP No. 90—Impairment or Disposal of Real Estate Investments* was introduced in 2005. This agenda item proposes revisions to eliminate the shaded and superseded guidance shown within SSAP No. 40. These revisions would also update references within the APPM which detail using the shaded method to show previously superseded SSAP guidance.

Appendix H – Superseded SSAPs and Nullified Interpretations will continue to reflect nullified guidance as shaded text.

<u>*Recommendation:*</u>
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. 40, SSAP No. 90, the Summary of Changes, and the How to Use document to delete the shaded text instructions and delete previously superseded guidance in SSAP No. 40 which is currently shown as shaded text.

Ref #	Title	Attachment #
2025-33 (Jake)	**Update to Annual Statement Expense Descriptions and Categories**	**M – Form A**

<u>*Summary:*</u>
NAIC staff have received informal comments from industry that several of the expense categories that are included in the annual statements are outdated and need to be updated to reflect the current types of expenses

that exist for the companies. Many of the changes are directly driven by changes in technology over the past 30 years and include the removal of items such as telegrams, cables, radiograms and teletypes that have been replaced in practical usage by email and other electronic communication. The updated descriptions also clarify some expenses related to computer technology that were not clear in the prior descriptions. The intent of this agenda item is only to update the existing schedules and classifications of expenses with current descriptions and was not intended to change statutory accounting for these expenses.

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to update and modernize the expense descriptions and categories in the annual reporting blanks, and detailed in Exhibit 1 of Form A. This agenda item does not propose any changes to statutory accounting, only changes to the annual statement blanks. With adoption of this agenda item, a recommendation will be sent to the Blanks (E) Working Group to incorporate these changes through the public process.

Ref #	Title	Attachment #
2025-34 (Robin)	**Updates on Economic Scenario Generator and Non-Variable Annuities**	**N – Form A**

Summary:

This agenda item is to coordinate regarding updates to the *Valuation Manual* (VM) on two topics:

1. APF 2025-04 updates the economic scenario generator references to reflect the adoption of the new prescribed economic scenario generator. The revisions from APF 2025-04 are effective January 1, 2026, and include an optional phase in which allows partial recognition of the impact over a period of **up to** 36 months**.** The following chapters of the VM were impacted by the revisions from Life Actuarial (A) Task Force agenda item APF 2025-04:

   - VM-20: Requirements for Principles Based Reserves for Life Products,
   - VM-21: Requirements for Principles Based Reserves for Variable Annuities,
   - VM-31: PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation

2. APF 2025-11 introduces a new principle-based reserving framework for non-variable annuities, in VM-22, Requirements for Principles Based Reserves for Non-Variable Annuities. The revisions from APF 2025-11 are effective January 1, 2026, and include an optional implementation period of **up to** 3 years whereby a company may elect to utilize applicable formulaic reserving methodologies for blocks of business instead of applying VM-22**.** The following chapters of the VM were impacted by the revisions from Life Actuarial (A) Task Force agenda item APF 2025-11:

   - VM-01: Definitions for Terms in Requirements
   - VM- 22: Requirements for Principles Based Reserves for Non-Variable Annuities
   - VM-31: PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation
   - VM-G: Appendix G – Corporate Governance Guidance for Principle-Based Reserves
   - VM-V: Statutory Maximum Valuation Interest Rates for Formulaic Reserves

<u>*Recommendation:*</u>
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. 3—Accounting Changes and Corrections of Errors*, *SSAP No. 51—Life Contracts,* and *SSAP No. 52—Deposit-Type Contracts* as described below and illustrated in the agenda item. With the exposure, NAIC staff will coordinate with Blanks (E) Working Group staff regarding 2026 updates to the phase-in disclosures and notify the Life Actuarial (A) Task Force of the exposure.

- The revisions to SSAP No. 3 and SSAP No. 51 expand the existing phase-in disclosure to reflect the APF 2025-04 phase-in by adding reference to VM-20. The revisions to SSAP No. 51 also move the existing phase-in disclosure in paragraph 39 (subheading change in valuation basis) to a new paragraph 53 in the disclosure section of SSAP No. 51. Finally, the effective date of both disclosures is noted in SSAP No. 51.

- The revisions to SSAP No. 51 and SSAP No. 52 effective date paragraphs provide that the VM-22 (non-variable annuities) optional implementation period in APF 2025-11 is reported as a change in accounting principle/ change in valuation basis when implemented.

B. <u>Any Other Matters</u>

a. Memo to Blanks (E) Working Group Clarifying Reporting on Schedule S, Part 8 – (Jake - Attachment O)

On May 22, 2025, the Statutory Accounting Principles (E) Working Group adopted agenda item 2024-07, Reporting of Funds Withheld and Modco Assets, where a new Schedule S, Part 8 was added to the Life/Fraternal Annual Statement Instructions and Blank, and this was then incorporated in the blank and instructions through Blanks (E) Working Group agenda item 2025-05BWG. This reporting is effective Dec. 31, 2025, and the agenda item did not result in any changes to statutory accounting, it only added the new reporting schedule for the reporting of assets associated with a funds withheld or modified coinsurance (modco) arrangement.

As a result of comments received during the drafting and exposure process, the scope of the project was changed for the final adoption. The initial project intended to capture any and all assets that are subject to a funds withheld or modco arrangement, but the final adoption narrowed this scope to be only assets that are subject to a funds withheld or modco arrangement <u>where investment risk is transferred</u>. The goal of this change was to make the new reporting schedule work more cleanly with the Life/Fraternal RBC reporting schedule.

The memorandum intends to address questions that were received after the adoption of the new Schedule S, Part 8. The new Schedule S, Part 8 was not intended to change any part of the way that assets subject to a modco or funds withheld arrangement are factored into the Life/Fraternal RBC calculation. The goal of Schedule S, Part 8 is to create a schedule that matches with the existing reporting in RBC and does not change or override the guidance that exists in Life/Fraternal RBC reporting. This would give regulators an improved level of confidence in the balances reported in the RBC schedules. The final adopted language is to be consistent with the existing, long-standing guidance In the Life/Fraternal RBC Reporting Instructions in LR045, LR046, LR047 and LR048.

b. Update on the IMR Ad Hoc Subgroup – (Julie)

The IMR Ad Hoc group has continued to meet regularly since their first meeting in Oct. 2023. Since the 2025 Summer National Meeting, the discussions have focused on the proof of reinvestment, the concept of "disallowed" IMR, separate account reporting, amortization of IMR and updating the NAIC designation change guidance for allocating realized gains and losses to either IMR or AVR. It is anticipated that only a few key topics remain, including excess withdrawals, market value adjustments, modco/FWH reinsurance transactions, and the admittance limit. The IMR Ad Hoc group calls will be scheduled to occur between the 2025 Fall and 2026 Spring National Meetings.

Summaries of the topics discussed since the Summer National Meeting:

- Proof of Reinvestment: The ad hoc group has developed a calculation template that supports whether a company is effectively reinvesting sales proceeds from the sale of fixed-income investments into new fixed-income investments with a higher average-weighted yield. This concept and calculation template is being presented to the full Working Group for review and consideration. (Ref #2025-23)

- Disallowed IMR: The ad hoc group has supported a deletion of the "disallowed" concept, where positive/negative amounts in the general or separate account could permit a contra-liability to be reported rather than an asset. With the revisions, IMR will be separately contained within each account it pertains to and will be reported as a distinct liability or asset based on the position in each account.

- Separate Account Reporting: The ad hoc group has supported the reporting of nonadmitted and net admitted assets on the separate account balance sheet for "book-valued" separate accounts. The process to eliminate negative IMR as a charge to surplus and then reinstate IMR when under admittance limits was identified as not sustainable long-term. Further, the book-valued assets in the separate account are subject to the same admittance provisions of general account assets, and this addition will make those nonadmitted assets easier to verify. This item is being presented to the SAPWG for exposure and to proceed with a blanks proposal to incorporate the change. (Ref #2025-25)

- Amortization of IMR: The ad hoc group has supported revisions to specify an IMR amortization method to improve consistency across reporting entities. This will reflect 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 expected maturity, and then follow the "Grouped Amortization Schedule." This discussion identified this simplified method to be the prevalent method across reporting entities. Those that were following prior amortization approaches will continue those amortizations, but new IMR will follow the set method.

- NAIC Designation Changes: For issuer credit obligations and redeemable preferred stock, the allocation of realized gains and losses depends predominantly on the change in NAIC designation from beginning to end. Under historical guidance, if there was a more than one designation change, the entire gain/loss would go to the AVR. This historical guidance had not been updated when the designations went from 6-20, so reassessment was needed. The ad hoc group has proposed new concepts summarized as follows:

    a. All realized gains shall be allocated to the IMR regardless of beginning and ending NAIC designation.

    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 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 improvement, it shall be considered to have 3 or less designation declines, with the realized loss taken to IMR.

iii. If the investment had more than 3 designation declines and does not have an ending NAIC 1 designation, then the entire <u>realized loss</u> shall be allocated to the AVR.

c. Notice of Potential Macroprudential (E) Working Group Referral – (Julie)

The Macroprudential (E) Working Group is considering disclosure requirements for Financial Asset Backed Notes (FABNs). It is anticipated that upon adoption of their disclosure recommendation, they will sponsor a blanks proposal and send a referral to the Statutory Accounting Principles (E) Working Group. The proposed FABN reporting was exposed on their Nov. 7 conference call with discussion planned on Dec. 9 during the Fall National Meeting. Upon receipt of the referral, NAIC staff will consider whether edits are necessary to *SSAP No. 52—Deposit-Type Contracts* and develop an agenda item as appropriate. (The revisions may be satisfied by revisions to Exhibit 7.) To allow for concurrent exposure with the blanks proposal, and adoption consideration in time for year-end 2026 reporting, if an agenda item is necessary, NAIC staff will present it for an evote exposure as soon as possible. This could occur in December if the recommendation is adopted by the Macroprudential (E) Working Group at the Fall National Meeting, or in the first quarter of 2026 based on when adoption occurs.

d. Discussion of Printed Accounting Practices and Procedures Manual – (Julie)

NAIC staff is soliciting feedback from SAPWG members and interested regulators on the printed AP&P Manual. Technically, the NAIC does not provide printed publications anymore. However, the AP&P Manual has limited copies printed for NAIC staff and SAPWG members. Then, requests by states are fulfilled with one copy by state, until all requests are completed. After each state that wants one has a copy, then additional regulator requests are completed as received. Over the last couple of years, there have been increased regulator requests for printed copies of the AP&P Manual. It has been suggested that regulators do not often utilize Volume 2 in print form, and if only Volume 1 was printed, then an increased number of printed manuals could be obtained for regulator use. Before further proceeding with this option, NAIC staff wants to ensure that not receiving Volume 2 in printed form would not cause concerns by any state insurance departments. The entire Manual is available for free in an electronic format on the NAIC website

e. Referral from Life Risk-Based Capital (E) Working Group (Robin)

This is an update that NAIC staff will collaborate with interested parties in identifying possible clarifications to respond to the referral from the Life Risk-Based Capital (E) Working Group which was received at the Summer National Meeting. The referral forwarded comments received on proposal 2025-04-L Other Long-Term Assets (LR008). Specifically, the ACLI raised questions regarding AVR equity reporting lines for common stock in SCAs and other affiliates and requested clarifications to the AVR instructions. In simple summary, AVR line 15 is named SCA Common Stock – **Certain Other Subsidiaries** and line 16 is SCA Common Stock – **Other**, and the intent is to get clarification in determining what reported in each category. Some of the original language on this seems to relate to SCA valuation categories, but over time, the distinction between the categories has become unclear.

f. Review of U.S. GAAP Exposures (Jason/Robin)

As of November 11, 2025, there are no items currently exposed by FASB. Future exposed ASUs will be reviewed to determine whether comments are needed during the exposure process; otherwise, after issuance from FASB, items will be reviewed according to the SAP Maintenance Process as described in *Appendix F—Policy Statements.*

g. IAIS Audit and Accounting Working Group (AAWG Update) – (Julie)

Julie Gann and Maggie Chang (NAIC) monitor IAIS AAWG discussions. The last meeting was Sept. 18-19, 2025. Although there are AAWG actions to review issuances from international bodies, generally, the items are not relevant to the U.S. Some items that may be of interest include the following:

- IASB's potential exposure of targeted improvements to amortized cost measurement expected *in IFRS 9, Financial Instruments*.
- Discussion on private equity investments in accounting firms and related ethical and independence considerations.
- The Insurance Capital Standard (ICS) implementation and revisions to Insurance Core Principle (ICP) 9, Supervisory Reporting, and ICP 20, Public Disclosure. A public background call on the revisions is scheduled for Dec. 11. Registration is available on the IAIS website. Contact NAIC staff for a direct link.

Comment Deadlines:

- **All Agenda Items: Comment Deadline – Feb. 13, 2026**

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/-25 National Meeting/Meeting/0 - -2025 SAPWG Meeting Agenda.docx

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

Issue: IMR Impact to Reinsurance Collateral

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 establish clear guidance in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* and Schedule S, Part 4, on how IMR derecognized by the cedent pursuant to a reinsurance transaction should be reflected in determining the amount of reinsurance collateral required from the assuming entity to receive reinsurance credit. The requirement for collateral is only a component for assuming reinsurers that are unauthorized or certified for which full or partial collateral is required under the *Credit for Reinsurance Model Law* (#785) and *Credit for Reinsurance Model Regulation* (#786). It does not apply to reciprocal jurisdiction reinsurers, authorized, accredited or licensed reinsurers where collateral is not required.

Although the existing guidance in SSAP No. 61 requires derecognized net <u>positive</u> IMR to be captured as an increase in the collateral requirement, from what industry communicated during the IMR Ad Hoc Group discussions, this SSAP No. 61 requirement has not been consistently followed. Industry representatives advised that the inclusion of derecognized net positive IMR in the collateral requirement has been driven by the terms of their reinsurance treaties. NAIC staff have highlighted that this is inconsistent with statutory accounting principles, and deviations should have been supported by a permitted or prescribed practice. Through discussions of the IMR Ad Hoc Group, consensus of the group was reached that SSAP No. 61 does appropriately require that any IMR associated with reinsured reserves be included in any collateral requirements under the Credit for Reinsurance Models.

However, there is no current mention of derecognized net negative IMR in the existing SSAP No. 61 for collateral requirements, and the IMR Ad Hoc Group has been discussing if/how derecognized net negative IMR should factor into the collateral requirement for reinsurance credit. If net negative IMR were to be included in the collateral requirement, it would reduce required collateral. As the ad hoc group was not able to arrive at a consensus position between regulators and industry on how this should be treated, this Form A includes two possible options for the Working Group to consider.

One point of note for which the ad hoc group was able to reach consensus was that the consideration of net negative IMR should not consider the admissibility of the IMR for the cedant prior to reinsurance. Rather, the balance should be either fully included or fully excluded from the collateral requirement. This is because the calculation of any surplus-based limitation of negative IMR admissibility would become circular after the reinsurance is in place and unable to be repeated from that point forward.

The question being presented to the Working Group to decide is as follows:

Should the treatment of derecognized net negative IMR reduce required collateral for reinsurance (i.e. be treated symmetrically with positive IMR? If the treatment is symmetrical, then derecognized net positive IMR increases the collateral requirement, and derecognized net negative IMR would decrease the collateral requirement. If the treatment is asymmetrical, derecognized net positive IMR still increases the collateral requirement, but derecognized net negative IMR would not decrease the collateral requirement.

The agenda item includes discussion and illustrations for the two potential options. The arguments for each option are summarized below:

- **Symmetrical Treatment:** Industry advocates for IMR to be treated symmetrically for reinsurance collateral requirements. The rationale for including IMR in the collateral requirement, whether positive or negative, is the view that it represents a valuation adjustment to the ceded reserves. It reflects the partial unlocking of the reserve valuation rate resulting from sales and reinvestments of the supporting fixed income investments. Therefore, the most accurate reflection of the value of the current reserves being ceded is inclusive of the IMR balance. For this reason, any collateral requirements should be inclusive of IMR regardless of direction. Asymmetrical treatment is generally viewed by industry as arbitrary and punitive and may have an unfavorable impact on reinsurance costs for ceding insurers.

- **Asymmetrical Treatment:** The alternative view which is supported by NAIC staff is that net negative IMR derecognized from a reinsurance transaction should not be permitted to influence the collateral required to receive reinsurance credit. In addition to the questions/issues on how this can be perceived to allow IMR to reflect a collateral asset, particularly as IMR (which reflects realized gains and losses) are not transferable assets, this is also recommended to prevent incentivizing reinsurance transactions to derecognize nonadmitted IMR. This is also perceived to be consistent with existing guidance as only IMR liability adjustments are currently captured in SSAP No. 61 and Schedule S.

This agenda item was driven from discussion at the IMR Ad Hoc Group. With differing opinions among staff, regulators and industry reps, it was requested that this issue be presented to the full Working Group.

Discussion and illustration entries are presented to illustrate the impact of these options:

1. <u>Net Positive IMR Increases Collateral Requirements (current SSAP No. 61 guidance)</u>

Positive IMR is generated when a fixed-income asset is sold in a decreasing interest rate environment, in that the fair value of the sold investment is greater than the book/adjusted carrying value (BACV), resulting in a realized gain. When this occurs, although the entity may have received a gain from the sale, they will be reinvesting in a lower-yielding asset resulting in fewer cash flows over the asset's duration. Recognizing that the entity still has long-term obligations for which the asset should be matched, the realized gain is recognized as a liability (positive IMR) and amortized to income over the life of the originally held fixed-income investment.

> Example: Cedent has $20 of positive IMR from the sale of a $100 fixed-income instrument for $120 in a declining interest rate environment. The entity then ceded the $100 reserve under an 80% coinsurance transaction. Assuming everything was equal:
>
> - Remove $80 policy reserves ($100 * 80%)
> - Remove $16 of positive IMR (liability) ($20 * 80%)
> - Remove $96 of assets ($120 * 80%)

Prior to the transaction, the cedent had $96 reported as a total liability – the $80 reserve and the $16 IMR. For reinsurance collateral purposes, an amount of $96 is required to equal the cedent's liability that was established prior to the reinsurance transaction. If the positive IMR was not required to increase the collateral requirement, then the cedent would only have protection of $80 for the $96 in liability they had recognized prior to the reinsurance transaction. With the assumption that the specific assets backing the liability are transferred to the assuming entity, which equals $96 after the reinvestment and reinsurance transaction, and no additional amounts or different types of investments are required, by including the positive IMR in the collateral requirement, the transaction would be surplus neutral to the ceding entity. If the positive IMR was not included in the collateral requirement, then the reinsurer would be permitted to provide less collateral than what would be needed to cover the transferred policy reserves.

2. <u>Net Negative IMR Decreases Collateral Requirements</u>

Negative IMR is generated when a fixed-income asset is sold in an increasing interest rate environment, in that the fair value of the sold investment is lower than the book/adjusted carrying value (BACV), resulting in a realized loss. When this occurs, the reporting entity would be re-investing a lower amount into a higher-yielding asset, generating more cash flow over the asset's duration. (For example, if the asset was on book for $100 (with a fair value of $80) and paying 4% prior to the sale, after the sale/re-investment, the entity would have an asset on book for $80 and paying 6%.) If the loss qualifies for IMR under the guidance, the realized loss is recognized as an asset (negative IMR) and amortized to income over the life of the originally held fixed-income investment. Prior to 2023, this negative IMR asset was nonadmitted. Under the current INT 23-01, if the reporting entity qualifies, this negative IMR asset is admitted.

> Example: Cedent has $20 of admitted negative IMR from the sale of a $100 fixed-income instrument for $80 in a rising interest rate environment. The reporting entity then ceded the $100 reserve under an 80% coinsurance transaction. If everything is always equal:
>
> - Remove $80 policy reserves ($100 * 80%)
> - Remove $16 of negative IMR (asset) ($20 * 80%)
> - Remove $64 of assets ($80 * 80%)

In an example where everything is equal, it may appear that offsetting liabilities and assets of $80 were removed by the cedent in a surplus neutral transaction. However, the assuming entity only received $64 of hard assets that could be used to pay claims. The cedent's policy reserve was still $80, therefore if only $64 of assets were used to collateralize the transaction, the collateral does not provide protection for the full reserve. It should also be noted that non-US reinsurers would not be recognizing the IMR.

Including negative IMR into the calculation results with these questions / issues:

- It may be viewed that the negative IMR is being used as a collateral asset towards the full $80 policy reserve. Under the Model, IMR does not qualify as a collateral asset.
- If negative IMR is permitted, the collateral (hard assets) required is less than the cedent's recognized policy reserve prior to the transaction.

  Note: The ACLI position is that the IMR should be considered an adjustment to the cedent's recognized policy reserve. If this position is supported, then the IMR is not viewed as collateral and the amount of collateral required would equal the policy reserve ($64 in this example).
- If the assuming entity only received the $64 of hard assets, requiring the assuming entity to post collateral of $80 could make the transaction undesirable from a reinsurer perspective. However, there are questions whether reinsurers would accept only $64 in hard assets to assume the $80 policy reserve.
- IMR (either positive or negative) is not a transferable component. As previously noted, IMR does not qualify as an asset or liability under U.S. GAAP or SAP definitions. IMR is strictly a SAP concept that allows deferred recognition of realized gains and losses.

The questions / issues involving negative IMR in the reinsurance collateral calculation become more nuanced if the negative IMR did not qualify for admittance. The elimination of nonadmitted IMR results in a surplus bump to the ceding entity. This is shown as follows:

> Example: Cedent has $20 of <u>nonadmitted</u> negative IMR from the sale of a $100 fixed-income instrument for $80 in a rising interest rate environment. The reporting entity then ceded the $100 reserve under an 80% coinsurance transaction. If everything was always equal:
>
> - Remove $16 of negative IMR (asset) $(20 * 80%)
> - Decrease $16 as nonadmitted assets, increasing cedent's surplus.
> - Remove $80 policy reserves ($100 * 80%)
> - Remove $64 of assets ($80 * 80%)

With this dynamic, the removal of the nonadmitted assets increases the company's surplus. Then, with the reinsurance arrangement the same questions arise as to whether the IMR should be a factor in the collateral of the reinsurance arrangement. If allowing the nonadmitted IMR to be included in the collateral calculation, the ceding entity has a benefit to their financial statements in a manner as though the IMR was always admitted. <u>This may incentivize reinsurance transactions for companies with nonadmitted negative IMR, particularly in situations when the IMR had exceeded admittance thresholds</u>.

Under the ACLI proposal, they do not believe the admittance/nonadmittance status at the ceding entity should impact the consideration of IMR in the collateral calculation. Rather, the calculation of nonadmittance would then be completed after the ceding transaction (and removal of IMR), recognizing that with less negative IMR, it would be more likely that a company would be within admittance parameters. As a very simple example, if a company had exceeded admittance thresholds by $10, and derecognized net negative IMR by $12 because of a reinsurance transaction, then the company would be fully able to admit the remaining net negative IMR after the result of the reinsurance transaction. Under the ACLI proposal, the derecognized nonadmitted IMR of $12 should still be considered as a reduction of the policy reserve. Therefore, if the policy reserves removed were $80, then only $68 would be required as collateral from the assuming entity.

Existing Authoritative Literature:

<u>SSAP No. 61—Life, Deposit-Type and Health Reinsurance</u>
Paragraphs 47 and 50 provides guidance for the collateral requirement for certified and unauthorized reinsurers to receive reinsurance credit. This guidance is specific that the collateral requirement is equal to the reserve credit taken. If the collateral requirement is not met, then the ceding entity must set up a net liability that includes the reserve credits taken, including any IMR liability adjustment as detailed in paragraphs 47a and 50a.

Reinsurance Ceded to a Certified Reinsurer

47. A liability is established by the ceding entity to offset credit taken in various balance sheet accounts for reinsurance ceded to a certified reinsurer in an amount proportionate to any deficiency in the amount of acceptable security that is provided by the certified reinsurer as compared to the amount of security that is required to be provided in accordance with the certified reinsurer's rating. **<u>In determining the amount of this liability, the ceding insurance entity must first determine the net obligations subject to collateral from the certified reinsurer</u>**, which is equal to the following:

    a. **Reserve credits taken including <u>any Interest Maintenance Reserve (IMR) liability adjustment</u>; 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. Amounts contractually due the assuming entity.

Unauthorized Reinsurance

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.

51. 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.

Annual Statement Instructions, Schedule S – Part 4 & Part 5

Schedule S, Part 4: Reinsurance Ceded to Unauthorized Companies and Schedule S, Part 5: Reinsurance Ceded to Certified Reinsurers include reinsurance ceded data used in the development of the liability for reinsurance in unauthorized or certified companies.

- For unauthorized - The liability serves to offset those assets and liability reductions that reflect the result of reinsurance ceded with unauthorized companies.

- For certified – The liability serves to offset those assets and liability reductions that reflect the result of reinsurer ceded with certified reinsurers that is not properly collateralized in accordance with the rating assigned to the certified reinsurer by the commissioner of the reporting company's state of domicile.

These schedules include the following columns:

Part 4 – Column 5 / Part 5 – Column 9: Reserve Credit Taken

This column includes the amount by which aggregate reserve for life contracts, deposit-type contracts, and accident and health companies has been reduced on account of reinsurance with unauthorized (or certified) companies. The amounts by company should be the same as those shown for life reinsurance ceded in Schedule S, Part 3, Section 1, Column 9 and for accident and health reinsurance ceded in Schedule S, Part 3, Section 2, Columns 9 & 10.

Part 4 – Column 6 / Part 5 – Column 10: Paid and Unpaid Recoverable, Including IBNR

This column is to include all paid and unpaid losses recoverable, including IBNR. It shall include the reduction in claim liability on account of reinsurance on incurred but not reported claims (estimated).

Part 4 – Column 7 / Part 5 – Column 11: Paid and Unpaid Recoverable, Including IBNR

This column is include all asset and liability reductions resulting from reinsurance ceded to unauthorized (or certified) reinsurers not included in columns 5 or 6 (or 9 or 10 for certified). Examples of items included in the column include:

- **Unamortized Interest Maintenance Reserve (IMR) liability adjustment**, if any, of the ceding company.
- Commissions and expense allowances due the ceding company.
- Modified coinsurance reserve adjustments due.
- Experience rating refunds due.

Both Schedule S Part 4 & Part 5 have explicit summary instructions that the securities held on deposit or held in a trust account should be valued at fair market value. This is also reiterated in the following instructions:

Column 12 (Part 4) and Column 20 (Part 5): Funds Deposited by and Withheld from Reinsurers

Where permissible to be taken as credit against the loss and reserve liabilities in Column 8 (Total of Columns 5, 6 & 7), 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 Note: Clarification on the fair value reporting requirements has been highlighted for a separate agenda item.

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): Pursuant to the IMR Ad Hoc Group call on July 28, the issue of whether negative IMR should be a factor in determining the extent of reinsurance collateral required was directed to the full Statutory Accounting Principles (E) Working Group. The ad hoc group did not reach a consensus between industry and regulators, as industry supported symmetrical treatment with positive IMR (both impacting the reinsurance collateral) whereas regulators noted concern with this approach, particularly if negative IMR was nonadmitted by the ceding entity. It was noted that if nonadmitted negative IMR could be used to reduce collateral requirements, reporting entities could be incentivized to enter reinsurance transactions for the surplus bump they would receive.

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 proposed revisions to SSAP No. 61 to clarify how IMR derecognized as part of a reinsurance transaction should influence the reinsurance collateral required to receive reinsurance credit. <u>These revisions reiterate the current requirement to increase reinsurance collateral requirements for net positive IMR derecognized from a reinsurance transaction and the staff recommendation to prohibit a decrease in reinsurance collateral requirements from the derecognition of net negative IMR</u>.

With this exposure, regulators are asked to comment on whether different IMR treatment should be considered from what is recommended. Specifically, instead of the asymmetrical approach, whether both positive and negative IMR derecognized from reinsurance transactions should impact the reinsurance collateral treatment (symmetrical treatment). Additionally, with exposure, a referral is recommended to the Reinsurance (E) Task Force to provide notice of this discussion and request comments.

As discussed within, the recommendation for asymmetrical treatment is supported by NAIC staff for the following reasons:

- **Positive IMR: Both the policy reserve and IMR are needed in the collateral requirement to ensure that the collateral equals the established cedent's liability prior to the reinsurance transaction.**

- **Negative IMR: By including negative IMR derecognized from a reinsurance transaction, the collateral required drops below the required policy reserve. IMR is not permitted to reflect a collateral asset, and as negative IMR simply reflects previously recognized realized losses, IMR is not a transferable asset. Further, if negative IMR was nonadmitted, the process to include negative IMR as a reduction of the collateral requirement could incentivize reinsurance transactions to obtain a surplus bump from the elimination of the nonadmitted IMR.**

Proposed Revisions to SSAP No. 61 to paragraphs 47a and 50a for both certified and unauthorized reinsurers and the calculation of the reserve credits: (Remaining subparagraphs excluded for brevity.)

Proposed Revisions to SSAP No. 61:

Reinsurance Ceded to a Certified Reinsurer

47. A liability is established by the ceding entity to offset credit taken in various balance sheet accounts for reinsurance ceded to a certified reinsurer in an amount proportionate to any deficiency in the amount of acceptable security that is provided by the certified reinsurer as compared to the amount of security that is required to be provided in accordance with the certified reinsurer's rating. **<u>In determining the amount of this liability, the ceding insurance entity must first determine the net obligations subject to collateral from the certified reinsurer</u>**, which is equal to the following:

    a. Reserve credits taken<u>, which shall include all net positive Interest Maintenance Reserve (IMR) derecognized as a result of the reinsurance transaction, but shall exclude all net negative IMR</u>

derecognized as a result of the reinsurance transactions[1] ~~including any Interest Maintenance Reserve (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. Amounts contractually due the assuming entity.

Unauthorized Reinsurance

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:

e. Reserve credits taken, which shall include all net positive IMR derecognized as a result of the reinsurance transaction, but shall exclude all net negative IMR derecognized as a result of the reinsurance transactions[2]; ~~including any IMR liability adjustment;~~ plus

f. Claim liability credits taken on paid and unpaid (in course of settlement) claims recoverable; plus

g. 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

h. 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

[1] The guidance for derecognized net positive and net negative IMR is required in the collateral requirement calculation for all cedents regardless of the reinsurance treaty terms.

[2] The guidance for derecognized net positive and net negative IMR is required in the collateral requirement calculation for all cedents regardless of the reinsurance treaty terms.

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

i. 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

j. Amounts contractually due the assuming entity.

51. 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.

Staff Review Completed by: Julie Gann, NAIC Staff—August 2025

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/12-9-25 Fall National Meeting/Meeting/A - 25-22 - Reins Collateral.docx

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

Issue: IMR Proof of Reinvestment

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 present the proposed IMR proof of reinvestment requirement discussed by the IMR Ad Hoc Group to the Working Group for consideration. A fundamental concept of a negative interest maintenance reserve (IMR)[1], supporting the deferral of realized loss recognition with amortization over time, is that the proceeds from the sale of the fixed-income instruments have been reinvested into new fixed income instruments with a higher yield. Although the tracking of sales proceeds to specific acquisitions was noted as the ideal approach, such specific investment tracking is not realistic within insurance companies. To facilitate verification without specific investment tracking, a calculation template has been developed to determine whether reporting entities are sufficiently acquiring fixed-income instruments in comparison to their investable premium and sold fixed-income investments, and if the weighted average yield on the investments acquired is greater than the weighted average yield of the investments sold. Under the concepts supported by the IMR Ad Hoc Group, a company would be required to complete and pass both tests (reinvestment and weighted average yield) within the proof of reinvestment in order to move to a net negative IMR balance (from a prior positive IMR position) and/or increase a prior year net negative IMR balance. Reporting entities with a net positive IMR, regardless of the extent of sales resulting in realized losses throughout the year, would not be required to complete the proof. Reporting entities that fail the proof would only be permitted to recognize in IMR current year realized losses that offset current year realized gains. If the reporting entity that failed the proof had additional realized losses, those losses would be recognized as a direct surplus impact and would not be recognized/deferred through IMR. For clarity, although reference is made to fixed-income investments, the proof of reinvestment focuses on bonds and mortgage loans as they comprise the majority of fixed-income investments at reporting entities. This limitation intends to allow for a more simplistic calculation that still meets the spirit of the overall intent of the proof of reinvestment.

The IMR Ad Hoc Group considered the proof concept for the general account and the separate accounts and determined that individual proof calculations should be completed for each filed account separately, based on the position of IMR in each. As such, separate templates have been created for both the general account and the separate account. To be clear on application requirements:

[1] Primer / Recap: IMR is a statutory concept used to defer and amortize realized interest-related gains and losses generated from the sale of fixed income instruments before maturity. When a sale occurs with a realized gain, it is considered a positive IMR (liability). When a sale occurs with a realized loss, it is considered a negative IMR. Reporting entities collectively report the IMR based on the net negative or positive position. Prior to *INT 23-01: Net Negative (Disallowed) IMR*, net negative IMR was a nonadmitted asset. Under INT 23-01 net negative IMR is permitted to be admitted up to 10% of adjusted capital and surplus. This INT has an effective date through Dec. 31, 2026. Consideration of a long-term approach for net negative IMR was directed as part of the INT adoption. The IMR Ad Hoc Group has been working to establish key concepts for future inclusion in *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

- If the general account went net negative or increased the net negative balance, then a proof would be required for the general account. This would be required regardless of whether any separate account (insulated or non-insulated) was in a positive IMR position.

- If a separate account went net negative or increased the net negative balance, then a proof for that separate account would be required. Again, this would be required regardless of whether the general account or another separate account was in a positive IMR position.

The IMR Ad Hoc Group has also recently indicated support for eliminating the "disallowed" concept for IMR. With this removal, IMR recognition will be fully dependent on the IMR position in that specific account. So, if the general account has a net negative IMR, and a separate account has a net positive IMR, there would be no recognition of a contra-liability offset in the general account. Rather, the general account would show the full negative position on the general account asset page, and the separate account would show the full positive position on its liability page.

The proof of reinvestment is intended to be captured as a disclosure within *SSAP No. 7—Asset Valuation and Interest Maintenance Reserve* for annual completion as required by impacted reporting entities. As shown within the illustrations in this agenda item, the templates have been prepared to maximize specific reporting lines from the financial statements, allowing for ease of regulator and auditor verification.

It is important to highlight that the recognition to IMR throughout the year is not expected to be impacted. Meaning, reporting entities would recognize realized losses to IMR as appropriate throughout the quarters. The disclosure template will be required to be completed annually for current-year information, and if a company does not pass the proof, then the reporting entity will be required to adjust what had been recognized to IMR throughout the year. This will require a year-end adjustment to IMR for companies that do not pass.

A template planned for the Issue Paper and SSAP No. 7 to determine when the proof of reinvestment is required and then templates illustrating the calculations are included within this agenda item. The following key concepts are also planned for documentation to assist with completing the calculations:

a. <u>Key Rationale:</u> 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. <u>Acquisitions of Investments</u>: Investments acquired focus on bonds and mortgage loans as the primary sources of fixed-income investments that comprise IMR[2]. The cost of these investments is pulled directly from the cash flow statement Rows 13.1 and 13.3.

c. <u>Proceeds from Investments</u>: Include the proceeds from sales of bonds and mortgage loans. As of year-end 2025, there is no data-captured disclosure that identifies the proceeds from sales specifically. Available information at that time aggregates proceeds from both sales and maturities. Proposed revisions for year-end 2026 will include new data-captured disclosures for bonds to separately detail proceeds from sales

[2] 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 those items 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.

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 actively traded and have limited sales occurrences.

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, companies 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 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). 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 resolve very quickly, with their claims reserves acting more as 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 (as shown in the calculation). The difference of these two weighted average yields is then calculated.

A reporting entity only passes the proof of reinvestment if the results from both the calculated results of acquisitions to sales 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 beyond what would be offset beyond current year IMR gains if they pass the proof of reinvestment. Reporting entities that had allocated negative losses to the IMR in the general account that does not pass proof of reinvestment is required to eliminate the losses that are not offset by gains and recognize the losses as immediate capital losses.

For the separate account, if the reporting entity does not pass the proof of reinvestment, the company is still permitted to recognize net negative IMR transferred from the general account. This is permitted as an carve-out as the transferred IMR was not the result of a specific separate account sale, therefore it is outside the parameter for the proof of reinvestment calculation. With the exception of this carve-out, if the reporting entity does not pass the proof of reinvestment for the separate account, the entity is only allowed recognize realized losses from sales in the separate account IMR to the extent they are offset by separate account gains also recognized in the IMR.

After the completion of the proof of reinvestment, and any modifications to eliminate deferred 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 losses and gains added to the IMR balance throughout the current year.

Template 1 – 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
Impact if Entity Fails 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. Although IMR amortization is a separate calculation completed to reflect current year impacts to IMR, determining whether the proof is necessary requires an adjustment to the beginning IMR balance for current year expected amortization. This adjustment amount shall be taken directly from the prior year-end IMR amortization schedule and used to adjust the beginning IMR balance. By using the prior year estimated amortization against the beginning balance, instead of actual current year amortization against the ending balance, a circular calculation is prevented. Current year amortization includes components for current year losses and would need to be recalculated if the reporting entity fails the proof and must remove realized losses from the ending IMR balance. Current year IMR amortization shall be calculated based on the resulting IMR balance after adjustments for reporting entities that fail the proof of reinvestment, reflecting consideration of actual current year gains and losses included in the IMR.

Discussion of Conclusions:
In all situations, if the entity is required to complete the proof, and fails, the losses removed from IMR shall be recognized as current period realized loss.

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 in 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 5: Proof is not required as the entity has not increased their prior-year net negative position.

Template 2 – 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			
5	Internal Systems	Proceeds from investments sold - Bonds	39,861,000
6	Internal Systems	Proceeds from investments sold - Mortgage Loan	3,831,000
7	Sum of Lines 5 & 6	**Total proceeds from Fixed Income Investments Sold**	**43,692,000**
8			
9	CF Stmt - Row 1	Premiums collected net of reinsurance	52,020,000
10	CF Stmt - Row 7	Commissions, expenses paid & aggregate write-ins for deductions	11,062,000
11	AS - Note 35 SA	Total Separate Account premiums, considerations or deposits, end of current period. (Negative IMR in the SA requires a separate calculation)	15,000,000
12	Internal Systems	Separate Account assets in kind received in line 11 above	3,000,000
13	Analysis of Operations - A&H: Column 1 less columns 11^ & 12	Premiums for accident and health contracts (short-term)	5,000,000
14	Line 9 - line 10 – line 11 + line 12 - line 13	**Investable Premiums Before Other Investment Adjustment**	**23,958,000**
15			
16	BS – Row 1	Bonds – Net Admitted	130,000,000
17	BS – Row 3.1	First Lien Mortgages – Net Admitted	20,000,000
18	BS – Row 3.2	Other Than First Lien Mortgages – Net Admitted	10,000,000
19	16 + 17 + 18	**Investments Subject to Proof of Reinvestment**	**160,000,000**
20	BS – Row 12	Subtotal, Cash and Invested Assets – Net Admitted	200,000,000
21	Line 20 – Line 19	**Allocation for Investment Into Other Assets**	**40,000,000**
22	Line 21 Divided by Line 20	**Percent of Investable Premiums Allocable to Equity and Other Investments**	**20%**
23	Line 14 multiplied by Line 22	**Investable Premium Adjustment**	**4,792,000**
24	Line 14 – Less 23	**Investable Premium**	**19,166,000**
25	Line 3 - line 7 - line 14	**Investments Purchased less Investments Sold and Investable Premiums**	**49,587,000**
26	Internal Systems	Weighted average yield of fixed income investments purchased (as reported on line 3) during the year	**4.57%**
27	Internal Systems	Weighted average yield of fixed income investments sold (as reported on line7) during the year	**3.96%**
28	Line 17 - line 18	**Increase (Decrease) of Yield of Purchased Investments Over Those Sold**	**0.61%**
29		**Sufficient Evidence of Reinvestment of Fixed Income Investments**	
30	**Test 1**	**Is line 25 positive?**	**Yes**
31	**Test 2**	**Is line 28 positive?**	**Yes**
	If lines 25 & 28 are both positive - current year negative IMR that exceeds positive IMR can be added to either originate a net negative balance or increase an existing unamortized negative IMR balance. Admittance is subject to limitations included within SSAP No. 7.		

Template 3 – 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 Bonds & Mortgage Loans Purchased**	**558,000**
4			
5	Internal Systems	Proceeds from Investments sold - Bonds	502,000
6	Internal Systems	Proceeds from Investments sold - Mortgage Loans	14,000
7	sum of lines 5 & 6	**Total proceeds from Bonds & Mortgage Loans Sold**	**516,000**
8			
9	Blue book Note 35	Premiums collected net of reinsurance	7,000
10	CF Stmt - Row 7	Commissions, expenses paid and aggregate write-ins for deductions	0
11	AS - Note 35 SA	Total premiums, considerations or deposits at end of current period	0
12	Internal Systems	Assets in kind received in line 11 above	0
13	AS - Analysis of operations by lines of business - A&H: Column 13 less columns 11 & 12	Premiums for accident and health contracts (short-term)	0
14	Line 9 -line 10 -line 11 + line 12 - line 13	**Investable Premiums**	7,000
15			
16	B/S Line 1 - Bonds	Bonds – General Account Basis Only – Net Admitted	2,450,000
17	B/S - Line 3 M/Ls (GA basis)	Mortgages – General Account Basis Only – Net Admitted	570,000
18	Sum of lines 16 & 17	**Investments Subject to Proof of Reinvestment**	3,020,000
19	B/S - Line 11 Cash & Invested Assets	Subtotal, Cash and Invested Assets – General Account Basis - Net Admitted	3,124,000
20	Line 19-Line 18	**Allocation for Investment for Other Assets**	104,000
21	Line 20 divided by line 19	**Percent of Investable Premiums Allocable to Equity & Other Investments**	3%
22	Line 14 multiplied by line 21	**Investable Premium Adjustment**	0.23
23	Line 14 minus line 22	**Investable Premiums**	6.77
24			
25	Line 3 - line 7 - line 23	**Investments Purchased less Investments Sold and Investable Premiums**	**35,000**
26			
27	Internal Systems	Weighted average yield of fixed income investments purchased (as reported on line 3) during the year	4%
28	Internal Systems	Weighted average yield of fixed income investments sold (as reported on line7) during the year	3%
29	Line 17 - line 18	**Increase (Decrease) of Yield of Purchased Fixed Income Investment Yield Over Those Disposed**	1%
30			
31		**Sufficient Evidence of Reinvestment of Fixed Income Investments**	
32	**Test 1**	**Is line 25 positive?**	yes
33	**Test 2**	**Is line 29 positive?**	yes

If lines 32 & 33 are both positive (yes) - current year negative IMR can be added to existing unamortized negative IMR balance. If either line 32 or 33 is negative (no), then current year negative IMR cannot be added to existing unamortized negative IMR, with the exception of negative IMR received as a transfer from the general account. (Note: Further discussion is planned for this exception and whether the transferred IMR should be reflected in the separate account IMR balance.)

Existing Authoritative Literature:

- ***SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve***
- ***Annual Statement Instruments – Interest Maintenance Reserve***

SSAP No. 7 establishes statutory accounting principles for an AVR and IMR. Currently most guidance is captured in the Annual Statement Instructions. One intent of the long-term IMR project is to move accounting guidance from the Annual Statement Instructions into the SSAP.

There is no guidance for IMR/AVR in SSAP No. 7 and the Annual Statement Instructions that limits recognition of realized losses from qualifying debt securities to IMR. This is because that historically, net negative IMR was nonadmitted. With potential long-term guidance that permits admittance of negative IMR, restrictions on recognition to IMR is being considered.

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 2023-14: *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* establishes a broad project to capture accounting guidance for AVR and IMR in SSAP No. 7. The IMR ad hoc group was created from this agenda item and has been meeting regularly since October 2023. In accordance with this agenda item, in August 2025, the Working Group agreed with a resulting conclusion from the IMR Ad Hoc Group to eliminate the concept of hypothetical IMR in the issue paper and proposed edits to SSAP No. 7. Consistent with other IMR topics, when the issue paper and SSAP No. 7 revisions are exposed, future revisions can be considered prior to final adoption and implementation.

- Agenda Item 2023-15: IMR/AVR Specific Allocations adopted revisions to the A/S instructions for year-end 2024 to remove the guidance that prescribes the specific allocation of non-interest related losses to IMR. The revisions addressed both mortgage loans and the guidance for debt securities. For debt securities, the guidance directs AVR reporting if there is an acute credit event that negatively impacts the price of the security that has not yet been reflected in the CRP ratings/SVO feed at the time of the sale where the resulting gains/loss was predominantly credit related.

- Agenda Item 2023-29: IMR / AVR Preferred Stock adopted revisions to the A/S instructions for year-end 2024 to remove the guidance that directed all preferred stock to be allocated between IMR/AVR based on NAIC designations, and to clarify that perpetual preferred stock as well as all mandatorily convertible preferred stock shall be reported through the AVR.

- Agenda Item 2024-15: Asset Liability Management Derivatives was developed to consider new statutory accounting guidance to permit the deferral of realized gains/losses for interest-rate hedging derivatives that do not qualify as effective hedges under *SSAP No. 86—Derivatives*. This item was initially exposed at the 2024 Summer National Meeting, but an extended comment period was provided until November 8, 2024. Then, due to the extent of comments and the complexity of the topic, the Working Group deferred direction to staff to move forward. Further discussion, along with a review of data reported for IMR derivatives is anticipated, before the Working Group directs staff to move forward.

- Agenda Item 2025-13: IMR Definition was developed to establish a broad definition of IMR. This definition was "adopted" by the Working Group on August 11, 2025, but consistent with other IMR topics, the definition will be included in the issue paper and revisions to SSAP No. 7, which will also be exposed, and future revisions could be considered prior to final adoption and implementation.

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 as a new SAP concept and expose the proposed concepts and templates for the IMR Proof of Reinvestment, as shown above, for full Working Group and industry consideration. Although being shared/exposed at this time with a request for feedback, the resulting guidance will be included in the issue paper being developed for SSAP No. 7. As such, subsequent consideration can also occur when the issue paper is also exposed for comment.

Staff Review Completed by: Julie Gann, NAIC Staff—September 2025

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/12-9-25 Fall National Meeting/Meeting/B - 25-23 - IMR Proof of Reinvestment.docx

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

Issue: Commitments and Contingencies Disclosures

Check (applicable entity):

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

Description of Issue: In September 2025, NAIC staff received an industry inquiry regarding whether private placement commitments should be disclosed in Note 14, Liabilities, Contingencies and Assessments or Note 21, Other Items. Upon review, staff determined that the existing instructions for disclosure of commitments were both unclear and incomplete. While *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets* and Note 14 appeared to be the logical location for disclosure of general commitments, the instructions technically addressed only commitments to SCAs, guarantees, and guaranty fund assessments. NAIC staff also noted that the disclosure requirement in *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures* for non-derivative forward commitments (which would cover private placement commitments) was mapped per the disclosure checklist to "Other Disclosures" in Note 21C rather than to Note 14. Because Note 21C functions as a general catchall for miscellaneous disclosures, there were no specific instructions for completing this disclosure beyond the SSAP language.

Separately, staff received a regulator comment highlighting inconsistencies in reporting commitments by investment schedule. While Schedule BA includes a column for "Commitment for Additional Investment," Schedule D does not. This issue was prompted by a regulator who noted that several Schedule D items included delayed draw provisions, yet there was no mechanism to report such commitments by investment. More broadly, NAIC staff also noted that commitments and contingent commitments are currently disclosed across multiple notes and schedules, making it difficult for regulators to obtain a comprehensive view of the reporting entity's potential obligations.

As insurers increasingly enter into complex financial arrangements, the commitments embedded in these transactions are often not recognized as liabilities on financial statements. Nonetheless, the terms of such arrangements can materially restrict an insurer's ability to exit or modify them without incurring significant costs. From a regulatory standpoint, full transparency of these commitments is essential. Although they may not have an immediate balance sheet impact, they can govern the use of future cash flows, constrain liquidity, and shape the insurer's overall risk profile. This agenda item therefore proposes clarifying existing disclosure requirements and introducing a comprehensive framework to capture all such commitments, enabling regulators to form a more complete assessment of an insurer's financial position.

This agenda item is intended to address these issues by:

(1) Moving the SSAP No. 1 disclosure for non-derivative forward commitments to SSAP No. 5, and re-mapping the disclosure to Note 14.

(2) Add a definition of commitments and contingent commitments to SSAP No. 5.

(3) Clarifying that Note 14A(1) is intended to cover all material commitments and contingent commitments, not only those related to SCAs, guarantees, and guaranty fund assessments.

(4) Adding a new summary disclosure that consolidates commitments and contingent commitments reported in the annual statement.

(5) Removed references to "contingent liabilities" from the Note 14 instructions, excluding the Guarantees disclosure instructions, and clarified that Note 14F should include amounts accrued for loss contingencies and impairments of assets.

(6) Adding a new "Commitment for Additional Investment" column, with instructions, to Schedule D-1-1 and Schedule D-1-2 and revising the instructions for the same column on Schedule BA for consistency.

(7) Added clarifying language to *SSAP No. 21—Other Admitted Assets* to specify the timing for recording non-bond debt securities. It was noted that the existing guidance in SSAP No. 21 does not indicate whether insurers should recognize these securities on the trade date or that private placements should be recorded on the funding date. This omission appears to have been an oversight, and NAIC staff believe that the clarification will simply codify the prevailing accounting practice already in use.

It should also be emphasized that the proposed commitment disclosures apply only to commitments made by the reporting entity to another entity. The disclosure requirements in *SSAP No. 15—Debt and Holding Company Obligations* for unused commitments and lines of credit are not applicable to this agenda item or within the scope of SSAP No. 5, as those represent commitments from other parties to provide funding to the reporting entity.

Existing Authoritative Literature:

Drafting Note: *Each SSAP shown below also includes a reference to where this disclosure is satisfied within the notes to the financial statements.*

Accounting Practices and Procedures Manual and Disclosures Requirement:
SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures: (Note 21C)

24. The financial statements shall disclose forward commitments which are not derivative instruments (e.g., the commitment to purchase a GNMA security two months after the commitment date, or a private placement six months after the commitment date).

SSAP No. 5—Liabilities, Contingencies and Impairments of Assets:

32. If a loss contingency or impairment of an asset is not recorded because only one of the conditions in paragraph 9.a. or 9.b. is met, or if exposure to a loss exists in excess of the amount accrued pursuant to the provisions described above, disclosure of the loss contingency or impairment of the asset shall be made in the financial statements when there is at least a reasonable possibility that a loss or an additional loss may have been incurred. The disclosure shall indicate the nature of the contingency and shall give an estimate of the possible loss or range of loss or state that such an estimate cannot be made. (Disclosures for tax contingencies as identified in paragraph 14 shall be completed as instructed within SSAP No. 101.) *(Note 14F)*

34. Certain loss contingencies, the common characteristic of each being a guarantee, shall be disclosed in financial statements even though the possibility of loss may be remote. Examples include (a) guarantees of indebtedness of others, and (b) guarantees to repurchase receivables (or, in some cases, to repurchase related properties) that have been sold or otherwise assigned. The disclosure of those loss contingencies, and others that in substance have the same characteristics, shall be applied to statutory financial statements. The disclosure shall include the nature and amount of the guarantee. Consideration shall be given to disclosing, if estimable, the value of any recovery that could be expected to result, such as from the guarantor's right to proceed against an outside party. *(Note 14A(2))*

36. An aggregate compilation of guarantee obligations shall include the maximum potential of future payments of all guarantees (undiscounted), the current liability (contingent and noncontingent) reported in the financial statements, and the ultimate financial statement impact based on maximum potential payments (undiscounted) if performance under those guarantees had been triggered. *(Note 14A(2)b)*

SSAP No. 22—Leases:

49.b.i. Future minimum rental payments required as of the date of the latest balance sheet presented, in the aggregate and for each of the five succeeding years; and *(Note 15A(2))*

49.c.i. A description of the terms of the sale-leaseback transaction, including future commitments or obligations; and *(Note 15A(3))*

SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items: (Note 21A)

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.

SSAP No. 26—Bonds: (Note 21C per SSAP No. 1)

16. A bond acquisition or disposal shall be recorded on the trade date (not the settlement date) except for the acquisition of private placement bonds which shall be recorded on the funding date. At acquisition, bonds shall be reported at their cost, including brokerage and other related fees. The reported cost of a bond received as a property dividend or capital contribution shall be the initial recognized value. SSAP No. 25 shall be used to determine whether a transfer is economic or noneconomic for initial recognition.

SSAP No. 30—Unaffiliated Common Stock: (Note 21C per SSAP No. 1)

7. At acquisition, common stocks shall be reported at their cost, including brokerage and other related fees. Common stock acquisitions and dispositions shall be recorded on the trade date. Private placement stock transactions shall be recorded on the funding date. A reporting entity may become qualified for use of equity method accounting by an increase in the level of ownership. In this situation, the reporting entity shall add the cost of acquiring additional interest in the investee to the current basis of the previously held interest and shall apply the equity method, as prescribed in SSAP No. 97, prospectively, as of the date the investment becomes qualified for equity method accounting.

SSAP No. 32—Preferred Stock: (Note 21C per SSAP No. 1)

7. 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.

SSAP No. 36—Troubled Debt Restructuring: (Note 5B(3))

23. A creditor shall disclose in the financial statements the information captured in paragraphs 23.a., 23.b. and 23.c. about troubled debt restructuring as of the date of each balance sheet presented. Disclosures captured from paragraphs 23.d. and 23.e. are required in the statutory audited financial statements only:

b. The amount of commitments, if any, to lend additional funds to debtors owing receivables whose terms have been modified in troubled debt restructuring

SSAP No. 35—Guaranty Fund and Other Assessments: (Note 14B)

18. A reporting entity shall disclose the following:

a. Describe the nature of any assessments that could have a material financial effect, by type of assessment, and state the estimate of the liability, identifying whether the corresponding liability has been recognized under paragraph 4, a liability has not been recognized as the obligating event has not yet occurred, or that an estimate cannot be made.

SSAP No. 39—Reverse Mortgages: (Note 5C(2))

23. The following disclosures shall be made for reverse mortgages in the financial statements:

b. General information regarding the reporting entity's commitment under the agreement;

SSAP No. 43— Asset-Backed Securities: (Note 21C per SSAP No. 1)

6. Items in scope of this statement shall initially be reported at cost, including brokerage and related fees, unless otherwise detailed in paragraph 8. Acquisitions and dispositions shall be recorded on the trade date, not the settlement date, except for the acquisition of private placement asset-backed securities which shall be recorded on the funding date. For securities where all information is not known as of the trade date (e.g., actual payment factors and specific pools), a reporting entity shall make its best estimate based on known facts.

SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies: (14A(1))

22. Any commitment or contingent commitment (e.g., guarantees or commitments to provide additional capital contributions) to a joint venture, partnership, or limited liability company shall be disclosed.

SSAP No. 92—Postretirement Benefits Other Than Pensions: (12A(14))

66.n. If applicable, any substantive commitment, such as past practice or a history of regular benefit increases, used as the basis for accounting for the benefit obligation.

SSAP No. 93—Investments in Tax Credit Structures: (5K)

31. To meet the objective of paragraph 30, a reporting entity shall disclose the following information about its investments in projects that generate tax credits and other tax benefits from a tax credit program in scope of this statement:

SSAP No. 94—State and Federal Tax Credits: (21E)

18. Any commitment or contingent commitment to purchase tax credits shall be disclosed.

SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities:

35a(i-iv). For all periods presented, a reporting entity whose shares of losses in an SCA exceeds its investment in the SCA shall disclose its share of losses. (This is required regardless of a guarantee or commitment of future financial support to the SCA.) This disclosure shall include the following: (i.) The reporting entity's accumulated share of the SCA losses not recognized during the period that the equity method was suspended; (ii.) The reporting entity's share of the SCA's equity, including negative equity; (iii.) Whether a guaranteed obligation or commitment for financial support exists; and (iv.) The amount of the recognized guarantee under SSAP No. 5. *(10O)*

39. Any commitment or contingent commitment to a SCA entity. *(10L)*

SSAP No. 100—Fair Value: (20E)

54c. The amount of the reporting entity's unfunded commitments related to investments in the class.

SSAP No. 102—Pensions: (12A(14))

68n. If applicable, any substantive commitment, such as past practice or a history of regular benefit increases, used as the basis for accounting for the benefit obligation.

SSAP No. 103— Transfers and Servicing of Financial Assets and Extinguishments of Liabilities:

28a iv(c). The forward repurchase commitment recognized to return the cash or securities received. Amount reported shall reflect the stated repurchase price under the repurchase transaction. *(5H(9))*

28a v(c). The forward resale commitment recognized (stated repurchase price) to sell the acquired securities. *(5I(8))*

28g ii(a)(4). Information is encouraged about any liquidity arrangements, guarantees, and/or other commitments provided by third parties related to the transferred financial assets that may affect the transferor's exposure to loss or risk of the related transferor's interest. *(17B(4)b1(d))*

Annual Statement Instructions:

SCHEDULE BA – PART 1

OTHER LONG-TERM INVESTED ASSETS OWNED DECEMBER 31 OF CURRENT YEAR:

Column 19 – Commitment for Additional Investment

Include: Total amount of additional investment commitment, not yet invested, where the decision as to timing and whether to invest is not made by the company, but by someone else, typically by the hedge fund or limited partnership.

GENERAL INSTRUCTIONS FOR SCHEDULE DB:

Each derivative instrument should be reported in Parts A, B or C according to the nature of the instrument, as follows:

Part A: Positions in Options*, Caps, Floors, Collars, Swaps, and Forwards**
Part B: Positions in Futures Contracts
Part C: Positions in Replication (Synthetic Asset) Transaction

* Warrants acquired in conjunction with public or private debt or equity that are more appropriately reported in other schedules do not have to be reported in Schedule DB. Excludes publicly traded stock warrants captured in the scope of SSAP No. 30—Unaffiliated Common Stock or SSAP No. 32—Preferred Stock.

> ** Forward commitments that are not derivative instruments (for example, the commitment to purchase a GNMA security two months after the commitment date or a private placement six months after the commitment date) should be disclosed in the Notes to Financial Statements, rather than on Schedule DB.

All derivatives, regardless of maturity date, are to be reported on Schedule DB. Forward commitments where the reporting entity cannot determine at the inception of the contract, with certainty, if delivery will be made at the earliest opportunity are essentially forward contracts and should be reported on Schedule DB.

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 of the maintenance agenda categorized as a SAP clarification and expose revisions, as detailed below, to the annual statement instructions, *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*, *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets*, *SSAP No. 21—Other Admitted Assets*, *SSAP No. 26—Bonds*, and *SSAP No. 43—Asset-Backed Securities*. These revisions would consolidate and clarify the disclosure requirements for commitments and contingent commitments, add a definition for commitments to SSAP No. 5, and add a comprehensive commitments and contingent commitments disclosure to Note 14. In addition, trade date language is proposed for SSAP No. 21 as a cleanup item.

NAIC staff have also received inquiries regarding whether statutory accounting guidance should explicitly address investments that include clawback provisions, which are contractual features that allow the issuer or originator to recover previously distributed or paid amounts under specified conditions. Although such provisions are often associated with equity-related investments, NAIC staff have noted that these features were historically found in certain types of debt securities but have become less common.

To better understand current market practices, NAIC staff request industry feedback on the types of investments that include clawback features and the prevalence of these provisions within insurers' investment portfolios. In addition, input is sought on the typical triggers, valuation and accounting treatment, and potential implications for statutory reporting and risk assessment investments with clawback features.

Staff Review Completed by:
NAIC Staff – William Oden, October 2025

Move disclosure from *SSAP No. 1—Accounting Policies, Risks & Uncertainties*, and Other Disclosures to *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets*:

~~24. The financial statements shall disclose forward commitments which are not derivative instruments (e.g., the commitment to purchase a GNMA security two months after the commitment date, or a private placement six months after the commitment date).~~

Recommended revisions to SSAP No. 5:

31. A commitment is a legally binding arrangement in which the reporting entity agrees to provide support or resources (most often cash or financial assistance) or to make payments to another party at a future date, but the arrangement does not yet meet the definition of a liability under this statement. If fulfillment of the commitment is not required until the occurrence of a specified event or until requested by another party (e.g., capital calls, delayed draws, etc.), the arrangement is considered a contingent commitment. Commitments may involve cash or cash equivalents, or they may require the transfer of other assets, such as, but not limited to, property, equipment, investments, or intellectual property, or the performance of certain actions, such as, but not limited to, reducing debt or restricting dividend payments. When a commitment involves transferring assets, the disclosed amount shall be the asset's fair value. Commitments made to, or on behalf of, an SCA are discussed further in paragraph 26. Firm commitments, as defined in SSAP No. 86, do not fall within the definition of a commitment under this statement.

Drafting note: SSAP No. 86 contains a definition for Firm Commitments, which is equivalent to U.S. GAAP, but would not be included in the commitments and contingent comments disclosure as this term is specific for derivative contracts and subject to SSAP No. 86.

Drafting note for Regulator Review Only: A definition of commitments and contingent commitments has been drafted and included as neither of these terms are defined in the APPM. NAIC staff would specifically like to get feedback on this paragraph and whether regulators feel it is useful and appropriate to include.

Disclosures

32~~1~~. Disclose the nature of any loss contingency or impairment of an asset, including amounts accrued (if any), an estimate of the possible loss or range of loss, or state that such an estimate cannot be made. ~~If~~ This disclosure shall include ~~a~~ loss ~~contingency~~ contingencies or impairments of ~~an~~ assets which have been accrued, and those ~~is~~ not recorded because only one of the conditions in paragraph 8.a. or 8.b. is met, or if exposure to a loss exists in excess of the amount accrued pursuant to the provisions described above, disclosure of the loss contingency or impairment of the asset shall be made in the financial statements when there is at least a reasonable possibility that a loss or an additional loss may have been incurred. ~~The disclosure shall indicate the nature of the contingency and shall give an estimate of the possible loss or range of loss or state that such an estimate cannot be made.~~ (Disclosures for tax contingencies as identified in paragraph 13 shall be completed as instructed within SSAP No. 101.)

40. Disclose and describe commitments and contingent commitments in the notes to the financial statements. Additionally, the reporting entity shall also complete a comprehensive summary of commitments and contingent commitments using the prescribed format shown in the annual statement instructions.

41. The financial statements shall disclose forward commitments which are not derivative instruments (e.g., the commitment to purchase a GNMA security two months after the commitment date, or a private placement six months after the commitment date).

Drafting note: Paragraph 41 is existing guidance which has been moved from SSAP No. 1 to SSAP No. 5.

Recommended revisions to SSAP No. 21—Other Admitted Assets

23. Debt securities in scope of this statement shall be initially reported at acquisition at cost on the trade date, including brokerage and other related fees on *Schedule BA: Other Long-Term Invested Assets*. Private placement non-bond debt securities shall be recorded on the funding date.

27. Securities captured within this section shall be included in all invested asset disclosures, along with the following disclosures:

m. Disclose the total amount of additional investment commitments, if any, for each reported investment. This would include both commitments and contingent commitments such as, but not limited to, capital calls, delayed draws[x], scheduled or on-demand drawdowns, unfunded commitments, etc.

Footnote x - A delayed draw is an arrangement in which the investor/reporting entity commits a specified amount of capital upfront but does not disburse the full amount at once. Instead, the committed capital is disbursed, or "drawn down," in stages, either at predetermined intervals or when specified conditions are satisfied. The initial funding provided under the arrangement would represent the reporting entity's initial investment, while the delayed draw reflects an additional investment commitment.

Recommended revisions to SSAP No. 26—Bonds

40. The financial statements shall include the following disclosures:

m. Disclose the total amount of additional investment commitments, if any, for each reported investment. This would include both commitments and contingent commitments such as, but not limited to, capital calls, delayed draws[x], scheduled or on-demand drawdowns, unfunded commitments, etc.

Footnote x - A delayed draw is an arrangement in which the investor/reporting entity commits a specified amount of capital upfront but does not disburse the full amount at once. Instead, the committed capital is disbursed, or "drawn down," in stages, either at predetermined intervals or when specified conditions are satisfied. The initial funding provided under the arrangement would represent the reporting entity's initial investment, while the delayed draw reflects an additional investment commitment.

Recommended revisions to SSAP No. 43—Asset-Backed Securities

44. In addition to the disclosures required for invested assets in general, the following disclosures regarding asset-backed securities shall be made in the financial statements. Regardless of the allowances within paragraph 63 of the Preamble, the disclosures in paragraph 44.f., 44.g. and 44.h. of this statement are required in separate, distinct notes to the financial statements:

n. Disclose the total amount of additional investment commitments, if any, for each reported investment. This would include both commitments and contingent commitments such as, but not limited to, capital calls, delayed draws[x], scheduled or on-demand drawdowns, unfunded commitments, etc.

Footnote x - A delayed draw is an arrangement in which the investor/reporting entity commits a specified amount of capital upfront but does not disburse the full amount at once. Instead, the committed capital is disbursed, or "drawn down," in stages, either at predetermined intervals or when specified conditions are satisfied. The initial funding provided under the arrangement would represent the reporting entity's initial investment, while the delayed draw reflects an additional investment commitment.

Recommended revisions to Annual Statements and Instructions:

Note 14 - Liabilities, Contingencies, ~~and~~ Assessments, and Commitments:

Instruction:

For disclosures related to *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets*, *SSAP No. 35—Guaranty Fund and Other Assessments*, *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* ~~and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*~~, describe the nature of any ~~material~~ commitments, contingent commitments, and contingencies in accordance with SSAP No. 5 ~~and report total contingent liabilities~~.

Drafting Note for Regulators Review Only: Within the instructions above there was a direction to "report total contingent liabilities," however this disclosure is not part of the required SSAP No. 5 disclosures or detailed in the instructions and examples below. It was also brought to NAIC Staff's attention by an interested regulator that the Pick A Page reporting feature for Note 14A(1), insurers can input an amount for total contingent liabilities, however it is not clear how this number is arrived at or what it consists of. NAIC staff looked at the historical record of this disclosure and believe it was intended to require the insurer to disclose the total amount of loss contingencies which have been recognized as a liability. Additionally, NAIC staff noted that the term "contingent liabilities" is not a defined term, and nearly all appearances are within SSAP No. 5 within the guarantees guidance. U.S. GAAP is similar in that the term "contingent liabilities" is not included in the Master Glossary and only appears with any regularity within Topics 460-10 Guarantees and 825-20 Registration Payment Arrangements. As such, NAIC staff have recommended removing the term "contingent liabilities" from the Note 14 instructions, proposed additional language to clarify the disclosure of recorded loss contingencies in Note 14F, and will also recommend that the Pick A Page for total contingent liabilities be deleted.

A. Commitments and Contingent Commitments

(1) Disclose and describe commitments and contingent commitments related to the following:

a. SCA entiti~~y~~es, joint ventures, partnerships, or limited liability compan~~y~~ies (e.g., guarantees or commitments to provide additional capital contributions). Refer to SSAP No. 5 and SSAP No. 48 for accounting guidance.

b. Forward commitments which are not derivative instruments. Refer to *SSAP No. 5* for accounting guidance.

c. Investments in tax credit structures ~~Include any commitment or contingent commitment~~ (e.g., guarantees or commitments to provide additional capital contributions). ~~including~~ If applicable, this disclosure shall also indicate the amount of ~~equity contributions that are~~ commitments and/or contingent commitments specifically related to equity contributions ~~related to investments in tax credit structures~~ and the year(s) ~~that~~in which the ~~contingent commitments~~equity contributions are expected to be paid. Refer to *SSAP No. 93—Investments in Tax Credit Structures* for accounting guidance.

d. ~~Include any commitment or contingent commitment to p~~Purchases of tax credits. Refer to *SSAP No. 94—State and Federal Tax Credits* for accounting guidance.

~~a.~~e. Any commitments and contingent commitments not otherwise disclosed and described in this note, or elsewhere in the notes to the financial statements.

~~Disclose any commitment or contingent commitment to an SCA entity, joint venture, partnership, or limited liability company (e.g., guarantees or commitments to provide additional capital contributions).~~

~~Include any commitment or contingent commitment (e.g., guarantees or commitments to provide additional capital contributions) including the amount of equity contributions that are contingent commitments related to investments in tax credit structures and the year(s) that contingent commitments are expected to be paid. Refer to *SSAP No. 93—Investments in Tax Credit Structures* for accounting guidance.~~

~~Include any commitment or contingent commitment to purchase tax credits. Refer to *SSAP No. 94—State and Federal Tax Credits* for accounting guidance.~~

(2) A guarantor shall disclose the following information about each guarantee, or each group or similar guarantees (except product warranties), even if the likelihood of the guarantor's having to make any payments under the guarantee is remote. In addition, the nature of the relationship to the beneficiary of the guarantee or undertaking (affiliated or unaffiliated) shall also be disclosed:

a. The nature of the guarantee, including the approximate term of the guarantee, how the guarantee arose, and the events and circumstances that would require the guarantor to perform under the guarantee, the ultimate impact to the financial statements (specific financial statement line item) if action under the guarantee was required (e.g., increase to investment, dividends to stockholders, etc.) and the current status (that is, as of the date of the statement of financial position) of the payment/performance risk of the guarantee. For example, the current status of the payment/performance risk of a credit-risk-related guarantee could be based on either recently issued external credit ratings or current internal groupings used by the guarantor to manage its risk. An entity that uses internal groupings shall disclose how those groupings are determined and used for managing risk.

b. The potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee. That maximum potential amount of future payments shall not be reduced by the effect of any amounts that may possibly be recovered under recourse or collateralization provisions in the guarantee (which are addressed under 2c below). If the terms of the guarantee provide for no limitation to the maximum potential future payments under the guarantee, that fact shall be disclosed. If the guarantor is unable to develop an estimate of the maximum potential amount of future payments under its guarantee, the guarantor shall disclose the reasons why it cannot estimate the maximum potential amount.

c. The nature of (1) any recourse provisions that would enable the guarantor to recover from third parties any of the amounts paid under the guarantee; and (2) any assets held either as collateral or by third parties that, upon the occurrence of any triggering event or condition under the guarantee, the guarantor can obtain and liquidate to recover all or a portion of the amounts paid under the guarantee. The guarantor shall indicate, if estimable, the approximate extent to which the proceeds from liquidation of those assets would be expected to cover the maximum potential amount of future payments under the guarantee

d. The current carrying amount of the liability, if any, for the guarantor's obligations under the guarantee (including the amount, if any, recognized under *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets*), regardless of whether the guarantee is freestanding or embedded in another contract.

(3) An aggregate compilation of guarantee obligations shall include the maximum potential of future payments of all guarantees (undiscounted), the current liability (contingent and noncontingent) reported in the financial statements and the ultimate financial statement impact based on maximum potential payments (undiscounted) if performance under those guarantees had been triggered.

(4) Provide a comprehensive summary of commitments and contingent commitments. For categories that reference a schedule or note as the source, the reporting entity shall ensure the disclosed amounts match the referenced source. The reporting entity shall also describe the nature of each type of commitment and contingent commitment reported within the "All other commitments and contingencies" line.

Commitments and Contingent Commitments:	Current Year
Investment Related:	
Issuer credit obligations, Schedule D 1-1, Commitment for Additional Investment Column	
Asset backed securities, Schedule D 1-2, Commitment for Additional Investment Column	
Other Long-term Invested Assets, Schedule BA, Commitment for Additional Investment Column	
Unfunded private placements:	
Unaffiliated common stock	
Preferred stock	
Issuer credit obligations	
Asset backed securities	
Non-bond debt securities	
Troubled debt restructuring (Note 5B)	
Reverse mortgages (Note 5C)	
Forward repurchase (Note 5H)	
Forward resale (Note 5I)	
Tax credit investment structures (Note 5K)	

	Subtotal
Postretirement benefits (Note 12)	
Future minimum rents, and other lease-related commitments and obligations (Note 15)	
Discontinued operations and unusual or infrequent items (Note 21A)	
Purchase of tax credits (Note 21E)	
Non-derivative forward commitments, excluding unfunded private placement	
SCA, Joint ventures, partnerships and LLCs (14A(3))	
Unrecorded portion of future payments of all guarantees (14A)	
Unrecorded guaranty fund assessments (Note 14B)	
All other commitments and contingent commitments	
	Total

Drafting Note: This table is proposed to be data captured and, as feasible, would include cross checks to help ensure that the disclosed amounts match the referenced sources.

F. All Other Contingencies

Disclose the nature of any loss contingency or impairment of an asset, including amounts accrued (if any), an estimate of the possible loss~~,~~ or range of loss, or state that such an estimate cannot be made. This disclosure shall include loss contingencies or impairments of assets which have been accrued, and those not recorded because only one of the SSAP No. 5 conditions for recognition is met, or if exposure to a loss exists in excess of the amount already accrued when there is at least a reasonable possibility that a loss or an additional loss may have been incurred. Disclose the nature of any portion of the balance that is reasonably possible to be uncollectible in accordance with SSAP No. 5—Liabilities, Contingencies and Impairments of Assets. This meets the requirements of the following SSAPs:

- SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers;
- SSAP No. 21—Other Admitted Assets;
- SSAP No. 47—Uninsured Plans;
- SSAP No. 54—Individual and Group Accident and Health Contracts;
- SSAP No. 56—Separate Accounts;
- SSAP No. 66—Retrospectively Rated Contracts;
- SSAP No. 86—Derivatives;
- ~~and o~~Other SSAPs as required.

Drafting Note for Regulator Review Only: Assuming the above revisions are supported by regulators, the necessary changes will be reflected in the example illustrations for Note 14.

Pick A Page
NOTES TO FINANCIAL STATEMENT LIABILITIES, CONTINGENCIES AND ASSESSMENTS – 01914

Line	Description
~~14A01~~	~~Total contingent liabilities~~
14A0299	Total
14A03A	Aggregate maximum potential of future payments of all guarantees (undiscounted) the guarantor could be required to make under guarantees (should equal total of Column 4 for (2)a above)
14A03B1	Noncontingent liabilities (current liability recognized in F/S)
14A03B2	Contingent liabilities (current liability recognized in F/S)
14A03C1	Investments in SCA (ultimate financial statement impact if action under the guarantee is required)
14A03C2	Joint venture (ultimate financial statement impact if action under the guarantee is required)
14A03C3	Dividends to stockholders (capital contribution) (ultimate financial statement impact if action under the guarantee is required)
14A03C4	Expense (ultimate financial statement impact if action under the guarantee is required)
14A03C5	Other (ultimate financial statement impact if action under the guarantee is required)
14A03C6	Total (should equal (3)a.)
14B02A	Assets recognized from paid and accrued premium tax offsets and policy surcharges prior year-end
14B02D	Assets recognized from paid and accrued premium tax offsets and policy surcharges current year-end
14B03A	Discount Rate Applied Guaranty Fund Liabilities and LTC Insolvencies Assessments
14D01	Claims related to extra contractual obligations and bad faith losses paid during the reporting period.
14D02	Range of claims: (A) 0-25; (B) 26-50; (C) 51-100; (D) 101-500; (E) more than 500 claims
14D03	Indicate whether claim count information is disclosed: (F) per claim or (G) per claimant

Drafting Note for Regulator Review Only: Are there any additional pieces of Note 14 which you would like to have added to Pick A Page?

SCHEDULE BA – PART 1
OTHER LONG-TERM INVESTED ASSETS OWNED DECEMBER 31 OF CURRENT YEAR:

Column 19 Commitment for Additional Investment

Include for all reporting lines: Total amount of additional investment commitment[1], not yet invested, where the decision as to timing and whether to invest is not made by the company, but by someone else, typically by the hedge fund or limited partnership. The amounts shown here shall include both commitments and contingent commitments such as, but not limited to, capital calls, delayed draws, scheduled or on-demand drawdowns, unfunded commitments, and standby equity purchase arrangements in which the reporting entity is obligated to purchase offered shares. Contingent commitment arrangements must still be included regardless of whether the funding request or triggering event has occurred.

[1] If the amount of additional investment commitment is variable or expressed as a range, the maximum amount should be reported. If no amount is specified or is based on inputs which have not yet occurred, management must report its best estimate of the maximum commitment.

SCHEDULE D – PART 1 – SECTION 1
LONG-TERM BONDS – ISSUER CREDIT OBLIGATIONS OWNED DECEMBER 31 OF CURRENT YEAR

Column 36 Commitment for Additional Investment

Include for all reporting lines: Total amount of additional investment commitment[2], not yet invested, where the decision as to timing and whether to invest is not made by the company, but by someone else, typically by the hedge fund or limited partnership. The amounts shown here shall include both commitments and contingent commitments such as, but not limited to, capital calls, delayed draws, scheduled or on-demand drawdowns, and unfunded commitments in which the reporting entity is obligated to purchase offered shares. Contingent commitment arrangements must still be included regardless of whether the funding request or triggering event has occurred.

SCHEDULE D – PART 1 – SECTION 2
LONG-TERM BONDS – ISSUER CREDIT OBLIGATIONS OWNED DECEMBER 31 OF CURRENT YEAR

Column 39 Commitment for Additional Investment

Include for all reporting lines: Total amount of additional investment commitment[3], not yet invested, where the decision as to timing and whether to invest is not made by the company, but by someone else, typically by the hedge fund or limited partnership. The amounts shown here shall include both commitments and contingent commitments such as, but not limited to, capital calls, delayed draws, scheduled or on-demand drawdowns, and unfunded commitments. Contingent commitment arrangements must still be included regardless of whether the funding request or triggering event has occurred. If there are no additional investment commitments, the column may be left blank for this reporting line.

[2] If the amount of additional investment commitment is variable or expressed as a range, the maximum amount should be reported. If no amount is specified or is based on inputs which have not yet occurred, management must report its best estimate of the maximum commitment.

[3] If the amount of additional investment commitment is variable or expressed as a range, the maximum amount should be reported. If no amount is specified or is based on inputs which have not yet occurred, management must report its best estimate of the maximum commitment.

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

Issue: Separate Account Nonadmitted Assets

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 present the proposed change to capture nonadmitted assets on the separate account blank for assets held at the general account basis (often referred to as "book-value" separate accounts). This change is proposed for all insulated and non-insulated separate account filings.

The concept to add reporting for nonadmitted assets is driven from the IMR Ad Hoc Group discussions and the assessment of a long-term approach for IMR. Under historical concepts, net negative IMR on the separate account blank was immediately charged to surplus and eliminated from the financial statements. With the provisions permitted in *INT 23-01: Net Negative (Disallowed) IMR*, net negative IMR in the separate account previously charged against surplus is permitted to be reinstated and reported as an admitted asset if the company had not fully reached the 10% admittance limit in the general account. The IMR Ad Hoc group noted that this process is not sustainable as a long-term solution for recognizing IMR in the separate account. If a change was not incorporated to report nonadmitted assets, then assessment would occur on limiting the recognition/admittance of net negative IMR in the separate account to the extent of current year realized losses. Meaning, if a company had exceeded the admittance threshold for the current year, remaining net negative IMR would be charged to surplus, without potential for reinstatement in future years. Whereas, if nonadmitted assets were reported, then net negative IMR that exceeded the admittance threshold could be reported as a nonadmitted asset, with future admittance permitted when the reporting entity goes below the admittance limit.

With the discussion, it was also noted that the "general account basis" separate account assets pertain to general account products that have been segregated within a separate account. The assets backing these products shall be subject to the same admittance provisions as if they were held in the general account. With the current separate account reporting, there is no mechanism to identify whether the assets qualify as admitted assets. The addition of the nonadmitted reporting columns on the balance sheet will enable regulators to identify and assess the presence of nonadmitted assets for these "general account basis" assets. Although the guidance in SSAP No. 56, paragraph 18 indicates that assets that do not qualify for admittance are not permitted in a book value separate account, this restriction may not be realistic with the various admittance requirements. (For example, a previously admittable asset transferred to the separate account could subsequently not qualify for admittance.) Incorporating guidance that requires identification of nonadmitted assets would allow for identification of these assets and be consistent with the general account reporting.

Separate account assets held at fair value generally represent products where the contract holder bears the investment risk, often with investment directives determined by the contract holder. These assets are not proposed to be subject to the nonadmitted reporting requirements.

To incorporate reporting to identify nonadmitted assets in the separate account blank, the following reporting revisions are expected:

- Asset Page – Modification to add "Nonadmitted Assets" and "Net Admitted General Account Assets" as columns 2 & 3 explicitly for column 1 assets reported on the "General Account Basis". Assets held at the "Fair Value Basis" will be reported as column 4, and the "Total of General Account Admitted and Fair Value" will be column 5.

- Summary of Operations – A new line 22 will be added for "Change in Nonadmitted Assets" within the surplus account.

- New Page – "Exhibit of Nonadmitted Assets" – This will detail the current and prior total nonadmitted assets, and the change in nonadmitted assets. This page is consistent with what is reported on the life blank for nonadmitted assets.

A review of instances in which nonadmitted amounts are reported on the general account life blank was completed and the following items were noted, resulting in a conclusion that additional separate account blank revisions are not needed:

- Each separate account investment schedule "Verification Between Years" already includes the "deduct total nonadmitted assets" reporting line consistent with the general account life blank.

- The separate account preferred stock and common stock schedules (Schedule D-2-1 and Schedule D-2-2) already captures nonadmitted declared and unpaid dividends consistent with the general account life blank.

- The general account Schedule D-6-1 (Valuation of Shares of Subsidiary, Controlled or Affiliated Companies) includes a column for the nonadmitted portion, as well as a footnote for nonadmitted goodwill, but this schedule is identified as not applicable to separate accounts.

- The general account life blank Exhibit 3 – Health Care Receivables includes a nonadmitted column, but this schedule is not captured in the separate account blank.

- The general account life blank includes the 5-Year Historical Data. This page tracks total nonadmitted assets. This schedule is not captured in the separate account blank. For the general account life blank, the amount reported on line 21 (total admitted assets) is explicit that it excludes separate account assets. However, the amount reported on lines 52 (total nonadmitted) & 53 (total admitted) reflect totals that include separate account assets.

Existing Authoritative Literature:

- ***SSAP No. 4—Assets and Nonadmitted Assets***
  This statement establishes the definition of an asset for use in statutory accounting and establishes the criteria for consistent treatment of admitted assets. This statement is noted to be a common area (all applicable) SSAP.

- ***SSAP No. 56—Separate Accounts***
  This statement establishes principles for accounting and reporting for separate accounts. The statement only addresses limited situations for nonadmittance (uncollected separate account management fees and policy loans.) Revisions added in 2025 (agenda item 2024-10: SSAP No. 56 – Book Value Separate Account) added guidance to better define separate assets permitted to be held in the general account.

- ***Various Investment SSAPs***
  The various investment SSAPs have provisions required to be met for admittance. Examples include sufficient qualifying collateral for collateral loans in SSAP No. 21 and audited financial statements supporting the equity value under both SSAP No. 48 and SSAP No. 97.

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 following details discussions that have occurred for the IMR project as well as the recent revisions to SSAP No. 56 for book value separate accounts:

- Agenda Item 2023-14: *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* establishes a broad project to capture accounting guidance for AVR and IMR in SSAP No. 7. The IMR ad hoc group was created from this agenda item and has been meeting regularly since October 2023. In accordance with this agenda item, in August 2025, the Working Group agreed with a resulting conclusion from the IMR Ad Hoc Group to eliminate the concept of hypothetical IMR in the issue paper and proposed edits to SSAP No. 7. Consistent with other IMR topics, when the issue paper and SSAP No. 7 revisions are exposed, future revisions can be considered prior to final adoption and implementation.

- Agenda Item 2023-15: IMR/AVR Specific Allocations adopted revisions to the A/S instructions for year-end 2024 to remove the guidance that prescribes the specific allocation of non-interest related losses to IMR. The revisions addressed both mortgage loans and the guidance for debt securities. For debt securities, the guidance directs AVR reporting if there is an acute credit event that negatively impacts the price of the security that has not yet been reflected in the CRP ratings/SVO feed at the time of the sale where the resulting gains/loss was predominantly credit related.

- Agenda Item 2023-29: IMR / AVR Preferred Stock adopted revisions to the A/S instructions for year-end 2024 to remove the guidance that directed all preferred stock to be allocated between IMR/AVR based on NAIC designations, and to clarify that perpetual preferred stock as well as all mandatorily convertible preferred stock shall be reported through the AVR.

- Agenda Item 2024-15: Asset Liability Management Derivatives was developed to consider new statutory accounting guidance to permit the deferral of realized gains/losses for interest-rate hedging derivatives that do not qualify as effective hedges under *SSAP No. 86—Derivatives*. This item was initially exposed at the 2024 Summer National Meeting, but an extended comment period was provided until November 8, 2024. Then, due to the extent of comments and the complexity of the topic, the Working Group deferred direction to staff to move forward. Further discussion, along with a review of data reported for IMR derivatives is anticipated, before the Working Group directs staff to move forward.

- Agenda Item 2025-13: IMR Definition was developed to establish a broad definition of IMR. This definition was "adopted" by the Working Group on August 11, 2025, but consistent with other IMR topics, the definition will be included in the issue paper and revisions to SSAP No. 7, which will also be exposed, and future revisions could be considered prior to final adoption and implementation.

- Agenda item 2024-10: SSAP No. 56 – Book Value Separate Account: Revisions adopted February 25, 2025 clarified the measurement guidance, with additional provisions permitting general account basis ("book value") separate accounts.

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 as a new SAP concept and expose revisions to SSAP No. 56 to explicitly address nonadmittance for assets held under "general account basis" in the separate account, and to expose the proposed separate account annual statement revisions to incorporate the concept of nonadmitted assets within the separate account balance sheet and corresponding schedules. With exposure, it is recommended that the Working Group sponsor a corresponding blanks proposal. These revisions are proposed to be effective January 1, 2027.

Proposed Revisions to SSAP No. 56:

Measurement of Separate Account Assets

17. Assets supporting separate account contracts, except for contracts captured in paragraph 18, shall be reported at fair value, as determined under *SSAP No. 100—Fair Value*. Assets held in the separate account that reflect seed money from the general account shall follow all provisions of the SSAP to which the asset would be applicable if held in the general account. Assets that would not qualify for admittance in the general account are not permitted to be used as seed money in the separate account.

18. Assets supporting the following separate account contracts are permitted to be reported as if the assets were held in the general account. This measurement method is referred to as "book value" or general account basis. For these assets, measurement shall follow all provisions of the SSAP to which the asset would be applicable if held in the general account. Although ~~A~~assets that ~~would~~ do not qualify for admittance in the general account shall not be transferred to a separate account, as detailed in paragraph 19, assets in the separate account that do not qualify for admittance in the general account are not permitted to be admitted in a book value separate account. Separate account contracts that do not qualify in the following categories are not permitted at book value without a permitted or prescribed practice from the state of domicile.

a. Assets supporting fund accumulation contracts (GICs), which do not participate in underlying portfolio experience, with a fixed interest rate guarantee, purchased under a retirement plan or plan of deferred compensation or established or maintained by an employer, will be recorded as if the assets were held in the general account.

b. With approval of the state insurance regulator, assets supporting insulated or non-insulated separate account contracts that are similar to contracts generally found in the general account[1], but do not directly pass all investment experience of the underlying assets to the policyholder may be recorded as if the assets were held in the general account. Unlike traditional separate account contracts, these contracts do not have investment directives determined by the contract holder and investment performance results are not attributed to a specific contract holder. The general account may serve as an overall backstop or may provide an implied guarantee, although a distinct performance guarantee may not be specified (such as a minimum crediting rate, death benefit, etc.). Examples of contracts expected to be captured within this provision include, but are not

[1] The inclusion of this guidance does not imply support for these contracts within the separate account instead of the general account. The domiciliary state insurance regulator is responsible for assessing and approving separate account contract classification in accordance with state statutes.

limited to, pension risk transfer (PRT) contracts, bank-owned life insurance (BOLI) and registered index-linked annuity (RILA) contracts.

19. Assets reported on the general account basis (referred to as "book value") detailed in paragraph 18 shall adhere to nonadmitted asset reporting provisions as if the assets were held in the general account. These provisions include compliance with *SSAP No. 4—Assets and Nonadmitted Assets*, applicable state investment limitations as well as specific statutory provisions detailed throughout the various statements of statutory accounting principles (SSAPs) within the NAIC *Accounting Practices and Procedures Manual*.

Separate Account Annual Statement Revisions:

- Asset Page – Modification to add "Nonadmitted Assets" and "Net Admitted General Account Assets" as columns 2 & 3 explicitly for column 1 assets reported on the "General Account Basis". Assets held at the "Fair Value Basis" will be reported as column 4, and the "Total of General Account Admitted and Fair Value" will be column 5.

- Summary of Operations – A new line 22 will be added for "Change in Nonadmitted Assets" within the surplus account.

- New Page – "Exhibit of Nonadmitted Assets" – This will detail the current and prior total nonadmitted assets, and the change in nonadmitted assets. This page is consistent with what is reported on the life blank for nonadmitted assets.

Staff Review Completed by: Julie Gann, NAIC Staff—September 2025

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/12-9-25 Fall National Meeting/Meeting/D - 25-25 - SA Nonadmit.docx

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

Issue: SSAP No. 48 Equity Changes

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 the overall guidance as well as the process in which equity changes are reported for investments in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*. Questions have been raised as to the timing of the requirement for the audited financial statements, and inquiries on the specific guidance in the standard for determining the amount reported (book/adjusted carrying value) for a SSAP No. 48 investment. In reviewing reported information on Schedule BA, questions have also been identified on the reporting provisions and if they are clear / consistently applied.

Under existing guidance in SSAP No. 48, investments shall be reported using the equity method. If a reporting entity holds a minor ownership interest (less than 10%) or lacks control, the equity calculation is limited to the guidance in SSAP No. 48. If there is a more-than-minor ownership interest, then the equity method is calculated pursuant to the guidance in *SSAP No. 97—Investments in Subsidiaries, Controlled and Affiliated Entities*, paragraphs 8.b.i-8.b.iv, which determines the equity method based on the investee (e.g., insurance company, non-insurance company, foreign insurance company). The general concept of the equity calculation is the same in both SSAP No. 48 and SSAP No. 97. The equity method adjusts a reporting entity's cost basis in an investment to reflect the audited undistributed gains/losses of the investee. Under both SSAP No. 48 and SSAP No. 97, audited financial statements are required to support the equity method calculation and for the investment to be admitted. Calculations also include amortization of a "basis difference" or goodwill – both concepts discussed within.

This agenda item is very detailed with many concepts from SSAP No. 48 identified for potential discussion. Ultimately, as shown within the recommendation, this agenda item proposes a review of several concepts to ensure intended guidance is clear and consistently applied. It's also noted that this review would be in line with historical agenda item 2013-36: Investment Classification Project. Although SSAP No. 48 was identified for review within that project, a review of SSAP No. 48 has yet to be completed.

1) <u>Review of 2024 Year-End Information for 2024 Acquired SSAP No. 48 Investments:</u>

NAIC staff ran a year-end 2024 data report to review investment information for all items acquired in 2024 and reported in scope of SSAP No. 48. For year-end 2024, this included the Schedule BA reporting lines for "Non-Registered Private Funds" and "Joint Ventures, Partnerships or Limited Liability Companies." (As of Jan. 1, 2025, the non-registered private fund reporting line has been eliminated, with all SSAP No. 48 items captured on the remaining line.) NAIC staff only focused on 2024 acquired items to eliminate the potential for prior year impacts to the book adjusted carrying value (BACV).

From this data pull, there were 2,286 investments reported with a 2024 acquisition date. Of these investments:

- 622 reported an unrealized gain from the date of acquisition
- 961 reported no unrealized gains lor loss from the date of acquisition
- 703 reported an unrealized loss from the date of acquisition

NAIC staff noted that some investments (80) were acquired in December 2024, including some acquired on December 31, 2024, and were reported with a year-end BACV that differed from the acquisition cost resulting in an immediate unrealized gain or loss. This identification further raised questions as to how companies would have updated information to support a change in the acquisition cost for year-end reporting, or if they had acquired the investments at a discount and were increasing the BACV to match the investment company's stated equity value.

NAIC staff also noted that for many 2024 acquired securities the calculation to arrive at the reported unrealized valuation increase/decrease did not seem to properly compute. Meaning, the difference between the reported acquisition cost and BACV did not agree to what was reported as an valuation increase/decrease. In some situations, the company even reported an unrealized decrease when the change between the BACV and amortized cost seem to reflect an unrealized increase (or vice versa). Although other impacts to BACV (e.g., recognized OTTIs, capitalized deferred interest or foreign exchange changes) or investment income received (reducing unrealized gains) detailed on Schedule BA could explain the difference, this was not the situation for most of the noted items.

After investigating a limited number of these items, it was noted that some investments were not originally acquired in 2024 but had additional contributions in 2024 and the "date originally acquired" on Schedule BA – Part 1 had been incorrectly updated, likely to the date when additional contributions were made. For items acquired before 2024, prior year impacts could influence the unrealized gain/loss calculation, potentially explaining why the calculation did not properly compute. (NAIC staff notes that this may not be the widespread explanation for discrepancies, and staff have not investigated the history of these items to verify the calculations.)

Regardless, after corresponding with a few interested party representatives, it was agreed that the intent, consistent with the annual statement instructions, is to have the "owned" schedules (Part 1) reflect the investment's original acquisition date even if there were subsequent funding / additional interests acquired. The date of the subsequent funding should be detailed on the "acquired" schedules (e.g., Schedule BA – Part 2), but that date should not be used to override the original acquisition date on Part 1. To ensure consistency in reporting, this agenda item proposes minor blanks reporting revisions to clarify the "date originally acquired" on Part 1 to identify that it should not be updated to reflect additional interests / funding towards an existing investment. For Part 2, minor revisions are proposed to include guidance for subsequent additions.

2) Timing of Recognition of Equity Value Increases (Gains) and Declines (Losses):

Per the explicit guidance in SSAP No. 48 and SSAP No. 97, reporting entities are to adjust the reported value based on the applicable audited financial statements of the investee. However, this is not how these equity adjustments occur in practice. Pursuant to discussion with interested party representatives, reporting entities often adjust the reported equity value based on the unaudited statements received from the investee. These statements could be received monthly, quarterly, annually, or not at all. Then, when the investee is audited, a "true-up" statement is provided to the reporting entity, and the reporting entity then adjusts the reported BACV based on the audited financial statements. As such, reporting entities are often not waiting for confirmed, audited, financial statements before regularly adjusting their reported equity value in the investee.

To illustrate, assume on Jan. 30, 2024, a reporting entity acquired ownership of a SSAP No. 48 entity. Then, each quarter, the reporting entity received a statement indicating a 10% increase in equity value. Under industry practice, reporting entities recognize this increased value with an unrealized gain each quarter, with the cumulative effect reflected in the year-end financial statements. Then, the investee would have an audit of their equity value as of year-end 2024. However, this audit would likely not be completed until after first quarter 2025. As such, the reporting entity would receive another unaudited quarterly statement indicating a 10% increase in March 2025 and the reporting entity would recognize an additional unrealized gain. Once the audit was complete, the reporting entity would receive the audited result and then make a corresponding adjustment to the equity value based on what was reported as of year-end 2024. Even if a reduction was necessary, the adjustment is made to the current period financials (whichever quarter the audited info is received), but the unaudited 10% unrealized gain reported for the Q1 2025 would remain until a subsequent audit found that the adjustment was incorrect.

Although the requirement for audited financial support is pointed to as a safeguard for the reported value of these investments, with the industry practice, there can be a significant timing difference in the reported equity value and when the audited financial statements are obtained to verify that amount. This practice is not consistent with the explicit guidance in SSAP No. 48 that indicates the carrying amount shall be adjusted to recognize the reporting entity's share of the <u>audited</u> U.S. GAAP basis earnings or losses of the investee after the date of acquisition. The guidance in SSAP No. 48 does allow use of unaudited information if the annual audited information is not complete as of the annual financial statement deadline, however, clarification is requested on how far in advance the use of unaudited information should be permitted. Is the guidance intended to allow equity adjustments at any time the investee provides information, or was that intended to only apply at year-end? When there is an audit lag, SSAP No. 48 indicates use of the more "recent available financial statements" and that the lag should be consistent from period to period. SSAP No. 97 has the SCA reporting process that verifies audited information, the reported valuation method and adjustments required.

With knowledge of industry practice, NAIC staff request comments on whether additional information is needed for regulators to assess the reported value of SSAP No. 48 investments. <u>For example, whether it would be beneficial to receive information (perhaps via new electronic columns) that identifies the date of the last audited financial statement supporting the equity position, when that audited information was received by the reporting entity, and what the reporting entity's audited equity value was at that time. This could assist in identifying significant equity changes since the last audit was received.</u>

Conversely, if preferred by regulators, the language in SSAP No. 48 could be revised to restrict recognition of unrealized gains (valuation increases) until those increases are supported by audited financial statements. If supported, consideration would need to be given to the recognition of unrealized declines (losses), as presumably, those should be recognized when known.

3) <u>Acquisition of SSAP No. 48 Investments at a Discount with Negative Goodwill</u>

The origination of this agenda item was from the inquiry on whether reporting entities could acquire SSAP No. 48 investments at a discount, and then immediately recognize a gain to represent the non-discounted equity value. From what NAIC staff have ascertained, acquisitions at a discount could occur in two general situations:

1. The issuing entity offers the insurance reporting entity the ability to purchase the investment at a lower amount than the proportionate share of the equity value. This could occur, but is not expected to be a common occurrence, at least not between unrelated third parties.

2. The insurance reporting entity acquires the SSAP No. 48 investment from another investor that is looking to reduce or eliminate their equity interest. This is expected to be the more common of the two scenarios, where the original investor takes a loss to unwind from the investment. Although the original investor may have reported the investment at the audited equity value, <u>the equity value may not reflect fair value</u>. Pursuant to SSAP No. 100, fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date (exit price). As SSAP No. 48 investments are often not liquid, investors may be required to take a loss (less than the equity value) to reduce or eliminate their investment interest.

Although there are provisions in certain SSAPs that restrict the measurement value of investments to not exceed fair value, that concept does not currently exist in SSAP No. 48. As such, under the provisions within SSAP No. 48, insurance reporting entities utilize equity value, regardless of whether the equity value is reflective of fair value (exit price). Although the audited equity value may reflect the fair value of the assets/liabilities in the structure, that value may not reflect what the insurance reporting entity could receive (fair value) if they needed to sell their investment.

Under existing statutory accounting guidance, all SSAP No. 48 acquisitions are subject to *SSAP No. 68—Business Combination and Goodwill* and the guidance for goodwill. This means that if the entity was to acquire a SSAP No. 48 investment for an amount greater than book value, positive goodwill would exist. If an entity was to acquire a SSAP No. 48 investment for an amount less than book value (discount), negative goodwill would exist. Goodwill is reported combined with the related investment; therefore, goodwill impacts the reported BACV on Schedule BA. (Positive goodwill increases the BACV and negative goodwill decreases the BACV.)

If acquiring a SSAP No. 48 investment at a discount, with negative goodwill, the entry to record the investment would be as follows: (Equity/book value is $100 and purchase price is $80.)

SSAP No. 48 Investment	100	
Goodwill		(20)
Cash		(80)

Since goodwill is reported combined with the investment, Schedule BA would report the investment at $80. Over a timeframe not to exceed 10 years, the negative goodwill would be amortized as an unrealized gain, systematically eliminating the goodwill and increasing the investment position. After the amortization timeframe (assuming no other changes), the investment balances would be reported at $100 (as it is no longer net with the negative goodwill), and there would be unrealized gain reported at $20 on Schedule BA.

This reporting could cause questions, as it would appear there is $20 in accumulated undistributed earnings after acquisition, but that would not be the case, as the investment was just acquired at a discount and the unrealized gain just reflects the amortization of the negative goodwill to get to the equity value at the date of acquisition. Regardless, since the entity only paid $80 for the investment, if the investment was sold for the equity value, the entity would recognize a $20 gain.

It should be highlighted that the goodwill amortization timeframe is "the period in which the acquiring entity benefits economically, not to exceed 10 years" with goodwill evaluated separately for each transaction. There is no difference in this guidance between negative and positive goodwill, therefore a company could conclude that the "economic benefit" timeframe is much shorter than 10 years, allowing for the goodwill to be amortized faster, resulting in an increase in the reported investment amount. Presumably, with no existing restrictions that require an amortization timeframe for negative goodwill, a company could determine that there is no future economic benefit timeframe and immediate eliminate the negative goodwill. Although this may not be desirable by an entity for positive goodwill, it would allow a day-one gain for negative goodwill (investments acquired at a discount).

In addition to the amortization of goodwill, the insurance company shall also be reporting the equity method pick-ups/declines, resulting in additional changes to the investment value and the recognition of unrealized gains/losses. From NAIC staff's understanding of the intent of the guidance, it is not appropriate to use subsequent equity changes to eliminate goodwill or accelerate its amortization into unrealized gain/loss.

Ultimately, the question is whether the guidance, and the net reporting with goodwill (positive or negative) on Schedule BA, is reflected as intended, if it is properly being followed and if there is adequate documentation and reporting of the goodwill for each investment. From the review of year-end 2024 data, it is not possible to identify the goodwill reported within each investment or the extent to which the unrealized gain/loss reflects the amortization of goodwill.

Based solely on the extent of unrealized valuation increases/decreases shown for investments originally acquired towards the end of 2024, NAIC staff suspect that some entities may not be capturing the concept of negative goodwill for investments acquired at a discount and instead are recognizing a day-one immediate unrealized gain. From the data review for 2024 acquisitions, NAIC staff identified that only 14 companies reported a current year amortization/accretion on Schedule BA, although many more companies reported an unrealized valuation increase/decrease shortly after the acquisition date. The following chart highlights the differences between following the SAP guidance with negative goodwill and if a company recognized a day-one gain:

Correct Accounting under SAP:	**Potential Accounting with Day-one Gain:**
SSAP No. 48 Investment 100 Negative Goodwill 20 Cash 80	SSAP No. 48 Investment 100 Unrealized Gain 20 Cash 80
The $100 investment and goodwill of $20 is reported net, therefore on Schedule BA, the investment is shown at $80.	If companies do not recognize the negative goodwill, they will recognize an immediate unrealized gain, resulting in $100 on Schedule BA for the investment.

4) Application of Goodwill and Goodwill Disclosures

Although the guidance in SSAP No. 68, paragraph 4 is explicit that all SSAP No. 48 entities are subject to goodwill (those with both a more-than-minor interest valued pursuant to SSAP No. 97, paragraphs 8.b.i, 8.b.ii, 8.b.iii and 8.b.iv, and those with a minor interest pursuant to SSAP No. 48, paragraph 9), there is a question whether acquisitions of SSAP No. 48 investments are following the guidance and are captured in the goodwill disclosures. NAIC staff suspects that the application of the SSAP No. 68 goodwill guidance to SSAP No. 48 investment acquisition is inconsistently applied based on two key factors:

1. First, the SSAP No. 68 title and guidance refers to "business combinations" and it is likely that companies acquiring an interest in a SSAP No. 48 investment do not consider the investment acquisition as a business combination.

2. Second, although SSAP No. 68, paragraph 1 and paragraph 5, apply to all SSAP No. 48 investments, including both more-than-minor (SCA) and minor (non-SCA) SSAP No. 48 investments, other sections of SSAP No. 68 refer to "SCA Investments." Because an SCA (subsidiary, controlled or affiliated) investment is a specific term that refers to affiliation and control, these references/headings could cause companies to misapply the guidance, even with the specific SSAP No. 48 citations.

Consistent with the issues noted previously, the question is whether proper documentation and reporting is occurring for goodwill that should be recognized for SSAP No. 48 investments. This is further expanded with a question on whether the guidance in SSAP No. 68 should be clarified to ensure consistent application, or if revised if the intent was not to capture all SSAP No. 48 acquisitions. If the guidance is retained, consideration may be given on expanding the disclosures and/or potentially incorporating electronic-only columns on Schedule BA for SSAP No. 48 investments to capture unamortized goodwill related to each specific investment.

5) Discussion on Goodwill & Basis Difference

With the review of the goodwill guidance, it was noted that SSAP No. 48, paragraph 11, makes specific reference to the "amortization of the basis difference (difference between the cost and the underlying U.S. GAAP equity)" as the first step in determining the investment's current equity value. In researching this guidance, the term "amortization of the basis difference" is incorrect under statutory accounting and instead should read as "amortization of goodwill." As previously noted, SSAP No. 68 applies to the accounting for purchases of SSAP No. 48 investments in all situations.

Under SSAP No. 68, goodwill is recognized as the difference between the purchase price (cost) and the acquired entity's book value. This is different from U.S. GAAP in which goodwill is recognized as the difference between the purchase price and fair value. The concept of a "basis difference" is a U.S. GAAP situation that arises in an acquisition when book value is less than fair value. This concept is considered separately under U.S. GAAP, as the difference between the purchase price and the fair value is "goodwill." Use of the term "basis difference" in SSAP No. 48 is a misnomer under statutory accounting concepts, as the comparison of fair value to purchase price as a component of the goodwill calculation does not exist under the prescribed statutory accounting goodwill calculation. <u>The reference in SSAP No. 48, paragraph should be revised to reflect "goodwill" to reflect statutory concepts and prevent misapplication or confusion</u>. To illustrate the differences:

- **SAP** - If an insurer paid $200 to acquire an LLC with a book value of $150, the insurer recognizes $50 in goodwill under SSAP No. 68. The goodwill is then amortized over the useful life, not to exceed 10 years.

- **GAAP** - If an insurer paid $200 to acquire the same LLC with a book value of $150, under U.S. GAAP the insurer would first have to determine if the book value equaled fair value. If the fair value was $180, the US GAAP filer would recognize a basis difference of $30 and goodwill of $20. Under U.S. GAAP, for public companies, the basis difference is amortized over the useful life of the asset it pertains to, not to exceed 10 years, but goodwill is an indefinite asset, only subject to annual impairment testing.

6) <u>SSAP No. 48 Negative Investment Income and Impairment Assessment</u>

SSAP No. 48 investments do not provide scheduled interest or other investment income outside of distributions that reflect accumulated earnings or a return of equity. When a reporting entity receives income that reflects accumulated earnings, the reporting entity would reduce the BACV with a corresponding entry to reduce the previously recognized unrealized valuation increase (gain), reflecting undistributed accumulated earnings. The entity would then reflect the income received as investment income. When a reporting entity receives a distribution that reflects a return of equity, they would reduce the reported book/adjusted value of the investment, with no recognition of investment income or gain or loss. Of the 2,441 investments captured in the 2024 report, 365 reported positive investment income on Schedule BA. (This is not considered unusual as it is possible that the newly acquired SSAP No. 48 investments did not provide distributions.) <u>However, what NAIC staff found interesting was that 153 entities reported a negative amount as "investment income" in Schedule BA</u>. <u>NAIC staff would find industry information beneficial to help explain how a negative investment income would be reported and what this reflects.</u> The instructions are explicit that amounts that reflect a return of capital should not be captured within the investment income column.

Reporting entities shall recognize an unrealized loss when the equity value of the investment declines to the point that all previous unrealized equity gains have been eliminated. Recognition of realized losses only occurs when a decline in value is other-than-temporary, or the entity sells the investment at a loss. Although it is common in most SSAPs to indicate that an OTTI shall be considered to have occurred when an entity has decided to sell an investment when the fair value is below the reported value, that is not specifically noted in SSAP No. 48.

Returning to the data that was reviewed for 2024 acquisitions, over 700 (approx. 31%) were reported with an unrealized valuation decline as of year-end 2024. As previously noted, it is hard to tell the cause of the unrealized decline from the information reported. In many instances, the reported year-end BACV is greater than original cost (which would indicate an unrealized gain) or the reported BACV is unchanged from acquisition. Potentially, the amounts could reflect the amortization of positive goodwill, but NAIC staff does not believe that is likely in most instances given the size of the reported unrealized loss reported in the first year of acquisition. NAIC staff would find industry information beneficial to help explain the cause / calculation showing unrealized valuation declines (losses) on Schedule BA, particularly when the reported BACV is greater than the acquisition cost. For the data reviewed, six instances of a current year OTTI were reported on the schedule.

7) SSAP No. 48 Ownership Percentage and Related Party Codes

In the review of the 2024 data, NAIC staff noted many instances in which the reporting entity identified a related party code of "6 – No Related Party Relationship" in situations in which the reporting entity's percentage of ownership of the SSAP No. 48 investment was greater than 10%. Of these, there were 19 instances in which the ownership was 100%, 20 instances where the ownership percentage was between 80-100%, and 31 instances in which the ownership percentage was between 50%-80%. Under the provisions of SSAP No. 48 for determining "minor" (less than 10% or lacks control) as well as the SSAP No. 25 guidance in determining a related party relationship, these investments with more than 10% reporting entity ownership reflect a related party relationship. Although the criteria may not be met for "control" and affiliation, it seems that at a minimum, related party codes 2-5 (shown below) would be applicable based on what is held within the SSAP No. 48 investment:

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.

2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.

3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.

4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.

5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.

6. The investment does not involve a related party.

NAIC staff would welcome feedback from industry on dynamics or interpretations that were used to support a related party code of 6, particularly when the reporting entity owns the entire, or majority interest, of the investment structure.

Existing Authoritative Literature:

SSAP References:

- ***SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies***
  Although the entire SSAP may be subject to review, key noted references include:

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

   (Paragraph 8 skipped – addresses a change in fiscal year for the SSAP No. 48 investment.)

9. **Joint ventures, partnerships and limited liability companies in which the entity has a minor ownership interest (i.e., less than 10%) or lacks control as stipulated in paragraphs 16 and 17, shall be recorded based on the underlying audited U.S. GAAP equity of the investee.** The investment shall be nonadmitted if the audited financial statements include substantial doubt about the entity's ability to continue as a going concern. Additionally, the investment shall be nonadmitted on the basis/contents of the audit opinion as detailed in paragraph 21 of SSAP No. 97.

   (Paragraph 10 includes options for other audited sources of verification if US GAAP audit financials are not available, e.g., audited foreign GAAP, audited IFRS, Audited US tax basis. It is not duplicated for brevity.)

11. **The amount to be recorded shall be defined as the initial investment in an investee at cost (as defined in paragraph 3 of *SSAP No. 68—Business Combinations and Goodwill*) plus subsequent capital contributions to the investee. The carrying amount of the investment shall be adjusted for the amortization of the basis difference (difference between the cost and the underlying U.S. GAAP equity), as well as to recognize the reporting entity's share of: (i) the audited U.S. GAAP basis earnings or losses of the investee after the date of acquisition, adjusted for any distributions received, or (ii) if audited U.S. GAAP basis financial statements of the investee are not available, the earnings or losses of the investee after the date of acquisition, adjusted for any distributions received, based on either one of the valuation methodologies allowed under paragraphs 10.a. or 10.b. A reporting entity's share of adjustments, excluding changes in capital contributions to the investee, that are recorded directly to the investee's stockholders' equity shall also be recorded as adjustments to the carrying value of the investment with an offsetting amount recorded to unrealized capital gains and losses on investments.**

12. **Entities may recognize their investment in joint ventures, partnerships, and limited liability companies in which the entity has a minor ownership interest based on an unaudited basis for investment determination (i.e., foreign GAAP, IFRS, or tax basis as allowed under paragraph 10) if annual audited information is not complete as of the annual statement filing deadline. The**

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

recorded investment shall be adjusted for annual audit adjustments, if any, as soon as annual audited information is available. If financial statements of an investee are not sufficiently timely for the reporting entity to apply an equity method to the investee's current results of operations, the reporting entity shall record its share of the earnings or losses of an investee from the most recent available financial statements. A lag in reporting shall be consistent from period to period.

- ***SSAP No. 68—Business Combinations and Goodwill***

1. This statement establishes statutory accounting principles for business combinations. It addresses: (a) accounting for purchases of subsidiary, controlled and affiliated (SCA) investments (defined in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*); (**b) accounting for purchases of partnerships, joint ventures, and limited liability companies (defined in *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*);** (c) accounting for goodwill; and (d) accounting for mergers. This statement does not include guidance for stock of an affiliated company received as a capital contribution, rather than through a purchase. Stock received as a capital contribution is addressed by *SSAP No. 25—Affiliates and Other Related Parties*, *SSAP No. 95—Nonmonetary Transactions*, or SSAP No. 97*,* based on the details of each transaction. The statutory purchase method within this statement is not applicable for stock received as a capital contribution.

Statutory Purchases of SCA Investments

3. The statutory purchase method of accounting is defined as accounting for a business combination as the acquisition of one entity by another. It shall be used for all purchases of SCA entities including partnerships, joint ventures, and limited liability companies. The acquiring reporting entity shall record its investment at cost. Cost is defined as the sum of: (a) any cash payment, (b) the fair value of other assets distributed, (c) the fair value of any liabilities assumed, and (d) any direct costs of the acquisition.(INT 00-28) Contingent consideration issued in a purchase business combination that is embedded in a security or that is in the form of a separate financial instrument shall be recorded by the issuer at fair value at the acquisition date.

4. **For those acquired SCA entities accounted for in accordance with paragraphs 8.b.i., 8.b.ii., 8.b.iii. or 8.b. iv. of SSAP No. 97, and joint venture, partnership or limited liability company entities accounted for in accordance with paragraph 9 of SSAP No. 48, goodwill is defined as the difference between the cost of acquiring the entity and the reporting entity's share of the book value of the acquired entity. When the cost of the acquired entity is greater than the reporting entity's share of the book value, positive goodwill exists. When the cost of the acquired entity is less than the reporting entity's share of the book value, negative goodwill exists.** Goodwill resulting from assumption reinsurance shall be recorded as a separate write-in for other-than-invested assets. All other goodwill shall be reported in the carrying value of the investment.

7. Positive goodwill recorded under the statutory purchase method of accounting shall be admitted subject to the following limitation: Positive goodwill from all sources, including life, accident and health, and deposit-type assumption reinsurance and goodwill resulting from the acquisition of an SCA by the insurance reporting entity that is reported on the SCA's financial statements (resulting from the application of pushdown accounting), is limited in the aggregate to 10% of the acquiring[2] entity's 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 adjusted to exclude any net positive goodwill, EDP equipment and operating system software, and net deferred tax assets. Additionally, all positive goodwill

[2] The "acquiring" entity is intended to reflect the insurance reporting entity that reports the investment resulting in goodwill. The goodwill limitation test shall be completed at the individual reporting company level.

shall be nonadmitted when the underlying investment in the SCA or partnership, joint venture and limited liability company is nonadmitted[3]. When negative goodwill exists, it shall be recorded as a contra-asset.

8. **Positive or negative goodwill resulting from the purchase of an SCA, joint venture, partnership or limited liability company shall be amortized to unrealized capital gains and losses on investments over the period in which the acquiring entity benefits economically, not to exceed 10 years.** Positive or negative goodwill resulting from life, accident and health, and deposit-type assumption reinsurance shall be amortized to operations as a component of general insurance expenses over the period in which the assuming entity benefits economically, not to exceed 10 years. Goodwill shall be evaluated separately for each transaction.[(INT 01-18)]

- ***SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities***

10. For investments in entities recorded on an equity method (paragraph 8.b.i. through 8.b.iv.), the amount to be recorded at acquisition shall be defined as the initial investment in an investee at cost as defined in SSAP No. 68, paragraph 3, adjusted to exclude any investments in an investee's preferred stock and/or surplus notes[4]. This guidance shall be followed for initial investments as well as subsequent investments in the investee.

11. **For investments in entities recorded on an equity method (paragraph 8.b.i. through 8.b.iv.) after the date of acquisition, the investment amount shall be 1) adjusted for the amortization of statutory goodwill as defined in SSAP No. 68, and 2) adjusted, with a corresponding unrealized gain or loss, for the reporting entity's share of undistributed earnings and losses of the investee (net of dividends declared[5]).** (This results in a reduction of the investment amount when dividends declared are in excess of the undistributed accumulated earnings attributable to the investee.) The following additional adjustment, based on the equity method applied for the investment, shall also be made:

    a. For investments in scope of paragraph 8.b.i. (based on audited statutory equity) the investment amount shall be adjusted for the reporting entity's share of the change in special surplus funds, other than special surplus funds and unassigned funds (surplus), as defined in *SSAP No. 72—Surplus and Quasi-Reorganizations*. Additionally, the investment amount shall be adjusted, with a corresponding unrealized gain or loss, for the reporting entity's share of other changes in the investee's surplus (e.g., the change in the investee's nonadmitted assets);

    b. For investments in scope of paragraphs 8.b.ii., 8.b.iii. and 8.b.iv. (underlying audited GAAP equity), the investment amount shall be adjusted for the reporting entity's share of adjustments recorded directly to the investee's stockholder's equity under GAAP, with a corresponding entry to unrealized gain or loss. For investments in scope of paragraphs 8.b.ii. and 8.b.iv. (underlying audited GAAP with limited statutory adjustments), the investment amount shall also be adjusted in accordance with paragraph 9.

- **Schedule BA, Part 1 & Part 2– Date Originally Acquired**

Schedule BA – Part 1

[3] This includes, but is not limited to, situations in which the investment is nonadmitted as the audited financial statements for the SCA, joint venture, partnership or limited liability company includes substantial doubt on the entity's ability to continue as a going concern, or on the basis/contents of the audit opinion pursuant to paragraph 21 of SSAP No. 97.

[4] The guidance in paragraphs 28-32 shall be applied for the separate reporting of preferred stock and surplus notes.

[5] Dividends are recognized in investment income when declared.

Column 8 – Date Originally Acquired State the date the investment was originally acquired.

Schedule – Part 2
Column 6 – Date Originally Acquired State the date the investment was originally acquired.

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): Historical agenda item 2013-36: Investment Classification Project identified a number of investment-related topics to be reviewed and considered. Although SSAP No. 48 was identified for review within that project, a review of SSAP No. 48 has yet to be completed.

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 Statutory Accounting Practices (E) Working Group move this item to the active listing initially categorized as a SAP Clarification, with an initial exposure and request for feedback on noted aspects and the extent of a SSAP No. 48 review. Consideration as to whether revisions reflect SAP Clarifications or new SAP Concepts can be reassessed once extent of review and potential revisions are further considered.

Ultimately, this agenda item proposes a review of several SSAP No. 48 concepts, and how they are applied, to ensure intended guidance is clear and consistently applied. This review is in line with a historical agenda item, Ref #2013-36 - Investment Classification Project, which was undertaken to review the investment SSAPs, including SSAP No. 48. However, after completion of numerous revisions (pre-bond project), the agenda item was closed, with a note that future revisions under the project would be captured in new agenda items to allow for easier tracking. A review of SSAP No. 48, although originally identified, was not completed under that project.

The agenda item includes a discussion and summary of several items noted within SSAP No. 48, originating from inquiries into the potential for day-one gains when acquiring investments at a discount. After exposure, and assessing the comments on how guidance is applied, the Working Group can decide to provide individual responses to the various items for limited revisions, or can direct NAIC staff to undertake a more comprehensive review of the accounting guidance and reporting requirements for SSAP No. 48 investments:

Specific Items for Exposure / Discussion:

A. Timing of Recognition of Equity Value Increases and Decreases **– Feedback is recommended on how equity changes are reflected per industry's application (prior to audited support) and if changes are needed to the guidance to clarify application and improve reported information.**

i. Consideration could be given to clarify the intent for audited support prior to the recognition of any equity changes or clarification as to industry practice, in which equity changes are reflected when known (e.g., when the SSAP No. 48 entity provides updated reports), with a "true-up" to the audited financial statements once available.

ii. This item also inquires whether additional Schedule BA information (perhaps via electronic columns) that identifies the date of the last audited financial statement, when that information was received, and the audited equity value at that time, would be beneficial. For example, it could assist in verifying that the BACV has audited support and identifying significant equity changes from the last audit.

B. <u>**Acquisition of SSAP No. 48 Investments at a Discount with Negative Goodwill**</u> **– Feedback is recommended on the application of the goodwill guidance (positive and negative) for SSAP No. 48 items and if there are adequate reporting on Schedule BA to identify the goodwill impact.**

i. As detailed within, under the existing guidance, reporting entities shall not immediately recognize an increase in equity value if acquiring a SSAP No. 48 item at a discount. Rather, negative goodwill shall be recognized, and that goodwill should be amortized to unrealized gain over when the acquiring entity benefits economically, not to exceed 10 years. (Also noting that the guidance does not mandate a minimum amortization timeframe for negative goodwill.) Comments are requested on this guidance and whether modifications or clarifications are needed.

ii. Also as detailed within, it does not appear that there is a way to identify whether a SSAP No. 48 item was acquired at a premium or discount on Schedule BA and if there is unamortized goodwill. Feedback is required on whether this information would be beneficial for inclusion. Feedback is requested on modifying the Schedule BA information, so this information can be reported more transparently.

C. <u>**Application of Goodwill and Goodwill Disclosures**</u> **– Feedback is requested regarding the lack of SSAP No. 68 disclosures involving goodwill for SSAP No. 48 investments and whether the goodwill from these acquisitions should be captured with the other goodwill disclosures. Without inclusion in the SSAP No. 48 disclosures, the goodwill from these acquisitions is likely not being subject to admittance limitations or being used to calculate the adjusted capital and surplus for other thresholds (e.g., IMR admittance).**

i. Although the guidance in SSAP No. 68, paragraph 4, is explicit that all SSAP No. 48 entities are subject to goodwill, there is a question whether acquisitions of SSAP No. 48 investments are following the guidance and are captured in the goodwill disclosures.

ii. Consideration can be given to expanding the SSAP No. 48 disclosures to ensure clarity on how the goodwill from these acquisitions should be reported.

D. <u>**SSAP No. 48 – Reference to "Basis Difference"**</u> – **To ensure consistency in interpretation and application, this agenda item proposes consideration of minor revisions to replace the term "basis difference" in SSAP No. 48, paragraph 11, with goodwill.**

i. The term "basis difference" is not a statutory accounting concept, there is nothing in SAP that explains this term or establishes the amortization timeframe. As its reference intends to reflect goodwill, that term/guidance should be utilized to prevent confusion / inconsistent misapplication.

E. <u>**SSAP No. 48 Negative Investment Income and Impairment Assessment**</u> **– Feedback is requested on what generates negative investment income reported on Schedule BA as well as information on what causes an unrealized loss reporting dynamic, especially when BACV is greater than original cost.**

i. As discussed within, from a review of the 2024 data (limited to 2024 acquisitions), a number of SSAP No. 48 investments were reported with negative investment income (Schedule BA – Column 20. Comments are requested help explain how a negative investment income would be reported and what it reflects. The instructions are explicit that amounts that reflect a return of capital should not be captured within the investment income column.

ii. Further, from a review of the data, there are questions as to the reporting of unrealized valuation decreases, as often the BACV is greater than original cost (which would indicate an unrealized increase/gain) or the reported BACV is unchanged from acquisition. Although this could reflect positive goodwill, it was noted to be unlikely given the size of the reported unrealized declines in the first year of acquisition. Comments are requested to help explain the cause and calculation of the reported unrealized declines (losses), particularly when the reported BACV is greater than acquisition cost.

F. **<u>SSAP No. 48 Ownership Percentage and Related Party Codes</u> – Feedback is requested on how related party codes are being used as many instances have been noted where the entity has a significant majority ownership (50% or higher) and the reported code is a "6 – No Related Party Relationship."**

i. Under the provisions of SSAP No. 48 for determining "minor" (less than 10% or lacks control) as well as the SSAP No. 25 guidance in determining a related party relationship, these investments with more than 10% reporting entity ownership reflect a related party relationship. Although the criteria may not be met for "control" and affiliation, it seems that at a minimum, related party codes 2-5 would be applicable based on what is held within the SSAP No. 48 investment.

G. **<u>Schedule BA Column – "Date Originally Acquired"</u>** - To ensure consistency in reporting, this agenda item proposes consideration of blanks reporting revisions to clarify the "date originally acquired" on Part 1 to identify that it should not be updated to reflect additional interests / funding towards an existing investment. For Schedule BA, Part 2, consideration will be given towards minor revisions to specifically address how to report subsequent additions.

Staff Review Completed by: Julie Gann, NAIC Staff—September 2025

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/12-9-25 Fall National Meeting/Meeting/E - 25-26 - Equity Changes.docx

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

Issue: SSAP No. 1 Modco/FWH Code

Check (applicable entity):

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

Description of Issue: The Working Group has recently adopted several changes to reporting of funds withheld and modco arrangements. This agenda item intends to update the required disclosures in *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*, in the restricted assets disclosure, to separately show modco and funds withheld assets within the Note 5L disclosures and to add them as a reporting code category within the investment schedules within the annual statement blanks. During the most recent update to Note 5L for restricted assets, these categories had been added to the restricted asset note with the adoption of the Blanks (E) Working Group's agenda item 2025-06BWG. There are two distinct actions with the agenda item. First, there are draft revisions to the restricted asset disclosure requirements in SSAP No. 1 to add categories for 1) modco assets, 2) funds withheld assets, and 3) collateral assets received and on the balance sheet, excluding collateral held under security lending and repurchase agreements reported on the balance sheet. These three categories had previously been added to the Note 5L disclosure, so this will just get SSAP No. 1 updated to match. Second, this agenda item includes a recommendation to the Blanks (E) Working Group to add these 3 categories into the restricted asset codes that are included in the investment reporting schedules.

Existing Authoritative Literature:

SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures (existing footnotes have been removed to save space.)

23. Reporting entities shall disclose(FN) the following information in the financial statements:

a. Amounts not recorded in the financial statements that represent segregated funds held for others, the nature of the assets and the related fiduciary responsibilities associated with such assets. One example of such an item is escrow accounts held by title insurance companies; and

b. The total combined (admitted and nonadmitted) book adjusted carrying value (BACV) of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category, and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.)(FN) in the general and separate accounts(FN) by the reporting entity in comparison to total assets and total admitted assets. (Pursuant to SSAP No. 4, paragraph 6, all assets pledged as collateral or otherwise restricted shall be reported in this disclosure regardless if the asset is considered an admitted asset.) Reporting entities shall also disclose differences in the amounts reported in this note versus the amounts reported for the same categories in the general interrogatories. This disclosure shall include the following restricted asset categories:

i. Reported assets subject to contractual obligation for which liability is not shown;

ii. Collateral held under security lending agreements;

iii. Assets subject to repurchase agreements;

iv. Assets subject to reverse repurchase agreements;

v. Assets subject to dollar repurchase agreements;

vi. Assets subject to dollar reverse repurchase agreements;

vii. Assets placed under option contracts;

viii. Letter stock or securities restricted as to sale(FN) – excluding FHLB stock;

ix. FHLB capital stock;

x. Assets on deposit with states;

xi. Assets on deposit with other regulatory bodies;

xii. Pledged as collateral to the FHLB (including assets backing funding agreements);

xiii. Assets pledged as collateral not captured in other categories(FN); and

xiv. Other restricted assets.

Note 5L(1) from the Life/Fraternal Annual Statement Blank, with adoptions from the Blanks (E) Working Group's agenda item 2025-06BWG, adopted May 29, 2025.

L. Restricted Assets

(1) Restricted Assets (Including Pledged)

Disclose the total gross (admitted and nonadmitted) book/adjusted carrying value amount of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.) by the reporting entity. Provide the total gross amount of restricted assets (current year, prior year and the change between years), the total admitted of restricted assets and the percentage the restricted asset amount (gross and admitted) is of the reporting entity's total assets amount reported on Line 28 of the asset page (gross and admitted respectively) by the following categories:

a. Subject to contractual obligation for which liability is not shown

b. Collateral held under security lending agreements

c. Subject to repurchase agreements

d. Subject to reverse repurchase agreements

e. Subject to dollar repurchase agreements

f. Subject to dollar reverse repurchase agreements

g. Placed under option contracts

h. Letter stock or securities restricted as to sale – excluding FHLB capital stock

i FHLB capital stock

j. On deposit with states

k. On deposit with other regulatory bodies

l. Pledged collateral to FHLB (including assets backing funding agreements)

m. Pledged as collateral not captured in other categories

n. Other restricted assets

o. Collateral Assets Received and on Balance Sheet

   Exclude: Collateral under security lending and repurchase agreements reported on balance sheet.

p. Assets held under Modco Reinsurance Agreements

q. Assets held under Funds Withheld Reinsurance Agreements

r. Total restricted assets

Items captured "pledged as collateral not captured in other categories" shall include, but not be limited to, assets pledged under derivative arrangements.

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): There have been several recent updates involving the reporting and disclosure of assets subject to a modco or funds withheld arrangement, and this current agenda item intends to clarify the restricted asset disclosure regarding these assets.

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: Jake Stultz – NAIC Staff

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. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures* to expand paragraph 23b to add reporting for assets held under a modco

and funds withheld arrangements, as illustrated below. These changes had been made previously when the Blanks (E) Working Group adopted blanks agenda item 2025-06BWG in Note 5L, so our recommendation is to add these categories to SSAP No. 1, to include disclosure of 1) modco assets, 2) funds withheld assets, and 3) collateral assets received and on the balance sheet, excluding collateral held under security lending and repurchase agreements reported on the balance sheet. Staff also recommend that these categories be added to the restricted asset disclosure in the investment schedules, as illustrated below.

23. Reporting entities shall disclose(FN) the following information in the financial statements:

a. Amounts not recorded in the financial statements that represent segregated funds held for others, the nature of the assets and the related fiduciary responsibilities associated with such assets. One example of such an item is escrow accounts held by title insurance companies; and

b. The total combined (admitted and nonadmitted) book adjusted carrying value (BACV) of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category, and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.)(FN) in the general and separate accounts(FN) by the reporting entity in comparison to total assets and total admitted assets. (Pursuant to SSAP No. 4, paragraph 6, all assets pledged as collateral or otherwise restricted shall be reported in this disclosure regardless if the asset is considered an admitted asset.) Reporting entities shall also disclose differences in the amounts reported in this note versus the amounts reported for the same categories in the general interrogatories. This disclosure shall include the following restricted asset categories:

i. Reported assets subject to contractual obligation for which liability is not shown;

ii. Collateral held under security lending agreements;

iii. Assets subject to repurchase agreements;

iv. Assets subject to reverse repurchase agreements;

v. Assets subject to dollar repurchase agreements;

vi. Assets subject to dollar reverse repurchase agreements;

vii. Assets placed under option contracts;

viii. Letter stock or securities restricted as to sale(FN) – excluding FHLB stock;

ix. FHLB capital stock;

x. Assets on deposit with states;

xi. Assets on deposit with other regulatory bodies;

xii. Pledged as collateral to the FHLB (including assets backing funding agreements);

xiii. Collateral assets received and on the balance sheet, excluding collateral held under security lending and repurchase agreements reported on the balance sheet.

xiv. Assets held under modco reinsurance agreements.

~~xii.~~xv. Assets held under funds withheld reinsurance agreements.

~~xiii.~~xvi. Assets pledged as collateral not captured in other categories(FN); and

xvii. Other restricted assets.

New codes that will be added to the annual statement blanks and instructions, in the investment schedules:

- CX - Collateral assets received and on the balance sheet, excluding collateral held under security lending and repurchase agreements reported on the balance sheet.
- MR - Assets held under modco reinsurance agreements.
- FWR - Assets held under funds withheld reinsurance agreements.

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

Issue: Nonadmittance of Long-Term Repos

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 discuss and clarify the guidance requiring nonadmittance of long-term repurchase and reverse repurchase transactions. This item has been raised due to questions on the existing guidance requiring nonadmittance, inconsistent treatment by reporting entities, permitted practices to admit long-term repurchase agreements, and an identified potential disparate treatment for repurchase agreements in comparison to other types of borrowing structures.

Under existing guidance in *SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, repurchase and reverse repurchase transactions are collectively referred to as "repos." The existing nonadmittance guidance refers to both types collectively, with nonadmittance required for agreements with maturity dates in excess of 365 days. This is detailed in footnote 6 of SSAP No. 103:

> [6] Only short-term repo agreements (with a stated short-term maturity date) are allowed as admitted assets. Long-term repo agreements (agreements with maturity dates in excess of 365 days) are nonadmitted.

Questions and comments have been received on the nonadmittance of repo contracts that have stated maturity dates of more than one year, particularly noting the following:

1. Repurchase and reverse repurchase agreements are different transactions, serving different purposes for reporting entities, therefore should be assessed separately in determining how nonadmitted guidance should be applied and if nonadmittance should be required for maturities in excess of one year.

2. For repurchase transactions, the nonadmittance recognition has been noted to present a punitive financial position when the agreement is open. If the repurchase transaction was to default, the resulting surplus position after default would be an improved financial presentation than what is shown with nonadmittance.

3. For repurchase transactions, the treatment has been identified to be disparate from other borrowing arrangements. For example, borrowings from the FHLB and securities lending agreements are not subject to admittance provisions based on the length of the borrowing agreement.

4. For all transactions, questions have been received on the application, particularly on the component that should be nonadmitted in the financial statements, and if that nonadmitted status should be eliminated once the contract enters the last year of its contract. (For example, if a 3-year agreement was nonadmitted, would that agreement be admitted once there is only 1 year left to maturity.)

As background, the definitions of repurchase and reverse repurchase agreements are as follows:

- Repurchase Agreements - For secured borrowing repurchase transactions, the insurance reporting entity sells a security, and receives collateral (generally cash) in an exchange that does not qualify as a sale. The insurer is the "cash taker" in these transactions, meaning they are borrowing funds from the counterparty. An insurer could enter into repurchase agreements for spread investing, this could be considered similar to the purposes of entering into a borrowing agreement with FHLB. For repurchase transactions, the counterparty to the insurer bears the asset risk (risk of decline in collateral value for the transferred asset).

- Reverse Repurchase Agreements - For secured borrowing reverse repurchase transactions, the insurance reporting entity is buying a security and providing collateral (generally cash) in an exchange that does not qualify as a sale. The insurer is the "cash provider" in these transactions. For these transactions, the insurer bears the asset risk (risk of decline in collateral value for the acquired asset).

For purposes of review, the remaining agenda item will review repurchase and reverse repurchase transactions separately to avoid confusion on the accounting / reporting.

<u>Repurchase Agreements – Insurer is the Cash Taker -Illustration of Entries & Assessment of Nonadmittance:</u>

As detailed above, for repurchase agreements, the reporting entity "sells" a security and receives collateral (generally cash) in exchange. The agreement typically does not qualify as a sale, so is accounted for as a secured borrowing. Under secured borrowing provisions, the asset "sold" is retained on the reporting entity's books, if cash is received and/or if the reporting entity has the ability to sell non-cash collateral received, then the entity recognizes the cash, and the liability to return.

The reporting entity's entries would look as follows: *(Note: The collateral requirement is 95. However, the entries are simply shown for debit/credit purposes and to illustrate nonadmittance, so a simple matching 100 is used.)*

	Cash	**Bond**	**Liability**	**Surplus**
Beg Balance	100DR			100Cr
Purchase Bond	100CR	100DR		
Sell Bond in Repo	100DR		100CR	
Ending Balances	**100DR**	**100DR**	**100CR**	**100CR**
Net Position		**100DR**		**100CR**

As shown above, the cash received is offset by the reported liability. **<u>With this reporting there is no impact on the overall capital and surplus</u>.** If this repurchase agreement was in excess of 1 year, then under SSAP No. 103 the sold bond would be nonadmitted. This would be shown as follows:

	Cash	**Bond**	**Liability**	**Surplus**
Beg Balance	100DR			100Cr
Purchase Bond	100CR	100DR		
Sell Bond in Repo	100DR		100CR	
Nonadmit Bond		100CR		100DR
Ending Balances	**100DR**		**100CR**	
Net Position	**0**			**0**

As shown above, with nonadmittance the surplus is eliminated, and the cash and liability offset. **This would negatively impact the reporting entity's financial presentation for the nonadmitted bond.** However, in the event that the transaction was to default and the counterparty did not return the bond, the ultimate impact from this transaction would be for the reporting entity to keep the collateral (cash) and eliminate the liability to return the cash to the counterparty, shown as follows:

	Cash	Bond	Liability	Surplus
Beg Balance	100DR			100Cr
Purchase Bond	100CR	100DR		
Sell Bond in Repo	100DR		100CR	
Nonadmit Bond		100CR		100DR
Remove Liability			100DR	100CR
Remove Nonadmittance		100DR		100CR
Remove Bond		100CR		100DR
Ending Balances	**100DR**			**100CR**
Net Position	**100DR**			**100CR**

This puts the reporting entity exactly where they were prior to the repurchase transaction (except for the 5% difference in the collateral received versus the bond lent). **<u>As such, nonadmitting the "sold" bond during the agreement results in a presentation that is more punitive than what would occur in the event of default.</u>**

Although there could be discussion on the reinvested use of the cash received, that dynamic is not specific or limited to repurchase agreements. In fact, with the financial crisis, the liquidity issues most predominantly involved the short-term (overnight) security lending transactions, that had historically been continuously rolled. In those dynamics, the insurer had invested the cash/collateral received in longer dated assets, as they expected the securities lending agreement to continue to roll. When the counterparty decided not to end the agreement on a stated maturity date (overnight), rather than continuously roll the investment, the insurer had to return the collateral by liquidating assets they had not planned to sell. After the financial crisis, additional disclosures were required to address the mismatch of the securities lending agreement to the reinvested cash. Presumably, reinvested cash from a longer dated repurchase agreement would be more in line with the maturity date of the agreement. (As non-short-term repurchase agreements were nonadmitted during the financial crisis, longer dated repurchase agreements were not a component within this dynamic.)

Based on this illustration and how the accounting/reporting works, unless it is intended to be punitive and a discouragement for a reporting entity to enter longer term repurchase transactions, the nonadmitted guidance is an interim negative financial presentation that exists while the repurchase agreement is in force. The resulting position (after default or unwinding) returns the reporting entity to the original pre-repurchase agreement presentation. As the insurer entity generally receives cash, and the counterparty assumes the asset risk, in the event the sold asset declines in value, the insurer would be in the preferred position. The insurer could elect to default, keeping the cash, and not accepting the return of the devalued asset. As such, the risk to the insurer in a repurchase agreement is low.

For comparison purposes, the entries for a reporting entity borrowing from an FHLB are shown below. There are no restrictions for FHLB transactions for long-term agreements, therefore there is no reported nonadmittance. The reporting entity's beginning, interim, and ending net position is the same. This is because even in the event of default, the reporting entity keeps the cash borrowed and removes the liability to return.

FHLB Borrowing Accounting Illustration				
	Cash	**Bond**	**Liability**	**Surplus**
Beg Balance	100DR			100Cr
Purchase Bond	100CR	100DR		
Borrow from FHLB (with Bond Pledged)	100DR		100CR	
Net Position		**100DR**		**100CR**
Upon Default / Unwind				
Remove Bond & Liability		100CR	100DR	
Net Position	**100 DR**			**100CR**

NAIC staff generally believe that when the economic impact is equivalent, the source of the agreement / borrowing (e.g., repurchase agreement versus securities lending or FHLB borrowing) should not result in different admittance or nonadmittance treatment based solely on the agreement's duration.

To address potential questions on the comparison to the FHLB, the intent is to illustrate that by restricting longer term repurchase agreements, reporting entities must look to other borrowing options. The FHLB has membership requirements, different rules on the sorts of collateral that is permitted to be pledged (e.g., mortgage-related) and larger overcollateralization requirements. As such, by limiting longer term repos, reporting entities are limited in borrowing options, without incurring additional costs or restrictions.

The SSAP No. 103 guidance regarding securities lending and repurchase agreements have slightly different collateral requirements, but both are generally accounted for as secured borrowings because they do not meet the definition of a sale. After the 2008 financial crisis, more disclosures about "reinvested" collateral was developed for securities lending transaction resulting in Schedule DL. (Although referred to as "reinvested" collateral, Schedule DL includes the collateral held. This can be original collateral received or the subsequent acquisition if the collateral was reinvested.) This schedule does not currently include repurchase or reverse repurchase information. However, both repurchase and reverse repurchase agreements have extensive disclosures in the notes to the financial statements. These disclosures identified maturity timeframe of the repo agreement, the securities sold/acquired, the collateral received, and the allocation of aggregate collateral by remaining contractual maturity.

Based on the above assessment, unless regulators identify other factors that justify different treatment or nonadmittance for repurchase agreements, <u>NAIC staff recommend that if a repurchase agreement satisfies the initial and ongoing SSAP No. 103 collateral requirements (i.e., collateral equal to at least 95% of the fair value of the transferred/sold security), the agreement's maturity length should not affect its admittance.</u> If there is concern that longer dated repurchase agreements can be puttable and terminated early, leaving an insurer to liquidate invested assets, then NAIC staff would recommend establishing provisions that address the puttable nature of all borrowing agreements, rather than limiting a specific form of a long-term borrowing transaction.

Reverse Repurchase Agreements – Insurer is the Cash Giver – Illustration of Entries & Assessment of Nonadmittance:

As detailed above, for reverse repurchase agreements, the reporting entity "buys" a security and provides collateral (generally cash) in exchange. The agreement most often does not qualify as a sale, so is accounted for as a secured borrowing, with the received asset/bond not reported on the insurer's books. Under secured borrowing provisions, the cash provided to "purchase" the asset is derecognized with a receivable recognized for its return. This receivable is reported as a "reverse repurchase asset."

The entries would look as follows: *(Note: The collateral requirement is 102. However, the entries are simply shown for debit/credit purposes and to illustrate nonadmittance, so a simple matching 100 is used.)*

	Cash	Reverse Repo Asset Receivable	Liability	Surplus
Beg Balance	100DR			100CR
Buy Bond in Repo	100CR	100DR		
Ending Balances		**100DR**		**100CR**
Net Position		**100DR**		**100CR**

As shown above, the cash provided is offset by a receivable representing a return of the cash by the counterparty. If the reverse repo agreement was short-term, this reverse repo receivable should be reported on Schedule DA – Short-Term Investments as an "Other Short-Term Investment." (Note: Under the secured borrowing approach, the acquired asset is not reported on the financial statements.)

If the reverse repurchase agreement was long-term, under SSAP No. 103, it should be nonadmitted. Presumably, nonadmittance would be applied to the "reverse repo receivable" recognized. If long-term (over 365 days), it would not qualify for Schedule D and should be reported on Schedule BA as an "Any Other Asset."

	Cash	Reverse Repo Asset Receivable	Liability	Surplus
Beg Balance	100DR			100CR
Buy Bond in Repo	100CR	100DR		
Nonadmit Repo		**100CR**		**100DR**
Net Position	**0**	**0**	**0**	**0**

With nonadmittance, the reporting entity's financial presentation provides no recognition of the asset the reporting entity is holding as collateral, which the reporting entity would have rights to retain upon default of the counterparty. If the reporting entity was to sell the acquired bond, they would recognize the cash received and an obligation to return the cash:

	Cash	Reverse Repo Asset Receivable	Liability	Surplus
Beg Balance	100DR			100CR
Buy Bond in Repo	100CR	100DR		
Nonadmit Repo		**100CR**		**100DR**

Sell Bond for Cash	**100DR**		**100CR**	
Net Position	**0**	**0**	**0**	**0**

With that action, although the proceeds from the sale are recognized, the offsetting liability does not change the reporting entity's financial position. The reporting entity can then use this cash for further investment or working capital. If either party were to default on the transaction, both the receivable and liability to return the acquired asset would be eliminated:

	Cash	**Reverse Repo Asset Receivable**	**Liability**	**Surplus**
Beg Balance	100DR			100CR
Buy Bond in Repo	100CR	100DR		
Nonadmit Repo Receivable		100CR		100DR
Sell Bond for Cash	100DR		100CR	
Default / Unwind				
Remove Liability			100DR	100CR
Remove Nonadmittance		100 DR		100CR
Remove Asset Receivable		100CR		100DR
Ending Balances	**100 DR**			**100CR**

Similar to a repurchase, at the time of default or unwinding, assuming no significant fair value / credit concerns to the acquired asset, the reporting entity would return to the same position prior to the reverse repurchase agreement.

A key risk for reverse repurchase agreements that is different from repurchase agreements is the potential for a fair value change of the related (acquired / sold) asset:

- In a repurchase agreement, the reporting entity has transferred an asset to the counterparty for cash. In the event the asset declines in value, the reporting entity could decide to default on the transaction and not take back the devalued asset. This would put the reporting entity in a better financial position, as they received cash for the original fair value of the asset. The valuation risk (decline in asset value) is assumed by the counterparty.

- In a reverse repurchase agreement, the asset valuation risk has been assumed by the reporting entity. As such, if the reporting entity is holding the bond, and its value has declined, the counterparty could decide to default, leaving the reporting entity with only the devalued bond as the remaining asset. This dynamic would result in the reporting entity having a diminished financial position because of the reverse repurchase agreement:

	Cash	**Reverse Repo Asset Receivable**	**Liability**	**Surplus**
Beg Balance	100DR			100CR
Buy Bond in Repo	100CR	100DR		

Bond Value Declines				
Counterparty Defaults				
Remove Asset Receivable		100CR		100DR
Sell Bond for Cash	50DR			50CR
Ending Balances	**50 DR**			**50CR**

Although SSAP No. 103 requires that the original "collateral" (acquired bond) be more than the cash outlay (at 102%), that overcollateralization would likely not safeguard against significant valuation declines in the acquired asset. Subsequent to acquisition, although the SSAP No. 103 guidance stipulates an obligation for the counterparty to provide more collateral for fair value shortfalls, there is no nonadmittance provision if additional collateral is not received. For reverse repurchase agreements, limiting admittance to 1-year agreements provides a safeguard against the potential risk of the acquired asset decline. Further, if this nonadmittance encourages use of 1-year or less agreements, then insurer reporting entities can more timely unwind reverse repurchase agreements in response to changing market conditions, with a higher potential to either receive a full return of their cash outlay, or the ability to sell the acquired bond at a comparable fair value as to their initial cash outlay.

With this assessment, NAIC staff recommend that the guidance continue to require nonadmittance of reverse repurchase agreements with maturity dates that exceed 1-year. Based on questions received, it is believed that clarification of the nonadmittance provisions would be beneficial, therefore the following is proposed:

- **Clarification that long-term reverse repurchase agreements shall be reported as "Any Other Asset" on Schedule BA, coded as a restricted asset subject to a reverse repurchase agreement, and nonadmitted.**

- **Clarification that in the last year to maturity, the long-term reverse repurchase agreement would not move reporting schedules (it would remain on Schedule BA) but could be admitted.**

Existing Authoritative Literature:

- ***SSAP No. 2—Cash, Cash Equivalents, Drafts and Short-Term Investments***
  This statement identifies reverse repurchase agreements of one year or less at the time of acquisition as short-term investments.

- ***SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities***
  This statement provides guidance for the accounting of repurchase and reverse repurchase agreements, including agreements designed as sales as well as secured borrowings. The guidance has an explicit statement that both repurchase and reverse repurchase agreements with maturity dates in excess of 1-year (365 days) are nonadmitted. The guidance also details the collateral requirements for admittance.

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 2024-24: *Conforming Repurchase Agreements* was developed in response to a January 2024 referral received from the Life RBC (E) Working Group in response to an ACLI request to modify the treatment of repurchase agreements in the Life RBC formula. This agenda item identified differences in accounting between securities lending and repurchase agreements. Under this same agenda item, in

August 2024, the Working Group exposed a memo detailing the accounting, reporting and RBC guidance for repurchase and securities lending transactions with a number of notes and questions identified within. In March 2025, the Working Group directed NAIC staff to develop clarifying revisions to the SSAP No. 103 guidance, as time allows, recognizing that other projects may be of greater importance.

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 as a new SAP concept and expose revisions to SSAP No. 103 to revise the guidance to allow long-term repurchase agreements to be admitted. This would then identify that only reverse repurchase agreements with maturity dates in excess of one-year are nonadmitted. This will alter historical guidance that required repurchase agreements with maturity date in excess of one-year to be nonadmitted. Although this is a new SAP concept, due to the limited scope of the change and documentation within this agenda item, NAIC staff does not recommend an issue paper to detail the change. The rationale is detailed within this agenda item and can be referred to for future use as needed. With the nonadmittance revision, it is recommended that the Working Group include clarifying edits on how reverse repurchase agreements shall be reported in the financial statements.

As discussed within, if there is concern that longer-dated repurchase agreements can be puttable and terminated early, leaving an insurer to liquidate invested assets (similar to what could occur when collateral from overnight securities lending transactions are reinvested in longer-term assets), then NAIC staff would recommend establishing provisions that address the puttable nature of all borrowing agreements, rather than limiting a specific form of a borrowing transaction. Comments are requested from industry on the prevalence of puttable provisions in repurchase agreements. Comments are requested from regulators on the need to include admittance restrictions if repurchase agreements (as well as perhaps other borrowing agreements) have puttable provisions and if borrowing agreements with puttable conditions need additional disclosure (e.g., terms of puttable conditions, potential mismatches in maturity or valuation if the cash collateral has been reinvested, etc.)

This item was identified to be addressed separately from the broad repo project captured in agenda item 2024-24. That project will continue as time allows.

Proposed Revisions to SSAP No. 103:

[6] Only short-term reverse repurchase ~~repo~~ agreements ~~(~~with ~~a~~ stated ~~short-term~~ maturity dates of 365 days or less~~)~~ are allowed as admitted assets. Long-term reverse repurchase ~~repo~~ agreements ~~(agreements~~ with maturity dates in excess of 365 days~~)~~ are nonadmitted~~.~~ and shall be reported on Schedule BA as an "Any Other Asset". A long-term reverse repurchase agreement shall not be moved to Schedule DA when the remaining maturity date is within 365 days of the reporting period date. However, when the maturity date is within 365 days of the reporting period date and the fair value of the acquired asset is 102% or more than the original purchase price paid by the reporting entity, the reverse repurchase agreement may be admitted for the remaining duration (365 days or less) until maturity. If the reverse repurchase agreement is renewed for a period in excess of 365 days, the agreement shall again be nonadmitted. This footnote is specific to reverse repurchase agreements and has no impact on the admittance of long-term repurchase agreements.

Staff Review Completed by: Julie Gann, NAIC Staff—October 2025

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/12-9-25 Fall National Meeting/Meeting/G - 25-28 - Repo Nonadmittance.docx

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

Issue: Reporting Clarifications

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 modify and/or clarify reporting for certain investments, particularly for aspects related to debt securities predominantly incorporated with the implementation of the principles-based bond definition. The reporting items within have been identified from questions from insurance reporting entities. Additional items may be added to this agenda item from interested parties' comments as well as from a review of the 2025 financial statements.

Items initially identified for discussion:

1. Payment Due at Maturity: Current annual statement instruction: *Report Payment Due at Maturity. Include the principal payment (including balloon payments) as well as interest to be paid at maturity.*

   This reporting element and instruction is currently in electronic column 20 for both Schedule D-1-1: Issuer Credit Obligations (ICOs) and Schedule D-1-2: Asset-Backed Securities (ABS). Although not explicitly stated in the instructions, the original intent was previously noted to reflect the amount due at maturity at the time of acquisition, without subsequent revisions.

   Questions have been raised as to what should be reported as "payment due at maturity" on D-1-1 for issuer credit obligations, and whether this reporting category should only be applicable for certain structures on the ABS schedule. For example, for self-liquidating ABS investments there would be no explicit, separate payment at maturity. For most ICO structures, the amount due at maturity at acquisition is likely par value of the bond.

   Proposal: Confirm the intent for the column to be unchanged after the date of investment acquisition, unless additional lots are acquired. If that is confirmed:

   - For ABS on D-1-2: Propose limiting the column to items reported as "Financial Asset-Backed Securities – Not Self Liquidating," "Non-Financial Asset Backed – Practical Expedient" and "Non-Financial Asset Backed – Full Analysis."

   - For ICOs, confirm whether it should reflect the maturity payment for all reporting lines, which could be par. If the investment had expected interest payments at maturity that would be included as well. As an alternative, the reporting on Schedule D-1-1 could be limited to "Single Entity Backed Obligations" to capture situations similar to D-1-2 – where the collateral is likely driving potential final payment.

   For ABS, the modifications would limit reporting to items with a greater potential for a distinct final payment, most likely reflecting situations where refinancing or releasing of the underlying collateral is required to provide final payment due under the debt security. For ICO, revisions would eliminate reporting for most categories. If it is desired for this column to be updated after acquisition, then it could be expanded to more ICO reporting lines to capture situations in which PIK and aggregate deferred interest will be required at maturity. However, those data fields are already separately reflected.

2. Origination Balloon Payment %: Current annual statement instruction: *Include the percentage of ballon payment due at maturity based on the original outstanding principal amount. For example, if the original security had principal repayment of $100 and $80 is scheduled to be paid at maturity, the balloon payment percentage at origination is 80%. The balloon percentage shall not be adjusted subsequent to origination regardless of principal reduction or payments in advance of maturity that reduce the outstanding balloon. If there is no balloon payment, then update with 0%.* This reporting column is limited to ABS classified as financial ABS – not self-liquidating, non-financial ABS – practical expedient, and non-financial ABS – full analysis.

   Clarification was requested to allow use of "acquisition data" when origination data is not available. Although the initial implementation incorporated such transition provisions, it has been noted that origination data may not be available for companies that acquire bonds on the secondary market (after origination). It was commented that getting the necessary documents for the bond could be challenging depending on the time between original acquisition and when it was acquired on the secondary market.

   Proposal: Confirm that origination data shall always be used when available. However, for investments acquired through the secondary market for which origination data cannot be obtained, the reporting entity can utilize acquisition date information.

3. Rated Notes or Rated Feeder Funds*:* Comment has been received to clarify the reporting location of debt securities from rated notes or rated feeder funds that qualify for bond treatment. This comment noted potential reporting of these items as issuer credit obligations. The reporting line for rated notes or rated feeder funds is not currently defined in existing guidance.

   The classification of a debt security as an issuer credit obligation (ICO) is specific to debt securities backed by the general creditworthiness of an operating entity. A rated note or rated feeder fund, by design, would not qualify within those provisions. A rated note or rated feeder fund would need to be assessed as an asset-backed security, which is a structure where the primary source of repayment is derived from cash flows associated with the underlying defined collateral. There is not a common definition for these investments. They typically involve a special purpose vehicle (SPV) holding underlying collateral. The nature of that collateral may vary widely and can be other investment securities, equity interests or limited partnership interests in funds.

   Although the holdings of a rated note or rated feeder fund can vary, in simple terms, the insurance company receives rated notes from a debt feeder fund, with payment on the notes contingent on the funds received from the investment holdings within the fund.

   Proposal: Consider clarifications to identify that rated notes / rated feeder funds are not expected to qualify as ICOs. Due to potential differences in what can back a rated note / feeder fund, and as the reporting lines focus on the underlying collateral, there is hesitation in designating a specific reporting location. Instead, it is proposed that a new investment characteristic code (for identification in electronic column 23) be developed to identify whether the reported is a rated note / feeder fund.

4. Aggregate Deferred Interest: Current annual statement instruction: *Some investments allow for interest payments to be deferred past the originally scheduled payment date without being considered past due under the agreement terms. Include the amount of interest reported as due and accrued for which the reporting*

entity has not received within 90 days of the originally scheduled payment date, that has not been nonadmitted under SSAP No. 34—Investment Income Due and Accrued. For the avoidance of doubt, this should also include all accrued interest for investments that pay interest in full less frequently than annually per the agreement terms.

Clarification for this reporting element was requested particularly for bank loans reported on Schedule D-1-1 as Issuer Credit Obligations. This question originated as it was indicated that it is common for bank loans to accumulate interest from underlying bank loans before paying the holder the interest. The interest accumulation within the bank loan may occur differently from the set payment dates to the holder.

Proposal: Confirm the guidance for bank loans reported as ICOs. This guidance intends to reflect an insurance reporting entity's holding of a fixed-income instrument that represents a portion of a loan to a single borrower issued from a financial institution. Bank loans captured as ICOs are not intended to reflect a structure that is backed by loans to many borrowers. A structure that is backed by many loans, where the underlying loans provide the cash flows to service the debt, shall be captured as an asset-backed security and be captured in scope of SSAP No. 43. With inclusion in SSAP No. 43, such structures would be required to have substantive credit enhancement to qualify for bond reporting.

- With the confirmation of ICO bank loans, the dynamic where the structure accumulates interest from many underlying holders before paying interest to the insurance holder should not occur for bank loans reported on Schedule D-1-1.

- Reporting aggregate deferred interest is based on the agreement between the insurer holder and issuer. If the interest payment is deferred past the scheduled payment date, and not considered past due under the agreement terms, it should be reported as aggregate deferred interest. As noted in the instructions, reported aggregate deferred interest includes all situations in which interest is not paid in full less frequently than annually per the agreement terms. As such, if a bank loan is scheduled to pay interest every 18 months, that interest due would be annually reported as aggregate deferred interest until paid.

5. Schedule BA – Residuals Maturity Date: Clarification has been requested on whether residuals should report a maturity date on Schedule BA. A review of 2024 reporting identified several residuals that were reported without a maturity date. Although the residual absorbs losses first, and may not have contractual principal or interest, it is anticipated that the overall structure would have a maturity date. The instructions require reporting for investments that have a stated maturity date.

   Proposal: Confirm that residuals should be reported with the maturity date for the entire structure, although the residual tranche itself may not have contractual terms.

6. Schedule BA – Investments in Joint Ventures, Partnerships or Limited Liability Companies (Including Non-Registered Private Funds) with Underlying Assets Having Characteristics of Mortgage Loans: Current annual statement instruction: *Items in scope of SSAP No. 48 that reflect mortgage obligations. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under "Other" subcategory.*

   Questions have been received on whether this reporting category can include SSAP No. 48 structures that hold RMBS or CMBS if the reporting entity can look through the RMBS/CMBS structures to complete a detailed property analysis on the mortgages that comprise the securitization structures.

As additional information, the following instructions are included in Schedule BA for SSAP No. 48 investments with underlying characteristics of "Bonds" and in the AVR instructions for "Other Invested Assets with Underlying Characteristics of Mortgage Loans:

- Schedule BA: SSAP No. 48 – Underlying Characteristics of Bonds:
  Investments in scope of SSAP No. 48 with underlying collateral that has contractual principal and/or interest payments, excluding mortgage loans. Structured Settlement payment rights in scope of SSAP No. 21 that have an SVO- Assigned designation

- Schedule BA: Residuals – Underlying Characteristics of Bonds:
  Investments with underlying collateral which, if held individually, would be reported as issuer credit obligations on Schedule D – Part 1 – Section 1, or as asset-backed securities on Schedule D – Part 1 – Section 2. Residual tranches from collateralized loan obligations (CLOs) shall be captured within this reporting line.

- AVR: Other Invested Assets with Underlying Characteristics of Mortgage Loans:
  Report the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investment are similar to mortgage loans (Lines 2399999 and 2499999), <u>excluding any mortgage-backed and asset-backed securities included in Lines 22 through 28 above</u>, in Columns 1 and 4. Categorize the mortgage loans as indicated in Lines 38 through 55.

<u>Proposal:</u> Confirm that the intent of the Schedule BA reporting is a single-level look-through. As the SSAP No. 48 structure holds RMBS/CMBS (debt securities), and those items would be assessed as ABS bonds if held directly, then the reporting entity should classify the structure as one with the "underlying characteristics of bonds." The guidance does not intend to allow insurance reporting entities to do a "double look-through" where they would look through the SSAP No. 48 structure to the RMBS/CMBS and then through the mortgage-backed structure to the underlying mortgage loans. Revisions are proposed to mirror the guidance for residuals backed by bonds, where is it explicit that the "underlying characteristics of bonds" includes debt securities items that would be assessed for bond reporting if held directly. Revisions are also proposed to explicitly exclude debt securities, including RMBS/CMBS, from the SSAP No. 48 reporting category for investments with "underlying characteristics of mortgage loans."

Existing Authoritative Literature:

- ***SSAP No. 26—Bonds*** *(Guidance for bank loans, emphasizing the intent for a single borrower.)*

2. In addition to security investments that qualify under the principles-based definition as issuer credit obligations, certain specific instruments are also captured in scope of this statement:

   b. Bank loans that are obligations of operating entities issued directly by a reporting entity or acquired through a participation, syndication or assignment[1];

Footnote 1: Bank Loan – Fixed-income instruments, representing indebtedness of a borrower, made by a financial institution. Bank loans can be issued directly by a reporting entity or acquired through an assignment, participation or syndication:

- **Assignment** – A bank loan assignment is defined as a fixed-income instrument in which there is the sale and transfer of the rights and obligations of a lender (as assignor) under an existing loan agreement to a new lender (and as assignee) pursuant to an Assignment and Acceptance Agreement (or similar agreement) which effects a novation under contract law, so the new lender becomes the direct creditor of and is in contractual privity with **<u>the borrower</u>** having the sole right to enforce rights under the loan agreement.

- **Participation –** A bank loan participation is defined as a fixed-income investment in which a single lender makes a large loan **<u>to a borrower</u>** and subsequently transfers (sells) undivided interests in the loan to other entities. Transfers by the originating lender may take the legal form of either assignments or participations. The transfers are usually on a nonrecourse basis, and the originating lender continues to service the loan. The participating entity may or may not have the right to sell or transfer its participation during the term of the loan, depending on the terms of the participation agreement. Loan Participations can be made on a parri-passu basis (where each participant shares equally) or a senior subordinated basis (senior lenders get paid first and the subordinated participant gets paid if there are sufficient funds left to make a payment).

- **Syndication –** A bank loan syndication is defined as a fixed-income investment in which several lenders share in **<u>lending to a single borrower</u>**. Each lender loans a specific amount to the borrower and has the right to repayment from the borrower. Separate debt instruments exist between the debtor and the individual creditors participating in the syndication. Each lender in a syndication shall account for the amounts it is owed by the borrower. Repayments by the borrower may be made to a lead lender that then distributes the collections to the other lenders of the syndicate. In those circumstances, the lead lender is simply functioning as a servicer and shall not recognize the aggregate loan as an asset. A loan syndication arrangement may result in multiple loans **<u>to the same borrower</u>** by different lenders. Each of those loans is considered a separate instrument.

- ***2025 Annual Statement Instructions:***

  Schedule D-1-1: Issuer Credit Obligations & Schedule D-1-2: Asset-Backed Securities
  Schedule BA: Other Invested Assets
  Asset Valuation Reserve

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 as a SAP clarification with exposure of the agenda item with a request for comment on the proposed clarifications as detailed in the agenda item. NAIC staff requests comments on the items exposed as well as additional reporting elements for which clarity would improve consistency in reporting. With adoption, propose sponsoring of a blanks proposal to incorporate the clarifications in the annual statement instructions.

Staff Review Completed by: Julie Gann, NAIC Staff—October 2025

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/12-9-25 Fall National Meeting/Meeting/H - 25-29 - Reporting Clarifications.docx

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

Issue: Administrative Services Contracts Disclosure Clarification

Check (applicable entity):

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

Description of Issue:
The purpose of this agenda item is to provide clarifications to the Administrative Services Contracts (ASC) disclosure in *SSAP No. 47—Uninsured Plans* and the related annual statement note 18B. Under an Administrative Services Contract plan the reporting entity pays claims from its own bank accounts, and only subsequently receives reimbursement from the uninsured plan sponsor. The purpose of annual statement note 18B is to disclose the gain or loss from ASC contracts. However, the existing disclosure wording and annual statement instructions have resulted in inconsistent reporting.

The queries that NAIC staff received were regarding annual statement cross checks and instructions for the table which data captures the required disclosure The existing note and the annual statement instructions are excerpted below in the "Existing Authoritative Literature" section. Although the SSAP No. 47 disclosure does not have a formula, the existing data captured Note 18B includes a formula that does not result in a net gain or loss on the ASC contract After review, NAIC staff are recommending updates to the disclosure in SSAP No. 47 and updates to the annual statement instructions and data captured table for note 18B to more accurately reflect the objective of showing the profitability of ASC contracts.

Existing Authoritative Literature:
SSAP No. 47—Uninsured Plans:

Revenue/Expense Recognition

5. The administrator's statement of operations shall exclude all income and expenses related to claims, losses, premiums, and other amounts received or paid on behalf of uninsured ASO or uninsured ASC plans. An administrator acting as a provider of services, that provides such services through a salaried network, where the cost allocation of the service provided to insured vs. uninsured plans cannot be reasonably determined, shall report medical and hospital expenses on a gross basis by type of expense and report revenue from uninsured plans on a gross basis as fee for service income.

6. Commissions, expenses, and taxes paid by the administrator to administer such plans shall be reported on a gross basis by type of expense. Where the only functions provided are administrative, administrative fees and related reimbursements from the plan shall be deducted from general expenses. Reporting entities filing the health blank should deduct administrative fees and related reimbursements from general administrative expenses or claim adjustment expenses if the administrative services provided include services for claim adjustment expenses as defined in *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses*. Where the reporting entity provides both administration and health care services directly, income from Medicare or similarly structured cost based reimbursement contracts is not recorded as premium but is recorded as revenue in the appropriate category. Health care services rendered as

"medical and hospital" categorized by type and administrative expenses by type of expense shall be reported on an incurred basis.

7. Income from cost based reimbursement contracts is recorded as revenue because the service provided is for the direct delivery of care to recipients. There are risks associated with these plans in that all costs incurred under the contract may not be reimbursable and revenues may be adjusted based on subsequent challenges of costs included in filed cost reports. In addition, revenue may also be adjusted based on the performance under the terms of the contract or other external factors.

Amounts Receivable

8. Amounts receivable from uninsured plans for (a) claims and other costs paid by the administrator on behalf of the third party at risk and (b) fees related to services provided by the administrator to the plan meet the definition of assets as set forth in *SSAP No. 4—Assets and Nonadmitted Assets*. A receivable shall not be recorded for unpaid claims. A receivable related to Medicare or a similarly structured cost based reimbursement contract shall only be recorded when services have been rendered.

Disclosures

13. The statutory financial statements shall provide the following (bolding added):

a. Information with regard to the profitability to the administrator of all ASO plans and the uninsured portions of partially insured plans for which the reporting entity serves as an ASO administrator;

For the total and each category separately provided: (i) net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses, (ii) total net other income or expense (including interest paid to or received from plans), and (iii) total net gain or loss from operations and (iv) the claim payment volume;

b. Information with regard to the profitability to the administrator of all ASC plans and the uninsured portions of partially insured plans for which the reporting entity serves as an ASC administrator;

For the total and each category separately provided: (i) gross reimbursement for medical cost incurred, (ii) gross administrative fees accrued, (iii) other income or expense (including interest paid to or received from plans), (iv) gross expenses incurred (claims and administrative), and (v) total net gain or loss from operations.

c. Information with regards to Medicare or similarly structured cost based reimbursement contracts shall include: (i) major components of revenue by payor, (ii) receivables from payors with account balances the greater of 10% of gross amounts receivable relating to uninsured accident and health plans or $10,000, (iii) recorded allowances and reserves for adjustment of recorded revenues, (iv) adjustments to revenue resulting from audit of receivables related to revenues recorded in the prior period.

Note 18 - Gain or Loss to the Reporting Entity from Uninsured Plans and the Uninsured Portion of Partially Insured Plans

Instruction:

Provide information with regard to the profitability to the reporting entity of uninsured accident and health plans and the uninsured portions of partially insured plans for which the reporting entity serves as an Administrative Services Only (ASO) or an Administrative Services Contract (ASC) plan administrator.

A. ASO Plans

For ASO plans, provide the following information with regard to the profitability to the reporting entity of all ASO plans and the uninsured portions of partially insured plans for which the reporting entity serves as an administrator.

For the total and each category separately provide:

- Net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses
- Total net other income or expense (including interest paid to or received from plans)
- Total net gain or loss from operations
- The claim payment volume

B. ASC Plans

For ASC plans, provide information with regard to the profitability to the reporting entity of all ASC plans and the uninsured portions of partially insured plans for which the reporting entity serves as an ASC administrator.

For the total and each category separately provide:

- **Gross reimbursement for medical cost incurred**
- **Gross administrative fees accrued**
- **Other income or expense (including interest paid to or received from plans)**
- **Gross expenses incurred (claims and administrative)**
- **Total net gain or loss from operations.**

<u>Illustration</u>:

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

A. ASO Plans

The gain from operations from Administrative Services Only (ASO) uninsured plans and the uninsured portion of partially insured plans was as follows during 20__:

Uninsured Portion

	ASO Uninsured Plans	of Partially Insured Plans	Total ASO
a. Net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses	$ ______	$ ______	$ ______
b. Total net other income or expenses (including interest paid to or received from plans)	$ ______	$ ______	$ ______
c. Net gain or (loss) from operations (a+b)	$ ______	$ ______	$ ______
d. Total claim payment volume	$ ______	$ ______	$ ______

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

B. ASC Plans

The gain from operations from Administrative Services Contract (ASC) uninsured plans and the uninsured portion of partially insured plans was as follows during 20___:

	ASC Uninsured Plans	Uninsured Portion of Partially Insured Plans	Total ASC
a. Gross reimbursement for medical cost incurred	$ ______	$ ______	$ ______
b. Gross administrative fees accrued	$ ______	$ ______	$ ______
c. Other income or expenses (including interest paid to or received from plans)	$ ______	$ ______	$ ______
d. Gross expenses incurred (claims and administrative) (a+b+c)	$ ______	$ ______	$ ______
e. Total net gain or loss from operations	$ ______	$ ______	$ ______

Drafting Note: The formula shaded above has been identified as problematic. Lines a, b include reimbursement amounts and do not represent gross expense incurred.

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):

An annual statement vendor comment prompted a cross check to be added to Note 18B in 2022. This cross check was identified as problematic in 2023 and disabled.

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

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. 47 and the related annual statement note 18B as illustrated below. The main reason for this clarification is to have a resulting that details the net gain or loss on the ASC plans. With the exposure, NAIC staff will also prepare a Blanks proposal for simultaneous exposure.

Because the insurer pays the claims on an ASC contract and is subsequently reimbursed, the note is data capturing gross inflows for reimbursements and gross administrative fees accrued. The existing other income interest line could reflect both inflows and outflows. To make the data capture easier, the other amounts/ interest received are proposed to be reported on a separate line from the other amounts/ interest paid by the insurer. The formula in the annual statement instructions is also proposed to be updated. The proposed revisions should result in consistent reporting of net gains from operations on ASC contracts.

Proposed Revisions to SSAP No. 47:
Disclosures

13. The statutory financial statements shall provide the following (bolding added):

a. Information with regard to the profitability to the administrator of all ASO plans and the uninsured portions of partially insured plans for which the reporting entity serves as an ASO administrator;

For the total and each category separately provided: (i) net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses, (ii) total net other income or expense (including interest paid to or received from plans), and (iii) total net gain or loss from operations and (iv) the claim payment volume;

b. Information with regard to the profitability to the administrator of all ASC plans and the uninsured portions of partially insured plans for which the reporting entity serves as an ASC administrator;

For the total and each category separately provided: (i) gross reimbursement for medical cost incurred, (ii) gross administrative fees accrued, (iii) other ~~income or expense~~amounts received by the insurance reporting entity (including interest paid to the insurer or received from ASC plans), (iv) other amounts paid by the insurance reporting entity (including interest paid to or on behalf of the ASC plans), (~~i~~v) gross expenses incurred (claims and administrative), and (vi) total net gain or loss from operations.

c. Information with regards to Medicare or similarly structured cost based reimbursement contracts shall include: (i) major components of revenue by payor, (ii) receivables from payors with account balances the greater of 10% of gross amounts receivable relating to uninsured accident and health plans or $10,000, (iii) recorded allowances and reserves for adjustment of recorded revenues, (iv) adjustments to revenue resulting from audit of receivables related to revenues recorded in the prior period.

Proposed Revisions to Annual statement Instructions:
Drafting Note: The formula has been updated to better reflect net gain or loss on the ASC plans.

Note 18 - Gain or Loss to the Reporting Entity from Uninsured Plans and the Uninsured Portion of Partially Insured Plans

Instruction:

Provide information with regard to the profitability to the reporting entity of uninsured accident and health plans and the uninsured portions of partially insured plans for which the reporting entity serves as an Administrative Services Only (ASO) or an Administrative Services Contract (ASC) plan administrator.

B. ASC Plans

For ASC plans, provide information with regard to the profitability to the reporting entity of all ASC plans and the uninsured portions of partially insured plans for which the reporting entity serves as an ASC administrator.

For the total and each category separately provide:

- Gross reimbursement for medical cost incurred
- Gross administrative fees accrued
- Other ~~income or expense~~amounts received by the insurance reporting entity (including interest paid to the insurer or received from ASC plans)
- Other amounts paid by the insurance reporting entity (including interest paid to or on behalf of the ASC plans)
- Gross expenses incurred (claims and administrative)
- Total net gain or loss from operations.

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

B. ASC Plans

The gain from operations from Administrative Services Contract (ASC) uninsured plans and the uninsured portion of partially insured plans was as follows during 20___:

	ASC Uninsured Plans	Uninsured Portion of Partially Insured Plans	Total ASC
a. Gross reimbursement for medical cost incurred	$ ______	$ ______	$ ______
b. Gross administrative fees accrued	$ ______	$ ______	$ ______
c. Other ~~income or expenses~~amounts received by the insurance reporting entity (including interest paid to the insurer or received from ASC plans)	$ ______	$ ______	$ ______
d. Other amounts paid by the insurance reporting entity (including interest paid to or on behalf of the ASC plans)	$ ______	$ ______	$ ______
e. Gross expenses incurred (claims and administrative) ~~(a+b+c-d)~~	$ ______	$ ______	$ ______
~~e~~f. Total net gain or loss from operations (a+b+c)-(d+e)	$ ______	$ ______	$ ______

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/12-9-25 Fall National Meeting/Meeting/H - 25-29 - Reporting Clarifications.docx

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

Issue: Update Coverage Gap Reference

Check (applicable entity):

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

Description of Issue:
The objective of this agenda item is to update references to the Coverage Gap Discount Program within *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage.* In accordance with the Inflation Reduction Act of 2022, the Coverage Gap Discount Program ended as of December 31, 2024. It has been replaced by the Manufacturer Discount Program, and corresponding updates to INT 05-05 are proposed to reflect this change.

The CMS Manufacturer Discount Program is a new Medicare Part D program that began on January 1, 2025. It requires participating pharmaceutical manufacturers to sign an agreement with the Centers for Medicare & Medicaid Services (CMS) to make their drugs eligible for Medicaid coverage. The participating drug manufacturers are required to provide discounts on eligible medications. After discussion with health industry representatives, the new program is also proposed to follow the guidance in *SSAP No. 47—Uninsured Plans.*

Existing Authoritative Literature:
INT 05-05 references the Coverage Gap Discount program as follows (bolding added for emphasis):

4. The Emerging Accounting Issues (E) Working Group reached a consensus to adopt the following guidance as it applies to the various funds to be received under the Medicare Part D program. The funds should be accounted for in accordance with one of the three SSAP's outlined below:

a. Specific funds received as reimbursements (or advance payments) for uninsured claims under a partially uninsured plan should be accounted for under SSAP No. 47. These funds include "reinsurance payments," "**Coverage Gap Discount Program"** payments and "low-income subsidy (cost-sharing portion)." These funds are paid by the government for a portion of claims above the out-of-pocket threshold or relate to prescription drug plan (PDP) payments for all or a portion of the deductible, the coinsurance and the co-payment amounts for low-income beneficiaries. CMS provides advance funding to the Part D sponsors. The Part D sponsor uses those advances to provide point-of-sale drug discounts to participants. CMS invoices the prescription drug manufacturers. The payment reconciliation process ensures that the Part D sponsor is paid dollar for dollar for coverage gap discounts advanced at the point of sale, based on accepted prescription drug event (PDE) data, and that any unused excess advances from the government are repaid. The Coverage Discount Gap Program does not apply to low-income beneficiaries.

b. Specific funds received by the PDP sponsor from either the Medicare Part D enrollee or the government as payment for standard coverage that will be subject to retrospective premium adjustments should be accounted for under SSAP No. 66. These funds include "direct subsidy," "low-income subsidy (premium portion)," "beneficiary premium (standard coverage portion)," "Part D payment demonstration" and "risk corridor payment adjustment." The funds noted above have a final policy amount that is calculated based on the loss experience of the insured during the term of the policy, therefore should be treated as such.

c. Specific funds received as premiums for coverage that is not retrospectively rated should be accounted for under SSAP No. 54. These funds include "beneficiary premium (supplemental benefit portion)" as these payments are considered to be standard premium payments that do not meet the definitions under SSAP No. 47 or SSAP No. 66 as defined in paragraph 4.a. and paragraph 4.b. of this interpretation.

INT 05-05 Status

6. On August 4, 2018, the Statutory Accounting Principles (E) Working Group updated this interpretation to **add a description of the Coverage Gap Discount Program**, amend existing guidance on program payments and update definitions.

Appendix – Commonly Used Terms for Medicare Part D Coverage

Coverage Gap Discount Program – The federal Affordable Care Act amended the Health Care and Education Act of 2010 (H. R. 4872) (HCERA) in 2011 to establish a discount program that would make manufacturer discounts available to applicable Medicare beneficiaries receiving applicable covered Part D drugs while in the coverage gap. Part D sponsors must provide the discounts for the applicable drugs in the coverage gap at point-of-sale. CMS coordinates the collection of discount payments from manufacturers and payment to Part D sponsors that provided the discount to applicable beneficiaries through a contractor. The coordination involves a standard process for paying Part D sponsors based on new information submitted to CMS on prescription drug event data. The Coverage GAP Discount Program is reconciled quarterly.

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):

Staff Review Completed by: Robin Marcotte – NAIC staff, October 2025

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 05-05: Accounting for Revenues Under Medicare Part D Coverage* to note the December 31, 2024 end of the Coverage Gap Discount program and add relevant references to the CMS Manufacturer's Discount Program. The revisions to INT 05-05 are shown as a separate attachment. The new Manufacturer's Discount Program is also proposed to follow the guidance in *SSAP No. 47—Uninsured Plans*.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/12-9-25 Fall National Meeting/Meeting/J - 25-31 - Update Coverage Gap Reference.docx

Interpretation of the Emerging Accounting Issues (E) Working Group and Statutory Accounting Principles (E) Working Group

INT 05-05: Accounting for Revenues Under Medicare Part D Coverage

INT 05-05 Dates Discussed

September 28, 2005; December 3, 2005; March 24, 2018; August 4, 2018; December 9, 2025

INT 05-05 References

Current:
SSAP No. 47—Uninsured Plans
SSAP No. 54—Individual and Group Accident and Health Contracts
SSAP No. 66—Retrospectively Rated Contracts
SSAP No. 84—Health Care and Government Insured Plan Receivables

INT 05-05 Issue

1. The Medicare Modernization Act of 2003 (MMA) created a new program, commonly known as Medicare Part D, whereby Medicare recipients may obtain prescription coverage offered by insurers who have been approved by the Centers for Medicare and Medicaid Services (CMS). Insurers who offer Medicare Part D coverage will, starting in January 2006, receive several different types of funds relating to the program. Some of these funds relate to portions of the coverage that require an annual reconciliation, resulting in the return of any excess funds received. Other funds may be received (or may be required to be returned) to offset experience that is especially unfavorable (or, respectively, favorable).

2. How should the various components of the funds received or receivable by an insurer from Medicare Part D coverage be accounted for?

INT 05-05 Discussion

3. The attached appendix provides a listing of terms to which CMS ascribes a specific meaning. This list has been enhanced to include other terms in order to facilitate consistent application for accounting and the NAIC's risk-based capital (RBC) formula. It should be noted that the terms included in the attached appendix are, for the most part, defined by CMS. Consequently, the term "reinsurance payment" does not represent actual reinsurance as defined by *SSAP No. 61~~R~~—Life, Deposit-Type and Accident and Health Reinsurance*.

4. The Emerging Accounting Issues (E) Working Group reached a consensus to adopt the following guidance as it applies to the various funds to be received under the Medicare Part D program. The funds should be accounted for in accordance with one of the three SSAP's outlined below:

a. Specific funds received as reimbursements (or advance payments) for uninsured claims under a partially uninsured plan should be accounted for under SSAP No. 47. These funds include "reinsurance payments," ~~"Coverage Gap Discount Program"~~"Manufacturer's Discount Program" payments and "low-income subsidy (cost-sharing portion)." These funds are paid by the government for a portion of claims above the out-of-pocket threshold or relate to prescription drug plan (PDP) payments for all or a portion of the deductible, the coinsurance and the co-payment amounts for low-income beneficiaries.

CMS provides advance funding to the Part D sponsors. The Part D sponsor uses those advances to provide point-of-sale drug discounts to participants. CMS invoices the prescription drug manufacturers. The payment reconciliation process ensures that the Part D sponsor is paid dollar for dollar for coverage gap discounts advanced at the point of sale, based on accepted prescription drug event (PDE) data, and that any unused excess advances from the government are repaid. The Coverage Discount Gap Program does not apply to low-income beneficiaries.

b. Specific funds received by the PDP sponsor from either the Medicare Part D enrollee or the government as payment for standard coverage that will be subject to retrospective premium adjustments should be accounted for under SSAP No. 66. These funds include "direct subsidy," "low-income subsidy (premium portion)," "beneficiary premium (standard coverage portion)," "Part D payment demonstration" and "risk corridor payment adjustment." The funds noted above have a final policy amount that is calculated based on the loss experience of the insured during the term of the policy, therefore should be treated as such.

c. Specific funds received as premiums for coverage that is not retrospectively rated should be accounted for under SSAP No. 54~~R~~. These funds include "beneficiary premium (supplemental benefit portion)" as these payments are considered to be standard premium payments that do not meet the definitions under SSAP No. 47 or SSAP No. 66 as defined in paragraph 4.a. and paragraph 4.b. of this interpretation.

5. The collectibility and any nonadmission of amounts receivable from the government insured or uninsured plans are addressed in SSAP No. 84, paragraph 22, and SSAP No. 47, paragraph 10 and paragraph 11, respectively.

INT 05-05 Status

6. On August 4, 2018, the Statutory Accounting Principles (E) Working Group updated this interpretation to add a description of the Coverage Gap Discount Program, amend existing guidance on program payments and update definitions. The Coverage Gap Discount Program ended on December 31, 2024 and its replacement, the Manufacturer's Discount Program began in 2025. Guidance on the Manufacturer's Discount Program was added in TBD. ~~No f~~Further discussion is planned.

Appendix – Commonly Used Terms for Medicare Part D Coverage

The federal Centers for Medicare and Medicaid Services (CMS) oversees the Medicare Part D prescription drug coverage, including coverage provided through a stand-alone prescription drug plan (PDP) and coverage provided as part of a Medicare Advantage plan. CMS ascribed specific meaning to most of the following terms. Other terms have been defined below in order to facilitate consistent application.

Beneficiary Premium (Standard Coverage Portion) – The amount received from the Part D enrollee (directly, or from CMS after being withheld from Social Security benefits) as payment for the standard coverage. This includes any late enrollment penalties that the PDP sponsor receives for an enrollee. The beneficiary premium is accounted for as health premium.

Beneficiary Premium (Supplemental Benefit Portion) – The amount received from the Part D enrollee (directly, or from CMS after being withheld from Social Security benefits) as payment for supplemental benefits. The beneficiary premium is accounted for as health premium.

Coverage Gap Discount Program – The federal Affordable Care Act amended the Health Care and Education Act of 2010 (H. R. 4872) (HCERA) in 2011 to establish a discount program that would make manufacturer discounts available to applicable Medicare beneficiaries receiving applicable covered Part D drugs while in the coverage gap. Part D sponsors must provide the discounts for the applicable drugs in the coverage gap at point-of-sale. CMS coordinates the collection of discount payments from manufacturers and payment to Part D sponsors that provided the discount to applicable beneficiaries through a contractor. The coordination involves a standard process for paying Part D sponsors based on new information submitted to CMS on prescription drug event data. The Coverage GAP Discount Program is reconciled quarterly. The Coverage Gap Discount Program ended on December 31, 2024, and was replaced by the new Manufacturer Discount Program in 2025. This INT previously directed readers to SSAP No. 47 for the Coverage GAAP Discount Program.

Coverage Year Reconciliation – A reconciliation made after the close of each calendar year to determine the amounts that a PDP sponsor is entitled to for the low-income subsidy (cost-sharing portion), the reinsurance payment, and the risk corridor payment adjustment. To the extent that interim payments (if any) from CMS exceeded the amounts determined by the reconciliation, the PDP sponsor must return the excess to the government; to the extent that interim payments (if any) from CMS fell short of the amounts determined by the reconciliation, the government will make an additional payment to the PDP sponsor. The coverage year reconciliation results in the low-income subsidy (cost-sharing portion) and the reinsurance payment being essentially a self-insured (by the government) component of the Part D coverage, subject to SSAP No. 47. The coverage year reconciliation also results in the treatment of the risk corridor payment adjustment as a retrospective premium adjustment, subject to SSAP No. 66.

Direct Subsidy – The amount the government pays to the PDP sponsor for the standard coverage. These payments are accounted for as health premium.

Low-Income Subsidy (Cost-Sharing Portion) – The amount the government pays to the PDP sponsor for additional benefits provided to low-income enrollees. The additional benefits may include payment for some or all of the deductible, the coinsurance, and the co-payment above the out-of-pocket threshold. These payments are accounted for as payments made under a self-insured plan.

Low-Income Subsidy (Premium Portion) – The amount the government pays to the PDP sponsor for low-income enrollees in lieu of part or all of the beneficiary premium (standard coverage portion). These payments are accounted for as health premium.

Manufacturer's Discount Program – The Inflation Reduction Act of 2022, ended the Coverage Gap Discount Program effective December 31, 2024 and replaced it with the Manufacturer Discount Program beginning January 1, 2025. The CMS Manufacturer Discount Program is a Medicare Part D program and requires participating pharmaceutical manufacturers to offer discounts on applicable drugs. The program requires manufacturers to sign an agreement with the Centers for Medicare and Medicaid Services (CMS) to make their drugs eligible for coverage. For certain manufacturers, discounts will be phased in over several years. Discounts are available for both low-income and non-low-income enrollees. Enrollees will still be responsible for 100% of their drug costs until any applicable deductible is met. The manufacturer discount does not count towards the enrollee's incurred costs and is not applied until the enrollee has incurred costs exceeding the annual deductible.

PDP Sponsor – The entity that provides stand-alone Part D coverage (as opposed to Part D coverage provided through a Medicare Advantage plan).

Reinsurance Payment – An amount paid by the government for benefit costs above the out-of-pocket threshold (see "Standard Coverage"). Generally, when costs exceed the out-of-pocket threshold, the government pays a specified percentage of the costs, the enrollee pays a percentage (or the specified co-payments which are updated based on cost trends for generic and for brand-name prescriptions), and the PDP sponsor pays the remainder. The amount paid by the government is treated as a claim payment made by a self-insured benefit plan rather than as revenue to the PDP sponsor, and the claims do not flow through the PDP sponsor's income statement. In cases where the government prepays the reinsurance payment on an estimated basis, the prepayment is treated as a deposit, which again does not pass through the PDP sponsor's income statement. The amount paid by the enrollee is paid directly to the pharmacy; therefore there is no required accounting for this amount by the PDP sponsor.

Part D Payment Demonstration – A payment from the government to a PDP sponsor participating in CMS's Part D Payment Demonstration. The payment demonstration is a special arrangement in which the PDP sponsor receives a predetermined per-enrollee capitation payment and the government no longer provides reinsurance for the specified percentage (example 80%) of costs in excess of the out-of-pocket threshold. Rather, the PDP sponsor assumes the risk for the specified percentage (example 80%) of costs, in addition to its normal percentage (example 15%) share of costs in excess of this threshold. However, risk corridor protection does still apply to this specified percentage (example 80%) share of costs. These payments are accounted for as health premium.

Reinsurance Coverage – The Medicare Part D provision under which the PDP sponsor may receive a reinsurance payment. This does not include payments under the Part D Payment Demonstration.

Risk Corridor Payment Adjustment – An amount by which the government adjusts its payments to the PDP sponsor, based on how actual benefit costs vary from the costs anticipated in the PDP sponsor's bid for the Part D contract (the "target amount" of costs). The government establishes thresholds for symmetric risk corridors around the target amount, using percentages of the target amount. If actual costs exceed the target amount but are less than the first threshold upper limit, then no adjustment is made. Risk corridor payment adjustments are accounted for as retrospective premium adjustments on retrospectively rated contracts.

Risk Corridor Protection – The Medicare Part D provision under which the PDP sponsor may receive (or pay) a Risk Corridor Payment Adjustment. Most employer plans providing Medicare Part D are not eligible for Risk Corridor Protection.

Standard Coverage – The Part D benefit design that conforms to certain standards prescribed by the government. The standard coverage comprises: no coverage for an annual initial deductible; coverage net of a coinsurance provision (the percentage of costs are payable by the insured) for costs up to an initial coverage limit; a range beyond the initial coverage limit (sometimes called the "coverage gap") in which the insured drug manufacturers and the PDP sponsor (for example, by 2020 insureds who are eligible for drug manufacturer discounts will pay 25% for qualifying brand and generic drugs, the PDP sponsor will be responsible for 25% of qualifying brand and 75% of generic drugs, and the drug manufacturer will be responsible for 50% of qualifying brand drugs); and an annual out-of-pocket threshold above which the insured pays the greater of a specified co-payment or a specified percentage of the drug cost. The various limits and thresholds are set at specified dollar amounts, which will be increased in later years based on the growth in drug expenditures. Wherever the term "standard coverage" is used as part of these instructions, the same treatment would be applied to coverage that has been approved as actuarially equivalent coverage. With respect to amounts above the out-of-pocket threshold, see the definitions of "Reinsurance Payment" and "Part D Payment Demonstration."

Supplemental Benefits – Benefits in excess of the standard coverage. These benefits typically will cover some portion of the deductible, the co-payments, or the coverage gap between the initial coverage limit and the out-of-pocket threshold. Supplemental benefits are part of an enrollee's Part D coverage, so they are not placed in the "Other" category in the RBC formula. However, they are not subject to either the reinsurance payment or the risk corridor payment adjustment, so they receive less favorable RBC treatment than the standard coverage.

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

Issue: Remove Shaded Text

Check (applicable entity):

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

Description of Issue: The *Accounting Practices and Procedures Manual* (APPM) historically used shaded text to indicate substantive revisions as deleted text in the Statements of Statutory Accounting Principles (SSAPs). This approach is no longer used for SSAPs. However, *SSAP No. 40—Real Estate Investments* still includes shaded text representing superseded guidance that was replaced when *SSAP No. 90—Impairment or Disposal of Real Estate Investments* was introduced in 2005. This agenda item proposes revisions to eliminate the shaded and superseded guidance shown within SSAP No. 40. These revisions would also update references within the APPM which detail using the shaded method to show previously superseded SSAP guidance.

Appendix H – Superseded SSAPs and Nullified Interpretations will continue to reflect nullified guidance as shaded text.

Existing Authoritative Literature:

Summary of Changes (**Bolding added for emphasis**)

Section 1 summarizes revisions that result in a new SSAP or new SAP concept to statutory accounting principles. Revisions that introduce original or modified accounting principles can be reflected in an existing or new SSAP. When revisions that result in a new SAP concept are made to an existing SSAP, the effective date is identified in the Status section, New SSAPs and new SAP concepts that revise existing SSAPs are commonly accompanied by a corresponding issue paper that reflects the tracked revisions for historical purposes. **If language in an existing SSAP is superseded, that language is shaded and the new or revised SSAP is referenced.** Completely superseded SSAPs and nullified interpretations are included in Appendix H.

How to Use This Manual (**Bolding added for emphasis**)

The cover page of each SSAP contains a STATUS section that can affect the implementation of each SSAP. The STATUS section contains the following:

> AFFECTS/AFFECTED BY – A useful tool for tracking relationships between statements and interpretations is contained within these sections. The "affects" section is used when a SSAP has previously been amended to reflect new SAP concepts or superseded by other issued SSAPs. Nullified INTs are also noted in this section. **Readers are referenced to another SSAP in the "affected by" section if the SSAP has been superseded or amended with a new SAP concept or with the issuance of a new SSAP. Text within paragraphs amended with new SAP concepts or superseded may also be "shaded" to notify readers that revised guidance is available.**

SSAP No. 40—Real Estate Investments

11. Properties occupied by the company and properties held for the production of income shall be carried at depreciated cost less encumbrances unless events or circumstances indicate the carrying amount of the asset (amount prior to reduction for encumbrances) may not be recoverable. Paragraph 5 of *FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* (FAS 121), provides examples of events or changes in circumstances which indicate that the recoverability of the carrying amount of properties occupied by the company or properties held for the production of income should be assessed. If the events or changes in circumstances set forth in paragraph 5 of FAS 121 are present or if other events or changes in circumstances indicate that the carrying amount of properties occupied by the company or properties held for the production of income may not be recoverable, the entity shall determine whether an impairment loss must be recognized in accordance with paragraph 6 of FAS 121. Property occupied by the company shall be evaluated using the asset grouping approach of paragraph 8 of FAS 121. An impairment loss is measured as the amount by which the individual carrying amounts exceed the fair value of properties occupied by the company or properties held for the production of income. Fair value is determined in accordance with paragraph 13 of this statement. If the fair value of the asset is less than the carrying value, the asset shall be written down to the fair value thereby establishing a new cost basis. The new cost basis shall not be changed for subsequent recoveries in fair value. The adjustment shall be recorded in the statement of operations as a realized loss.

12. Properties that the reporting entity has the intent to sell or is required to sell shall be classified as properties held for sale and carried at the lower of depreciated cost or fair value less encumbrances and estimated costs to sell the property consistent with paragraph 16 of FAS 121. The intent to sell a property exists when management, having the authority to approve the action, has committed to a plan to dispose of the asset, either by sale or abandonment. Fair value of the asset shall be determined in accordance with paragraph 13 of this statement. Subsequent revisions to the fair value of the asset shall be accounted for in accordance with paragraph 17 of FAS 121.

25. An entity that recognizes an impairment loss shall disclose all of the following in financial statements that include the period of the impairment write-down:

a. A description of the impaired assets and the facts and circumstances leading to the impairment;
b. The amount of the impairment loss and how fair value was determined; and
c. The caption in the statement of operations in which the impairment loss is aggregated.

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 recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to SSAP No. 40, SSAP No. 90, the Summary of Changes, and the How to Use document to delete the shaded text instructions and delete previously superseded guidance in SSAP No. 40 which is currently shown as shaded text.

Staff Review Completed by: William Oden, NAIC Staff – October 2025

Proposed revisions to *Summary of Changes:*

Section 1 summarizes revisions that result in a new SSAP or new SAP concept to statutory accounting principles. Revisions that introduce original or modified accounting principles can be reflected in an existing or new SSAP. When revisions that result in a new SAP concept are made to an existing SSAP, the effective date is identified in the Status section, New SSAPs and new SAP concepts that revise existing SSAPs are commonly accompanied by a corresponding issue paper that reflects the tracked revisions for historical purposes. ~~If language in an existing SSAP is superseded, that language is shaded and the new or revised SSAP is referenced.~~ Completely superseded SSAPs and nullified interpretations are shaded and ~~included in~~moved to Appendix H.

Proposed revisions to *How to Use This Manual:*
The cover page of each SSAP contains a STATUS section that can affect the implementation of each SSAP. The STATUS section contains the following:

AFFECTS/AFFECTED BY – A useful tool for tracking relationships between statements and interpretations is contained within these sections. The "affects" section is used when a SSAP has previously been amended to reflect new SAP concepts or superseded by other issued SSAPs. Nullified INTs are also noted in this section. Readers are referenced to another SSAP in the "affected by" section if the SSAP has been superseded or amended with a new SAP concept or with the issuance of a new SSAP.~~ Text within paragraphs amended with new SAP concepts or superseded may also be "shaded" to notify readers that revised guidance is available.~~

Appendix H – Superseded SSAPs and Nullified Interpretations:
Appendix H contains superseded SSAPs and nullified interpretations and is posted for public reference on the Statutory Accounting Principles (E) Working Group web page at *https://content.naic.org/cmte_e_app_sapwg.htm*. Nullified guidance is shown as shaded text in Appendix H.

Proposed Revisions to *SSAP No. 40—Real Estate Investments* - delete the paragraphs previously shown as shaded, with subsequent paragraphs to be renumbered, and add additional references to SSAP No. 90.

Status

Affected by....................................... ~~Paragraphs 11, 12 and 25 superseded by~~ SSAP No. 90

5. Real estate investments shall be reported in accordance with the following balance sheet categories, with parenthetical disclosure of the amount of related encumbrances. Guidance is included in *SSAP No. 90—Impairment or Disposal of Real Estate Investments* on classifying real estate to be disposed of other than by sale, for determining costs to sell, and for reporting disposal gains and losses as well as other than temporary impairments:

a. Properties occupied by the company – depreciated cost, less encumbrances;

b. Properties held for the production of income – depreciated cost, less encumbrances; and

c. Properties held for sale – lower of depreciated cost or fair value, less encumbrances and estimated costs to sell the property. (Paragraph 21 of SSAP No. 90~~—Impairment or Disposal of Real Estate Investments~~ provides criteria that must be met for this real estate classification.)

6. Any real estate which is owned by and is more than 50% occupied by the reporting entity and its affiliates shall be considered property occupied by the company. "More than 50% occupied" shall mean that the square footage occupied by the reporting entity and its affiliates totals more than 50% of the rentable square footage of the property, including common areas. This shall include property occupied by the company which is not necessarily home office (e.g., claims processing, data processing and branch centers). Property which does not

meet this 50% requirement shall be classified as property held for the production of income or property held for sale, consistent with SSAP No. 90.

7. Encumbrances represent outstanding mortgages or other debt related to the real estate investment and any unpaid accrued acquisition or construction costs. Participating mortgage loan liabilities are addressed in paragraphs 22-24. Interest expense shall be included in investment expenses.

8. The cost of real estate represents the fair value of the consideration exchanged plus any costs incurred to place the real estate asset in usable condition, including but not limited to, brokerage fees, legal fees, demolition, clearing and grading, fees of architects and engineers, any additional expenditures made for equipment and fixtures that are made a permanent part of the structure and certain interest costs as provided for in *SSAP No. 44—Capitalization of Interest*. Where cost includes both land and building, the cost shall be allocated among the assets purchased based on the relative values determined using appraisals, as described in paragraph 13. The cost shall be reduced by any amounts received for sales of rights or privileges in connection with the property or by any cash recoveries received after acquiring title to the property. The cost of real estate which has been foreclosed upon shall be initially established in accordance with *SSAP No. 36—Troubled Debt Restructuring* and *SSAP No. 37—Mortgage Loans*. The cost of contributed real estate shall be initially established in accordance with *SSAP No. 95—Nonmonetary Transactions* as a nonreciprocal transfer.

9. Internal preacquisition costs classified as nonoperating at the date of a property acquisition (that otherwise meet the requirements of paragraph 4 of FAS 67) shall be capitalized. If the entity subsequently determines that the property should have been classified as operating at the date of acquisition, such costs should be charged to expense and any additional costs shall be expensed as incurred. If internal preacquisition costs classified as operating at the date of acquisition were expensed as incurred, and the entity subsequently determines that the property should have been classified as nonoperating, the expensed costs shall remain as originally reported and shall not be reclassified to capitalized costs.

10. The cost of property included in real estate investments, other than land, shall be depreciated over the estimated useful life, not to exceed fifty years. Depreciation expense shall be included in investment expenses.

~~11. Properties occupied by the company and properties held for the production of income shall be carried at depreciated cost less encumbrances unless events or circumstances indicate the carrying amount of the asset (amount prior to reduction for encumbrances) may not be recoverable. Paragraph 5 of *FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* (FAS 121), provides examples of events or changes in circumstances which indicate that the recoverability of the carrying amount of properties occupied by the company or properties held for the production of income should be assessed. If the events or changes in circumstances set forth in paragraph 5 of FAS 121 are present or if other events or changes in circumstances indicate that the carrying amount of properties occupied by the company or properties held for the production of income may not be recoverable, the entity shall determine whether an impairment loss must be recognized in accordance with paragraph 6 of FAS 121. Property occupied by the company shall be evaluated using the asset grouping approach of paragraph 8 of FAS 121. An impairment loss is measured as the amount by which the individual carrying amounts exceed the fair value of properties occupied by the company or properties held for the production of income. Fair value is determined in accordance with paragraph 13 of this statement. If the fair value of the asset is less than the carrying value, the asset shall be written down to the fair value thereby establishing a new cost basis. The new cost basis shall not be changed for subsequent recoveries in fair value. The adjustment shall be recorded in the statement of operations as a realized loss.~~

~~12. Properties that the reporting entity has the intent to sell or is required to sell shall be classified as properties held for sale and carried at the lower of depreciated cost or fair value less encumbrances and estimated costs to sell the property consistent with paragraph 16 of FAS 121. The intent to sell a property exists when management, having the authority to approve the action, has committed to a plan to dispose of the asset, either by sale or abandonment. Fair value of the asset shall be determined in accordance with paragraph 13 of this statement. Subsequent revisions to the fair value of the asset shall be accounted for in accordance with paragraph 17 of FAS 121.~~

Disclosures

23. Refer to SSAP No. 90 for disclosures on the impairment or disposal of real estate investments.

~~25. An entity that recognizes an impairment loss shall disclose all of the following in financial statements that include the period of the impairment write-down:~~

~~a. A description of the impaired assets and the facts and circumstances leading to the impairment;~~

~~b. The amount of the impairment loss and how fair value was determined; and~~

~~c. The caption in the statement of operations in which the impairment loss is aggregated.~~

Effective Date and Transition

35. 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 Correction of Errors*. Guidance in paragraph 8 was originally contained in *INT 99-16: EITF No. 97-11: Accounting for Internal Costs Relating to Real Estate Property Acquisitions* and was effective October 4, 1999. Guidance in paragraph 15 was originally contained in *INT 99-25: Accounting for Capital Improvements* and was effective December 6, 1999. Guidance in paragraphs 18-20 was previously included within *SSAP No. 77—Real Estate Sales* and was effective for years beginning January 1, 2002. Effective January 1, 2006, *SSAP No. 90—Impairment or Disposal of Real Estate Investments* superseded paragraph 11, 12 and 25 of this statement. The superseded guidance was shown as shaded text until date TBD, when those paragraphs were deleted and subsequent paragraphs were renumbered. The original guidance included in this standard from SSAP No. 77 is retained for historical purposes in Issue Paper No. 106. Guidance related to EITF 06-8 referenced in paragraph 30 was incorporated from *INT 08-02: EITF 06-8: Applicability of the Assessment of a Buyer's Continuing Investment under FASB Statement No. 66 for Sales of Condominiums* and was effective for periods beginning May 31, 2008. The guidance reflected in paragraph 30 adopting *EITF 07-6: Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66, When the Agreement Includes a Buy-Sell Clause* was incorporated from *INT 08-07: EITF 07-6, Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66 When the Agreement Includes a Buy-Sell Clause,* and was effective September 22, 2008.

Proposed Revisions to *SSAP No. 90— Impairment or Disposal of Real Estate Investments*

Status

Affects... ~~Supersedes paragraphs 11, 12 and 25 of~~ SSAP No. 40~~R~~

SCOPE OF STATEMENT

~~2. This statement supersedes SSAP No. 40R—Real Estate Investments, paragraphs 11, 12 and 25.~~

Effective Date and Transition

42. The provisions of this statement shall be applied to all assets on the books of the reporting entity within the scope of this statement for reporting periods beginning on and after January 1, 2006. The guidance within paragraphs 18-20 was originally amended with the adoption of SSAP No. 95, included in that statement, and effective for fiscal periods beginning after January 1, 2007. The original guidance included in this SSAP with tracked changes showing the amendments from SSAP No. 95 are retained for historical purposes within Issue Paper No. 127.

43. Effective January 1, 2006, SSAP No. 90 superseded paragraph 11, 12 and 25 of *SSAP No. 40—Real Estate Investments*. The superseded guidance was shown as shaded text until date TBD, when those paragraphs were deleted and subsequent paragraphs were renumbered.

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

Issue: Update to Annual Statement Expense Descriptions and Categories

Check (applicable entity):

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

Description of Issue: NAIC staff have received informal comments from industry that several of the expense categories that are included in the annual statements are outdated and need to be updated to reflect the current types of expenses that exist for companies. Many of the changes are directly driven by changes in technology over the past 30 years and include the removal of items such as telegrams, cables, radiograms and teletypes that have been replaced in practical usage by email and other electronic communication. The updated descriptions also clarify some expenses related to computer technology that were not clear in the prior descriptions. The intent of this agenda item is only to update the existing schedules and classifications of expenses with current descriptions and does not intend to change statutory accounting for these expenses.

During the creation of this agenda item, NAIC staff from the Statutory Accounting Principles (E) Working Group worked with staff from the Blanks (E) Working Group to ensure that the groups were in alignment on this issue, and external groups were consulted to ensure that the changes made were clear and reflected the modern descriptions of the expense that exist.

Existing Authoritative Literature: Expenses are included throughout the *Accounting Practices and Procedures Manual*, but the specific information on the expense reporting classifications are included in each of the annual statement blanks.

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 update and modernize the expense descriptions and categories in the annual reporting blanks, as detailed in Exhibit 1 for P&C, Exhibit 2 for Life/Fraternal, Exhibit 3 for Health, and Exhibit 4 for Title of this Form A. This agenda item does not propose any changes to statutory accounting, only changes to the annual statement blanks. With exposure of this agenda item, it is recommended that the Working Group sponsor a blanks proposal to incorporate these changes.

Staff Review Completed by: Jake Stultz, NAIC Staff – October 2025

Exhibit 1

APPENDIX

INSTRUCTIONS FOR UNIFORM CLASSIFICATIONS OF EXPENSES OF

PROPERTY AND CASUALTY INSURERS

For the purpose of establishing uniformity in classifications of expenses of property and casualty insurers recorded in statements and reports filed with and statistics reported to Insurance Departments, all such insurers shall observe the instruction set forth below. Refer to *SSAP No. 63—Underwriting Pools* for accounting guidance.

LIST OF OPERATING EXPENSE CLASSIFICATIONS FOR ANNUAL STATEMENT PURPOSES

1. Claim Adjustment Services
   - 1.1 Direct
   - 1.2 Reinsurance Assumed
   - 1.3 Reinsurance Ceded
2. Commission and Brokerage
   - 2.1 Direct excluding contingent
   - 2.2 Reinsurance Assumed excluding contingent
   - 2.3 Reinsurance Ceded excluding contingent
   - 2.4 Contingent—Direct
   - 2.5 Contingent—reinsurance assumed
   - 2.6 Contingent—reinsurance ceded
   - 2.7 Policy and Membership Fees
3. Allowances to Managers and Agents
4. Advertising
5. Boards, Bureaus, and Associations
6. Surveys and Underwriting Reports
7. Audit of Assureds' Records
8. Salary and Related Items
   - 8.1 Salaries
   - 8.2 Payroll taxes

9. Employee Relations and Welfare

10. Insurance

11. Directors' Fees

12. Travel and Travel Items

13. Rent and Rent Items

14. Equipment

15. Cost or Depreciation of EDP Equipment and Software

16. Printing and Stationery

17. Postage~~,~~ and Telephone ~~and Telegraph, Exchange and Express~~

18. Legal and Auditing

20. Taxes, Licenses and Fees

    20.1 State and Local Insurance Taxes deducting guaranty association credits

    20.2 Insurance Department Licenses and Fees

    20.3 Guaranty Association Assessments

    20.4 Other (excluding Federal Income and Real Estate)

21. Real Estate Expenses

22. Real Estate Taxes

24. Miscellaneous

RULES RELATING TO OPERATING EXPENSE CLASSIFICATIONS

1. CLAIM ADJUSTMENT SERVICES

1.1 Direct

Include: The Following Expenses When in Connection With the Investigation and Adjustment of Policy Claims:

Independent Adjusters: Fees and expenses of independent adjusters or settling agents

Legal: Fees and expenses of lawyers for legal services in the defense, trial, or appeal of suits, or for other legal services

Bonds: Premium costs of bonds

Appeal Costs and Expenses: Appeal bond premiums, charges for printing records, charges for printing briefs, court fees and incidental to appeals

General Court Costs and Fees: Entry fees and other court costs, and other fees not includible in Losses (Note: Interest and costs assessed as part of or subsequent to judgment are includible in Losses.)

Medical Testimony: Fees and expenses of medical witnesses of attendance or testimony at trials or hearings ("Medical" includes physicians, surgeons, chiropractors, chiropodists, dentists, osteopaths, veterinarians, and hospital representatives.)

Expert Witnesses: Fees and expenses of expert witnesses for attendance or testimony at trials or hearings

Lay Witnesses: Fees and expenses of lay witnesses for attendance or testimony at trials or hearings

Services of Process: Constables, sheriffs, and other fees and expenses for service of process, including subpoenas

Transcripts of Testimony: Stenographers' fees and fees for transcripts of testimony

Medical Examinations: Fees for medical examinations, fees for performing autopsies, fees for impartial examination, x-rays, etc., for the purpose of trial and determining questions of liability (This does not include fees for medical examinations, x-rays, etc., made to determine necessary treatment, or made solely to determine the extent or continuation of disability, or first aid charges, as such fees and charges are includible in Losses.)

Miscellaneous: Costs of appraisals, expert examinations, surveys, plans, estimates, photographs, maps, weather reports, detective reports, audits, credit or character reports, watchmen (Charges for hospital records and records of other kinds, notary fees, certified copies of certificates and legal documents, charges for Claim Adjustment Services by underwriting syndicates, pools, and associations)

Exclude: Compensation to employees (see Salaries)

Expenses of salaried employees (see Travel and Travel Items)

Items includible in Allowances to Managers and Agents

Payments to State Industrial Commissions (see Taxes, Licenses, and Fees)

Payments to claim adjusting organizations except where the expense is billed specifically to individual companies (see Boards, Bureaus, and Associations)

Cost of services of medical examiners for underwriting purposes (see Surveys and Underwriting Reports)

Salvage and subrogation recovery expense, rewards, lost and found advertising, expenses for disposal of salvage (Such expenses shall be deducted from salvage.)

Any expenses which by these instructions are includible elsewhere

Separation of Claim Adjustment Services:

The Statistical Plans filed by certain rating bureaus contain definitions of "Allocated Loss Adjustment Expenses" which exclude for rating purposes certain types of claim adjustment services as defined herein. For the lines of business thus affected, companies that are members of such rating bureaus shall maintain records necessary to the reporting of Claim Adjustment Services—Direct, as follows:

a. As defined in Statistical Plans

b. Other than as defined in Statistical Plans

1.2 Reinsurance Assumed

Include: Claim adjustment expenses in bills rendered by ceding companies

1.3 Reinsurance Ceded

Include: Claim adjustment expenses billed to assuming entities

2. COMMISSION AND BROKERAGE

2.1 Direct excluding contingent

Include: All payments, reimbursements and allowances, on direct writings, computed as a percentage of premiums for production, management, or other services to:

Managers
Supervising General Agents
General Agents
Regional and District Agents
Local Agents
Office Agents
Brokers
Solicitors
Other producers and agents

Commissions and brokerage to employees when the activities for which the commissions are paid are not a part of their duties as employees.

Exclude: Compensation to employees except as noted above (see Salaries)

Allowances, reimbursements and payments not computed as a percentage of premiums (see Allowances to Managers and Agents)

Expenses involved in transactions between insurance companies (see Joint Expenses; Commission and Brokerage—Reinsurance Assumed and Ceded; Expenses for Account of Another, and Income from Special Services)

Contingent commission (see Commission and Brokerage—Contingent)

Fees of investment counsel (see Legal and Auditing)

Expenses includible in Boards, Bureaus, and Associations

Taxes on premiums (see Taxes, Licenses, and Fees)

Commission received for special services such as loss adjustment and inspection not related to policies issued by the company (see Income from Special Services)

2.2 Reinsurance Assumed excluding contingent

Commission and allowances of every nature on reinsurance assumed including tax and board allowances and reinsurance brokerage, except contingent commission, should be included in Commission and Brokerage—Reinsurance Assumed

Exception: Where commission and allowances under reinsurance assumed take the form of accurate proportions of actual expenses incurred, as in some quota share and pooling arrangements, entries shall be made to the actual expenses.

2.3 Reinsurance Ceded excluding contingent

Commission and allowances of every nature on reinsurance ceded including tax and board allowances and reinsurance brokerage, except contingent commission, shall be included in Commission and Brokerage-Reinsurance Ceded.

Exception: Where commission and allowances under reinsurance ceded take the form of accurate proportions of actual expenses incurred, as in some quota share and pooling agreements, entries shall be made to the actual expenses.

Commissions and fee allowances received from FEMA should be reported consistent with reinsurance ceding commissions. Refer to *SSAP No. 62~~R~~—Property and Casualty Reinsurance*.

Examples Relating to the Treatment of Commission on Reinsurance Assumed and Reinsurance Ceded

1. Company A cedes business to Company B under a treaty specifying a commission of 35% and an allowance for taxes and board fees of 5%. On the statement filed by Company A, both the 35% and the 5% shall be entered in Commission and Brokerage—Reinsurance Ceded. On the statement filed by Company B, both the 35% and the 5% shall be entered in Commission and Brokerage—Reinsurance Assumed.

2. Company A cedes 10% of all of its business to Company B under an agreement whereby Company B pays 10% of all actual expenses on such business incurred by Company A. Assume the expenses of Company A on the business reinsured as follows:

	Paid on Written Business
Commission and Brokerage - Direct	$ 100,000
Salaries	30,000
Rent and Rent Items	7,000
Printing and Stationary	7,000
Postage, etc.	5,000
Surveys and Underwriting Reports	8,00
	0
Total	$ 157,000

(NOTE: These are not intended to show the complete list of expenses involved but are given only for illustrative purposes.)

On the statement filed by Company A the commission and allowances by Company B shall be credited as follows:

	Paid on Written Business
Commission and Brokerage - Ceded	$ 10,000
Salaries	3,000
Rent and Rent Items	700
Printing and Stationary	700
Postage, etc.	500
Surveys and Underwriting Reports	800
Total	$ 15,700

On the statement filed by Company B the commission and allowances made to Company A shall be debited as follows:

	Paid on Written Business
Commission and Brokerage – Reinsurance Assumed	$ 10,000
Salaries	3,000
Rent and Rent Items	700
Printing and Stationary	700
Postage, etc.	500
Surveys and Underwriting Reports	800
Total	$ 15,700

2.4 Contingent Direct

Contingent or profit commission paid

Contingent or profit commission received

Contingent commission to employees when the activities for which the contingent commission is paid is not a part of their duties as employees

2.5 Contingent reinsurance assumed

2.6 Contingent reinsurance ceded

2.7 Policy and Membership Fees

Include: Policy and membership fees retained by or paid to agents

Policy and membership fees to employees when the activities for which the policy and membership fees are paid are not a part of their duties as employees

3. ALLOWANCES TO MANAGERS AND AGENTS

Include: Net allowances, reimbursements and payments for expenses of every nature, not computed as a percentage of premiums, to managers, agents, brokers, solicitors, and other producers

Exclude*:* Compensation to employees (see Salaries)

Expenses of salaried employees (see Travel and Travel Items)

Expenses of management where one insurance company has been appointed manager for another (see Joint Expenses; Commission and Brokerage—Reinsurance Assumed and Ceded; and Expenses for Account of Another)

Contingent commission (see Commission and Brokerage—Contingent)

Policy and membership fees (see Commission and Brokerage—Policy and Membership Fees)

Expenses in connection with owned real estate (see Real Estate Expenses)

Amounts representing exact reimbursements for Losses, Taxes, Licenses and Fees, Boards, Bureaus and Associations, and Advertising, where only the minimum space required by law is taken

Amounts representing exact reimbursements for Claim Adjustment Services, Surveys and Underwriting Reports and Audit of Assureds' Records when these services are performed by others than employees of managers, agents, brokers, solicitors or other producers

4. ADVERTISING

Include: Services of advertising agents

Public relations counsel

Space in newspapers, periodicals, billboards, programs, and other publications including electronic formats

Circulars, pamphlets, calendars, and literature issued for advertising or promotional purposes

Drawings, plates, etchings, etc., in connection with advertising

All charges for printing, paper, etc., in bills covering advertising

Media b~~B~~roadcasts (e.g., radio, television, etc.)

Prospect and mailing lists

Signs, frames, medals, etc., for agents

Souvenirs for general distribution

House organs (in-house periodical or employee periodical) and similar publications distributed to others than employees

Advertising required by law when more than the minimum space required to comply with the law is taken

Exclude: Compensation to employees (see Salaries)

Items includible in Travel and Travel Items, Claim Adjustment Services, and Boards, Bureaus, and Associations

Cost of literature, booklets, placards, signs, etc., issued solely for accident and loss prevention (see Surveys and Underwriting Reports)

Advertising and business development expenses allowed, reimbursed or paid to managers, agents, brokers, solicitors, and other producers (see Allowances to Managers and Agents)

Cost of help wanted advertising (see Employee Relations and Welfare)

Cost of advertising in connection with owned real estate (see Real Estate Expenses)

Cost of house organs (in-house periodical or employee periodical) and similar publications for the use of employees (see Printing and Stationery)

Donations to organized charities (see Miscellaneous)

Cost of souvenirs not generally distributed (see Travel and Travel Items)

5. BOARDS, BUREAUS, AND ASSOCIATIONS

Include*:* Dues, assessments, fees and charges of:

Underwriting boards, rating organizations, statistical agencies, inspection and audit bureaus

Underwriters' advisory and service organizations

Accident and loss prevention organizations

Claim organizations

Specific payments to boards, bureaus and associations for rate manuals, revisions, fillers, rating plans, and experience data

Exclude: Cost of inspection, engineering, or accident and loss prevention billed specifically to individual companies (see Surveys and Underwriting Reports)

Loss adjustment expenses billed specifically to individual companies (see Claim Adjustment Services)

Allowances under reinsurance contracts for board and bureau expenses (see Commission and Brokerage—Reinsurance Assumed and Ceded)

Payments to State Industrial Commissions (see Taxes, Licenses, and Fees)

Payments into State Security Funds (see Taxes, Licenses, and Fees)

Commission and Brokerage, Claim Adjustment Services, and Taxes, Licenses and Fees of underwriting syndicates, pools, and associations

Cost of Survey, credit, moral hazard, character, and commercial reports obtained for underwriting purposes (see Surveys and Underwriting Reports)

Cost of commercial reporting services (see Surveys and Underwriting Reports)

Dues and subscriptions to social or civic clubs or affairs (see Travel and Travel Items)

Dues and subscriptions to accounting, legal, actuarial or similar societies and associations (see Travel and Travel Items)

6. SURVEYS AND UNDERWRITING REPORTS

Include: Survey, credit, moral hazard, character, and commercial reports obtained for underwriting purposes

Commercial reporting services

Appraisals for underwriting purposes

Fire records

Inspection, engineering, and accident and loss prevention billed specifically

Literature, booklets, placards, signs, etc., issued solely for accident and loss prevention

Maps and corrections

Services of medical examiners for underwriting purposes

Exclude: Compensation to employees (see Salaries)

Expenses of salaried employees (see Travel and Travel Items)

Items includible in Boards, Bureaus, and Associations, Claim Adjustment Services, and Allowances to Manager and Agents

Cost of character or credit reports on employees or applicants for employment (see Employee Relations and Welfare)

Fees for physical examination of employees or applicants for employment (see Employee Relations and Welfare)

Income from inspections, which shall be classified in accordance with the instruction “Income from Special Services”

7. AUDIT OF ASSUREDS’ RECORDS

Include: Auditing fees and expenses of independent auditors for auditing payrolls and other premium bases

Exclude: Compensation to employees (see Salaries)

Expenses of salaried employees (see Travel and Travel Items)

Items includible in Claim Adjustment Services

Items includible in Allowances to Managers and Agents

8. SALARY AND RELATED ITEMS

8.1 Salaries

Include: Salaries, bonus, overtime, contingent compensation, pay while on leave, dismissal allowance, pay while training and other compensation of employees

Commission and brokerage to employees when the activities for which the commission is paid are a part of their duties as employees

Exclude: Salaries or wages of janitors, caretakers, maintenance workers and agents paid in connection with owned real estate (see Real Estate Expenses)

8.2 Payroll Taxes

Include: Employer FICA, FUTA, SUTA, and other federal state and local payroll taxes~~Old age benefit taxes~~

~~Unemployment insurance taxes~~

Exclude: Payroll taxes includible in Real Estate Taxes

9. EMPLOYEE RELATIONS AND WELFARE

A. Pensions and Insurance Benefits for Employees

Include: Cost of retirement insurance

Payments or appropriations to funds irrevocably devoted to the payment of pensions or other employees' benefits

Pensions or other retirement allowances

Accident, health and hospitalization insurance for employees

Group life insurance for employees

Workers' compensation insurance

Payments to or on behalf of employees under self-insurance

Any other insurance for the benefit of employees

Exclude: Cost of insurance on lives of employees when the ~~company~~ reporting entity is the beneficiary

Payments or appropriations to pension funds not irrevocably devoted to the payment of pensions or other employees' benefits (such payments or appropriations shall not appear among expenses.)

Items includible in Real Estate Expenses

All other types of insurance premiums

B. All Other

Include: Advertising—help wanted

Training and welfare of employees

Physical examinations of employees or applicants for employment

Character or credit reports on employees or applicants for employment

Gatherings, outings and entertainment for employees

Visiting nurse service for or on behalf of employees

Medical and hospital bills for employees (not covered by 9A)

Direct payments, other than salaries, to employees for injury and sickness (not covered by 9A)

~~Supper money~~Overtime meals

Donations to or on behalf of employees

Food and catering for employees

Exclude: Salaries, bonus, overtime, contingent compensation, pay while on leave, dismissal allowances, pay while training and other compensation of employees (see Salaries)

Items includible in Real Estate Expenses

Cost of house organs (in-house periodical or employee periodical) and similar publications (see Advertising, and Printing and Stationery)

10. INSURANCE

Include: Fidelity or surety bonds covering employees and agents

Burglary, and robbery insurance premiums

Public liability insurance premiums (Excluding owned Real Estate)

Premiums for insurance on office contents

Cost of insurance on automobiles

All other insurance premiums not specifically provided for in other operating accounts

Exclude: Items includible in Employee Relations and Welfare

Items includible in Real Estate expenses

11. DIRECTORS' FEES

Include: Directors' fees and other compensation of directors for attendance at board or committee meetings

Other fees, compensation, and expenses paid to directors

Exclude: Commission to directors for the production of business (see Commission and Brokerage—Direct)

12. TRAVEL AND TRAVEL ITEMS

Include: Transportation, hotel, meals, postage, shipping, delivery, telephone, ~~telegraph, express~~ and incidental living expenses of employees while traveling

Expenses for transfer of employees

Depreciation, repairs and other operating expenses of automobiles

Rent of automobiles

Fees for automobile ~~license plates~~registration

Cost of transportation, hotel, meals and entertainment of guests

Cost of favors and presents given or extended to others than employees

Cost of souvenirs not generally distributed

Dues and subscriptions to social or civic clubs or affairs

Dues and subscriptions to accounting, legal, actuarial, or similar societies and associations

Exclude: Items includible in Salaries, Advertising, Commission and Brokerage, Taxes, Licenses and Fees, Boards, Bureaus and Associations, and Equipment

Cost of gatherings, outings, etc., and entertainment for employees (see Employee Relations and Welfare)

Travel and Travel Items expenses paid, reimbursed, or allowed to managers, agents, brokers, solicitors and other producers (see Allowances to Managers and Agents)

Items includible in Real Estate Expenses

Donations to organized charities (see Miscellaneous)

Cost of souvenirs for general distribution (see Advertising)

13. RENT AND RENT ITEMS

Include: Rent of home office and branch offices

Rent for space occupied in buildings owned

Light, heat, power and water charges in leased premises

Interest, taxes, etc., paid in lieu of rent for leased premises

Cost of alternations and repairs of leased premises

Rent of storage, safekeeping and warehouse space

Rent of safe deposit boxes

Rent of post office boxes

Time clock service charges

Cost of cleaning, towels, ice, water, electric lamp replacements and other expenses incidental to office maintenance

Exclude: Compensation to employees (see Salaries)

Rent of automobiles (see Travel and Travel Items)

Rent allowed, reimbursed, or paid to managers, agents, brokers, solicitors and other producers (see Allowances to Managers and Agents)

Items includible in Real Estate Expenses

Rent income from owned real estate

14. EQUIPMENT

Include: Rent and repairs of furniture, equipment, and office machines (including printers' equipment, postage machines and data processing equipment)

Depreciation on furniture, equipment and office machines (including printers' equipment, postage machines and data processing equipment)

Exclude: Compensation to employees (see Salaries)

Rent, repairs and depreciation of automobiles (see Travel and Travel Items)

Cost of insurance on automobiles (see Insurance)

Cost of alterations and repairs of leased premises (see Rent and Rent Items)

Equipment expenses allowed, reimbursed or paid to managers, agents, brokers, solicitors and other producers (see Allowances to Managers and Agents)

Items includible in Real Estate Expenses

16. PRINTING AND STATIONERY

Include: Printing, stationery and office supplies such as: letterhead, envelopes, paper stock, printed forms or manuals, adding machine tape, ~~carbon paper,~~ binders and posts, ~~photostatic~~ copies, pencils, pens, leads, ink, glue, stamps and stamp pads, staplers, staples, clips and pins, desk top equipment (calendars, trays, etc.), waste baskets, analysis pads, ledgers, journals, minute books, etc.

Policies and policy forms

House organs (in-house periodical or employee periodical) and similar publications for the use of employees

Books, newspapers and periodicals including investment, tax and legal publications and services whether in print or electronic format

Exclude: Compensation to employees (see Salaries)

Specific payments to boards, bureaus and associations for rate manuals, revisions, fillers, rating plans and experience data (see Boards, Bureaus and Associations)

Literature, booklets, placards, signs, etc., issued solely for accident and loss prevention (see Surveys and Underwriting Reports)

Items includible in Claim Adjustment Services

Items includible in Advertising

Printers' equipment in company owned printing departments (see Equipment)

Printing and stationery allowed, reimbursed or paid to managers, agents, brokers, solicitors and other producers (see Allowances to Managers and Agents)

House organs (in-house periodical or employee periodical) and similar publications distributed to others than employees (see Advertising)

Commercial reporting services (see Surveys and Underwriting Reports)

Items includible in Real Estate Expenses

17. POSTAGE~~,~~ AND TELEPHONE ~~AND TELEGRAPH, EXCHANGE AND EXPRESS~~

Include: ~~Express, F~~Ffreight, shipping, delivery, and cartage

Postage

Cost of telephone ~~and telegrams, cable, radiograms and teletype~~

Bank charges for collection and exchange

Exclude: Compensation to employees (see Salaries)

Rent, repairs and depreciation of postage machines (see Equipment)

Postage, shipping, delivery, and telephone~~, telegraph and express~~ of employees while traveling (see Travel and Travel Items)

Postage, shipping, delivery, and telephone ~~and telegraph, exchange, and express~~ allowed, reimbursed or paid to managers, agents, brokers, solicitors and other producers (see Allowances to Managers and Agents)

Profits or losses resulting from exchange on remittances to Home Office by a United States Branch. Such profits or losses shall not be included in expenses

Items includible in Real Estate Expenses

Rent of post office boxes (see Rent and Rent Items)

18. LEGAL AND AUDITING

Include: Legal retainers, fees and other legal expenses (except on losses and salvage)

Auditing fees of independent auditors for examining records of home and branch offices

Cost of services of tax experts

Fees of investment counsel

Registrar fees

Custodian fees

Trustees' fees

Transfer agent fees

Fees and expenses of others than employees, for collecting balances

Notary fees

Exclude: Compensation to employees (see Salaries)

Expenses of salaried employees (see Travel and Travel Items)

Items includible in Claim Adjustment Services

Items includible in Real Estate Expenses

Cost of auditing of assureds' records (see Audit of Assureds' Records)

20. TAXES, LICENSES AND FEES

20.1 State and Local Insurance Taxes deducting guaranty association assessment association credits

Include: State, county and municipal taxes, licenses and fees based upon premiums

Fire Patrol assessments

Payments to State Industrial (or other) Commissions for administration of Workers' Compensation or other State Benefit Acts (including assessments for administering Financial Responsibility Laws) regardless of basis of assessment

Net payments to State Security Funds, Reopened Case Funds, Second Injury Funds and other State Funds, when construed by the ~~company~~ reporting entity as operating expenses, regardless of basis of assessment

Exclude: Allowances for taxes under reinsurance contracts (see Commission and Brokerage Reinsurance Assumed and Ceded)

20.2 Insurance Department Licenses and Fees

Include: Agents' l~~L~~icenses

Certificates of authority, compliance, deposit, etc.

Filing fees

Fees and expenses of examination by insurance departments or other governmental agencies

Exclude: Items includible in Claim Adjustment Services

20.4 All Other (Excluding Federal Income and Real Estate)

Include: Qualifying bond premiums

Statement publication fees

Advertising required by law

Personal property taxes

State income taxes

Capital stock taxes

Business or corporation licenses or fees (not includible under 20.1 or 20.2)

Marine profits taxes

Documentary stamps on reinsurance

Any other taxes not assignable under 20.1, 20.2, and 20.3 and not otherwise excluded

Exclude: Cost of advertising required by law where more than minimum space required to comply with the law is taken. Such expense shall be included in Advertising.

Real estate taxes, licenses and fees (see Real Estate Taxes)

Items includible in Claim Adjustment Services

Fees for automobile license plates (see Travel and Travel Items)

Federal income tax

Sales taxes, etc., included on invoices of vendors. Such taxes are to follow allocation of cost of items purchased.

21. REAL ESTATE EXPENSES

Include: Salaries, wages and other compensation of janitors, caretakers, maintenance workers and agents paid in connection with owned real estate

Cost of operating and maintaining owned real estate

Cost of insurance in connection with owned real estate

Cost of advertising in connection with owned real estate

22. REAL ESTATE TAXES

Include: Taxes, licenses and fees on owned real estate

24. MISCELLANEOUS

Expenses not listed as includible in other operating expense classifications, and not analogous thereto, shall be included in “Miscellaneous.” Specifically, the following shall be included:

Cost of tabulating service when such service is rendered by outside organizations

Amounts received and handled in accordance with the Instruction “Income from Special Services”

Donations to organized charities

Differences between actual amounts paid, and amounts apportioned in accordance with the Instruction “Joint Expenses”

GENERAL INSTRUCTIONS IN CONNECTION WITH OPERATING EXPENSE CLASSIFICATIONS

A. Joint Expenses

Whenever personnel or facilities are used in common by two or more companies, or whenever the personnel or facilities of one company are used in the activities of two or more companies, the expenses involved shall be apportioned in accordance with the instructions relating to Joint Expenses, and such apportioned expenses shall be allocated by each company to the same operating expense classifications as if the expenses had been borne wholly. Any difference between the actual amount paid, and the amount of such apportioned expenses shall be included in the operating expense classification “Miscellaneous.”

This instruction does not apply to the allocation of the following, which are covered by separate instructions herein:

Reinsurance commission and allowances (see Commission and Brokerage—Reinsured Assumed and Ceded)

Commission and brokerage paid to managers and agents (see Commission and Brokerage—Direct)

Allowances to managers and agents (see Allowances to Managers and Agents)

Expenses allocable in accordance with the instruction “Income from Special Services”

B. Expenses for Account of Another

Whenever expenses are paid by one company for account of another, the payments shall not appear among the expenses reported by the former and shall be included by the latter in the same expense classifications as if originally paid by it.

C. Income from Special Services

Whenever an insurance company receives compensation for sales or services, such as loss adjustment or inspection not related to policies written by the company, and such compensation is not calculated as a joint expense reimbursement, the amount thereof shall be included in the operating expense classification “Miscellaneous.” Where an insurance company pays the compensation, allocation shall be made to the expense classification dictated by the nature of the expense.

Reinsurance commission and allowances (see Commission and Brokerage—Reinsurance Assumed and Ceded)

Expenses incurred for the benefit of companies in the same group or fleet are covered by the instruction “Joint Expenses.”

D. Analogous Items

The lists of expenses includible in the operating expense classifications are representative and do not exclude analogous items that are omitted from the lists.

INDEX

The references are to sections; the letters in parentheses indicate lettered paragraphs of the section.

Fire records, Sec. 6
Food for employees, Sec. 9
Frames for agents, Sec. 4
Freight~~, express~~ and cartage, Sec. 17
Freight and cartage of employees while traveling, Sec. 12
Furniture, depreciation, rent, repairs and insurance of, Sec. 14
Gatherings for employees, Sec. 9
General agents, payments to, Sec. 2 (A) and Sec. 3
Gifts to employees, Sec. 9
Glue, Sec. 16
Group life insurance for employees, Sec. 9
Guests, cost of transportation, hotel, meals and entertainment, Sec. 12
Heat, light, power and water charges in leased premises, Sec. 13
Health insurance for employees, Sec. 9
Help wanted advertising, Sec. 9
Home office rent, Sec. 13
Hospital bills of employees, Sec. 9
Hospital records relating to claim adjustment, Sec. 1 (A)
Hospitalization insurance for employees, Sec. 9
Hotel expenses for guests, Sec. 12
Hotel expenses for employees while traveling, Sec. 12
House organs (in-house periodical) distributed to others than employees, Sec. 4
House organs (employee periodical) for use of employees, Sec. 16
Income from special services, General Sec. (C)
Income taxes, state, Sec. 20 (D)
Independent adjusters, Sec. 1 (A)
Industrial commissions, Sec. 20 (A)
Injury payments to employees, Sec. 9
Inspection billed specifically, Sec. 6
Inspection bureaus, Sec. 5
Insurance department examinations, Sec. 20 (B)
Insurance department licenses and fees, Sec. 20 (B)
Insurance, accident, Sec. 9
Insurance, automobile, Sec. 10
Insurance, compensation, Sec. 9
Insurance, health, Sec. 9
Insurance, in connection with owned real estate, Sec. 21
Insurance, on office contents, Sec. 10
Insurance, public liability, Sec. 10
Insurance, retirement, Sec. 9
Interest, taxes, etc., paid in lieu of rent for leased premises, Sec. 13
Investment counsel fees, Sec. 18
Joint expenses, General Sec. (A)
Journals, Sec. 16
Lawyers' expenses relating to claim adjustment, Sec. 1 (A)
Lawyers' fees and expenses, Sec. 18
Leased premises, cost of alterations and repairs, Sec. 13
Leased premises, interest, taxes, etc., paid in lieu of rent, Sec. 13
Leased premises, light, heat, power and water charges, Sec. 13
Leave pay for employees, Sec. 8 (A)
Ledgers, Sec. 16
Legal and auditing, Sec. 18
Legal expenses relating to claim adjustment, Sec. 1 (A)
Legal expenses, Sec. 18

Telephone~~ and telegraph~~, Sec. 17
Telephone ~~and telegraph~~ expenses of employees while traveling, Sec. 12
~~Teletype, Sec. 17~~
Television broadcasts, Sec. 4
Time clock service charges, Sec. 13
Towels, Sec. 13
Training of employees, Sec. 9
Training pay of employees, Sec. 9
Transcripts of testimony relating to claim adjustment, Sec. 1 (A)
Transfer agents' fees, Sec. 18
Transfer of employees, Sec. 12
Transfer taxes, Sec. 20 (D)
Transportation of guests, Sec. 12
Transportation of employees, Sec. 12
Travel and travel items, Sec. 12
Traveling expenses of employees, Sec. 12
Trustees' fees, Sec. 18
Underwriters' boards, Sec. 5
Underwriting reports, Sec. 6
Unemployment insurance taxes, Sec. 8 (B)
Visiting nurse service, Sec. 9
Wages paid in connection with owned real estate, Sec. 21
Warehouse, storage and safekeeping space, rent of, Sec. 13
Wastebasket, Sec. 16
Water, light, heat and power in leased premises, Sec. 13
Watchman expenses relating to claim adjustment, Sec. 1 (A)
Weather reports relating to claim adjustment, Sec. 1 (A)
Welfare of employees, Sec. 9
Witnesses relating to claim adjustment, Sec. 1 (A)

Exhibit 2

ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL

EXHIBIT 2 – GENERAL EXPENSES

General expense items must be itemized and entered in sufficient detail to indicate their precise nature. General expenses include virtually all of the expenses of a life insurance company other than benefits to policyholders; commissions; and taxes, licenses and fees.

The statutory financial statement provides for two broad categories of general expenses: (1) insurance, subdivided into life insurance, accident and health insurance, and all other lines of business; and (2) investment. In addition, the Analysis of Operations by Lines of business requires allocation of general expenses to more detailed lines of business. The Summary of Operations classifies the investment expense portion of general expenses as an offset to investment income while classifying general insurance expenses separately in the expense section of the summary.

General Expenses Due or Accrued

The amount included in the balance sheet under this caption represents the ~~company's~~ reporting entities' liability for general expenses applicable to the current year that are unpaid at year end. There are a number of guidelines to consider with respect to whether an item represents a liability of the ~~company~~ reporting entity at the statement date. Distinguish between: (1) bills for items purchased or services rendered; and (2) the recognition of accruals for such things as payroll. With respect to accruals, the liability should be established so that each period bears its pro rata share of the expense even though no bill has been received. Accrual payroll, for example, represents the cost for the period from the last payroll to period-end.

Generally, the liability for purchases of supplies and materials should be established as of the receipt date or shipment date if FOB. If a ~~company~~ reporting entity has an irrevocable contract as of the statement date, the liability must be established even though the supplies or materials have not been received.

Functional Costs

General expenses are not to be reported on a functional basis unless specifically permitted and then only if: (1) services are independently organized; (2) rent, salaries and wages, and other major items of direct expense are charted to the functions; and (3) adequate accounting for the functional classifications is maintained. Those expense classifications that companies may specifically report on a functional basis are rent, salaries and wages, other employee and agent welfare and printing and stationery.

Allocation of Expenses

As stated above, companies must allocate general expenses to life insurance, accident and health insurance, or investment expense. The "All Other Lines of Business" category should include the corporate overhead line of business where that normal designation exists. In addition, the Analysis of Operations by Lines of Business requires allocation of general insurance expenses to more detailed lines of business. The *Annual Statement Instructions* discuss the allocation of receipts and expenses to lines of business.

The *Annual Statement Instructions* state that the ~~company~~ reporting entity shall employ those principles and methods that reflect the actual incidence of cost by lines of business. Companies should consider the relative time spent, the extent of usage and the varying volume of work performed. The instructions further state that companies should base the allocations upon objective measurement rather than estimates unless the cost of the measurement clearly outweighs the benefit derived. Where estimates are used, individuals familiar with the nature of the activity should make these estimates and thoroughly responsible persons should review these estimates.

The *Annual Statement Instructions* also state that companies should not use general indices such as premium volume, number of policies and insurance in force unless the incidence of cost is closely related to the indices or there is no more appropriate basis. In no event should such indices be used to distribute claims costs to secondary lines of business.

Report expenses incurred by the reporting entity for uninsured accident and health plans on a gross basis by type of expense. However, administrative fees and expense reimbursements relating to uninsured business are reduced in the general expense and general insurance expenses are to be reported in the Summary of Operations net of such fees and reimbursements.

Expenses for accident and health activities must be allocated between cost containment expenses, Column 2 or all other, Column 3. For guidance on cost containment expenses, refer to *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses*.

Whenever personnel or facilities are used in common by two or more companies, or whenever the personnel or facilities of one ~~company~~ reporting entity are used in the activities of two or more companies, each reporting entity shall assign its share of the expense to the same expense classification as if it had incurred the entire expense. This latter requirement shall not apply to activities such as administration of jointly underwritten group contracts and joint mortality and morbidity studies.

A reporting entity ~~company~~ that pays any affiliated entity (including a managing general agent) for the management, administration, or service of all or part of its business or operations shall allocate these costs to the appropriate expense classification item (salaries, rent, postage, etc.) as if these costs had been borne directly by the ~~company~~reporting entity. Management, administration, or similar fees should not be reported as a one-line expense. The ~~company~~ reporting entity may estimate these expense allocations based on a formula or other reasonable basis.

A ~~company~~ reporting entity that pays any non-affiliated entity (including a managing general agent) for the management, administration, or service of all or part of its business or operations shall allocate these costs to the appropriate expense classification items as follows:

a. Payments for claims handling or adjustment services shall be reported as Expense of Investigation and Settlement of Contract Claims, Line 4.5 and allocated to Life, Accident and Health, and/or All Other Lines of Business as appropriate (Columns 1, 2, 3 and/or 4) in Exhibit 2, General Expenses. If the total of such expenses incurred equals or exceeds 10 percent of the total General Expenses Incurred (Line 10), the ~~company~~ reporting entity shall allocate these costs to the appropriate expense classification item as if these costs had been borne directly by the ~~company~~reporting entity.

b. Payments for services other than claims handling or adjustment services shall be allocated to the appropriate expense classifications as if these costs had been borne directly by the ~~company~~reporting entity, if the total of such fees paid to the non-affiliate(s) equals or exceeds 10 percent of the total General Expenses Incurred (Line 10). If the total is less than 10 percent, the payments may be reported on Line 7.1.

The total management and service fees incurred attributable to affiliates and non-affiliates shall be reported in the footnote to Exhibit 2, General Expenses in the annual statement blank, and the method(s) used for allocation shall be disclosed in the Notes to Financial Statements. The ~~company~~ reporting entity shall use the same method(s) on a consistent basis. Refer to *SSAP No. 70—Allocation of Expenses* for accounting guidance.

Column 6 – Fraternal

Transactions related to the fraternal mission.

Line 1 – Rent

Rent expense includes, in addition to rent paid for leased properties, an estimated amount that represents "rent" for properties owned and occupied by the ~~company~~reporting entity. Report the offset to this amount as investment income. Net rents received for property under sublease against rent expense.

Include: Rent for all premises occupied by the ~~company~~reporting entity, including any adequate rent for occupancy of its own buildings, in whole or in part, except to the extent that allocation to other expense classifications on a functional basis is permitted and used.

Expenses incurred as tenant for light, heat, water, fuel, interest, taxes, building maintenance, alterations and service, etc.

Amortization expense for leasehold improvements as lessee.

Deduct: Rent under sublease.

Line 2 – Salaries and Wages

Salaries and wages, in addition to virtually all direct payments of compensation to employees, should include all payments to directors for attendance at board or committee meetings.

Include: Salaries and wages, bonuses and incentive compensation to employees, overtime payments, continuation of salary during temporary short-term absences, dismissal allowances, payments to employees while in training and other compensation to employees not specifically designated herein, except to the extent that allocation to other expense classifications is permitted and used.

Fees and other compensation to directors for attendance at board or committee meetings and any other fees and compensation paid to them in their capacities as directors or committee members.

Agency compensation other than commissions.

Line 3.11 – Contributions for Benefit Plans for Employees and
Line 3.12 – Contributions for Benefit Plans for Agents

Include: Contributions by ~~company~~ reporting entity for pension and total and permanent disability benefits, life insurance benefits, accident, health, hospitalization, medical, surgical, or other temporary disability benefits under a self-administered or trusteed plan or for the purchase of annuity or insurance contracts.

Appropriation or any other assignment of funds by ~~company~~ reporting entity in connection with any benefit plan of the types enumerated herein, e.g., the net periodic postretirement benefit cost, whether it be defined in terms of specified benefits or in terms of monetary amounts.

Earned amounts related to employee stock option plans.

Exclude: Contributions or appropriations for past service if reported in Surplus Account.

Benefit payments (to be reported in the appropriate benefit item of the Summary of Operations when reserves are included in Page 3, Lines 1 and 2, and as a separate item in the Summary of Operations when the liability is included in Page 3, Line 21).

Line 3.21 – Payments to Employees Under Non-Funded Benefit Plans and
Line 3.22 – Payments to Agents Under Non-Funded Benefit Plans

Include: Payments by company under a program for pension, stock options, purchase and award plans (including change in quoted market value), and total and permanent disability benefits, death benefits, accident, health hospitalization, medical, surgical, or other temporary disability benefits, where no contribution or appropriation is made prior to the payment of the benefit.

Refer to *SSAP No. 12—Employee Stock Ownership Plans* and *SSAP No. 104~~R~~—Share-Based Payments*.

Line 3.31 – Other Employee Welfare and
Line 3.32 – Other Agent Welfare

Expenses included in this line may be reported on a functional basis.

Include: Meals to employees. Companies so desiring may exclude this item from Other Employee Welfare and Other Agent Welfare and include it under Details of Write-ins Aggregated on Line 9.3 for Expenses.

Contributions to employee associations or clubs.

Expense and maintenance of recreation grounds.

Payments to employees and agents in military service.

Expense of periodical medical or dental examinations or of medical dispensary, convalescent home or sanitarium for employees and agents.

Line 4.1 – Legal Fees and Expenses

Include: Cost of outside counsel, as well as court costs to the extent that these costs do not relate to the claims or investment functions, penalties, and all fees or retainers for legal services or expenses in connection with matters before administrative or legislative bodies.

Exclude: Salaries and expenses of ~~company~~ reporting entity personnel.

Legal expenses in connection with investigation, litigation and settlement of contract claims.

Legal fees specifically associated with real estate transactions.

Line 4.2 – Medical Examination Fees

Include: Fees to medical examiners in connection with new business, reinstatements, contract changes and applications for employment.

Exclude: Fees for medical examinations for the welfare of employees and agents.

Medical examination fees in connection with the investigation, litigation and settlement of contract claims.

Line 4.3 – Inspection Report Fees

Include: Fees for inspection reports in connection with new business, reinstatements, contract changes and applications for employment.

Cost of services furnished by the Medical Information Bureau (M.I.B.).

Exclude: Salaries of inspectors.

Inspection report fees in connection with the investigation, litigation and settlement of contract claims.

Assessment for expenses of M.I.B. Executive Committee.

Line 4.4 – Fees of Public Accountants and Consulting Actuaries

Exclude: Fees for examinations made by State Departments.

Expense of internal audits by company employees.

Line 4.5 – Expense of Investigation and Settlement of Policy Claims

Include: Payment to other than employees of fees and expenses for the investigation, litigation and settlement of policy claims.

Exclude: Payments to a policyholder, agent, broker, or a third party for administration of group claims.

Line 5.1 – Traveling Expenses

Include: Traveling expense of officers, other employees, directors and agents, including hotel, meals, telephone, ~~telegraph~~ and postage charges incurred while traveling.

Amounts allowed employees for use of their own cars on company business.

The cost of, or depreciation on, and maintenance and running expenses of company-owned automobiles.

Exclude: Such expenses properly chargeable to Real Estate Expenses (Line 9.1) or required to be reported in Lines 7.1 and 7.3.

Line 5.2 – Advertising

Include: All costs relating to advertising for new insurance business except salaries and expenses of an advertising department.

Newspaper, magazine and trade journal advertising for the purpose of solicitation and conservation of business, whether in print or electronic formats.

Billboard, sign and directory advertising.

Television, radio broadcasting and motion picture advertising, excluding subjects dealing wholly with health and welfare.

All canvassing or other literature, such as pamphlets, circulars, leaflets, contract/certificate illustration forms and other sales aids, printed material, etc., prepared for distribution to the public by agents~~, or~~ through the mail or electronic format for purposes of solicitation and conservation of business.

All calendars, blotters, wallets, advertising novelties, etc., for distribution to the public.

Printing, paper stock, etc., in connection with advertising.

Prospect and mailing lists when used for advertising purposes.

Fees and expenses of advertising agencies related to advertising.

Exclude: Pamphlets on health, welfare and educational subjects.

Advertising required by law, regulation or ruling except to the extent that it substantially exceeds the space required for compliance.

Salaries and expenses of advertising department.

Help-wanted advertisements.

Advertising in connection with investments.

Line 5.3 – Postage~~, Express, Telegraph~~ and Telephone

Include: Freight and cartage.

Postage~~Cables, radiograms and teletype~~.

Charges for use, installation and maintenance of related equipment if not included elsewhere.

Line 5.4 – Printing and Stationery

Expenses included in this line may be reported on a functional basis.

Include: Contract/certificate forms, riders, supplementary contracts, applications, etc., rate books, instruction manuals, ~~punch cards,~~ house organs (in-house periodical or employee periodical), and all other printed material which is not required to be included in any other expense classification.

Office supplies.

Pamphlets on health, welfare and educational subjects.

Annual reports to policyholders/members and stockholders if not included in Line 5.2.

Line 5.5 – Cost or Depreciation of Furniture and Equipment

The general practice with respect to "Cost or depreciation of furniture and equipment" is to either: (1) charge depreciation to this expense classification and write off the remaining asset balance to surplus as a nonadmitted asset; or (2) charge expenditures for furniture and equipment directly to expense, in which case, those expenditures would be included in this classification.

Include: The cost or depreciation of office machines except for such charges as may be reported in Line 5.3.

Exclude: The cost or depreciation of equipment used by employees handling maintenance and repair work on company-occupied property.

Line 5.6 – Rental of Equipment

Include: Rental of office machines except for such charges as may be reported in Line 5.3.

Line 5.7 – Cost or Depreciation of EDP Equipment and Software

Include: Depreciation and amortization expense for electronic data processing equipment and operating and non-operating systems software.

Refer to *SSAP No. 16~~R~~—Electronic Data Processing Equipment and Software* for accounting guidance.

Line 6.1 – Books and Periodicals

Include: Books, newspapers, periodicals, etc., including investment, tax and legal publications and information services, and including all such material for ~~company's~~ reporting entity's law department and libraries whether in print or electronic format.

Line 6.2 – Bureau and Association Fees

Include: All dues and assessments of organizations of which the ~~company~~ reporting entity is a member.

All dues for employees' and agents' memberships on the ~~company's~~ reporting entities' behalf.

Exclude: Contributions in connection with scientific, disease prevention, or other activity directly pertaining to the welfare of policyholders and the public.

Line 6.3 – Insurance, Except on Real Estate

Include: Premiums for Workers' Compensation, burglary, holdup, forgery and public liability insurance, fidelity or surety bonds, insurance on contents of company-occupied buildings and all other insurance or bonds not included elsewhere.

Line 6.4 – Miscellaneous Losses

Include: Uncollectible losses due to deficiencies, defalcations, robbery, or forgery, except those offset by bonding companies' payments.

Workers' Compensation benefits not covered by insurance.

Other uninsured losses not included elsewhere.

Exclude: Capital and investment losses.

Line 6.5 – Collection and Bank Service Charges

Include: Collection charges on checks and drafts and charges for checking accounts and money orders.

Exclude: Foreign exchange losses on funds transferred in or out of the country (include in Exhibit of Capital Gains and (Losses), Line 10, Column 2).

Line 6.6 – Sundry General Expenses

Amounts paid to agents for administering group, credit, or individual blocks of business.

Include: Direct expense of local agency meetings, luncheons and dinners.

Tabulating service rendered by outside organizations.

Gifts and donations.

Any portion of commissions and expense allowances on reinsurance assumed for group business that represents specific reimbursement of expenses.

Reimbursement to another insurer for expense of jointly underwritten group contracts.

Exclude: Any one type of expense that would represent more than 25 percent of the total for this line. Such items should be reported on Line 9.3.

Deduct: Any portion of commissions and expense allowances on reinsurance ceded for group business that represents specific reimbursement of expenses.

Reimbursement from other insurers for expense of jointly underwritten group contracts.

Line 6.7 – Group Service and Administration Fees

Include: Administration fees, service fees, or any other form of allowance, reimbursement of expenses, or compensation (other than commissions) to agents, brokers, applicants, policyholders or third parties in connection with the solicitation, sale, issuance, service and administration of group business.

Line 6.8 – Reimbursements by Uninsured Plans

Report as a negative amount, administrative fees, direct reimbursement of expenses, or other similar receipts or credits attributable to uninsured plans and the uninsured portion of partially insured plans.

Line 7.1 – Agency Expense Allowance

Include: All bona fide allowances for agency expense, but not allowances constituting additional compensation.

Line 7.2 – Agents' Balances Charged Off (Net)

Include: Agents' balances charged off less any amounts recovered during the year.

Line 7.3 – Agency Conferences Other Than Local Meetings

Include: Cost of banquets and rental of meeting rooms.

Expenses of all persons traveling to conferences and their expenses at conferences.

Line 8.1 – Official Publication (Fraternal Benefit Societies Only)

Expenses incurred by a fraternal benefit society for publications related to the society and its fraternal mission. Does not include publications related to the insurance operations.

Line 8.2 – Expense of Supreme Lodge Meetings (Fraternal Benefit Societies Only)

Expenses incurred by a fraternal benefit society for supreme lodge meetings of the society and its fraternal mission. Does not include meetings related to the insurance operations.

Line 9.1 – Real Estate Expenses

Include: The cost of repairs, maintenance, service, and operation of all real estate properties including insurance whether occupied by the ~~company~~ reporting entity or not; salaries and other compensation of managing agents and their employees; expenses incurred in connection with rental of such properties; legal fees specifically associated with real estate transactions other than sale; rent, salaries and wages, and other direct expenses of any branch or home office unit engaged solely in real estate work (not real estate and mortgages combined).

Salaries or wages of janitors, caretakers, maintenance workers and agents paid in connection with owned real estate.

Exclude: Salaries and wages of any other home office, general branch office, or investment branch office employees. These should be charged to salaries and wages, where they will automatically be subject to allocation as "insurance" or "investment," in Exhibit 2. The same rule applies to other expenses or charges associated with the activities of such employees.

Line 9.2 – Investment Expenses Not Included Elsewhere

Include: Only items for which no specific provision has been made elsewhere, e.g., contributions or assessments for bondholders' protective committees, fees of investment counsel, custodian and trustee fees.

All other costs including internal costs or costs paid to an affiliated company related to origination, purchase or commitment to purchase bonds.

Exclude: Home office salaries and expenses on account of investment work, salaries and expenses of mortgage loan branch offices.

Legal fees and expenses.

Real Estate expenses properly chargeable to Line 9.1.

Brokerage and other related fees; to the extent they are included in the actual cost of a bond upon acquisition. Refer to SSAP No. 26~~R~~.

Line 9.3 – Aggregate Write-ins for Expenses

Enter the total of the write-ins listed in schedule Details of Write-ins Aggregated at Line 9.3 for Expenses.

Line 10 – General Expenses Incurred

The sum of Columns 1, 2, 3 and 4 should agree with Page 4, Line 23.

Column 5 should agree with Exhibit of Net Investment Income, Line 11, Column 2.

Column 2 plus Column 3 should agree with Schedule H, Part 1, Line 4 plus Line 8, Column 1 amount.

Sum of Columns 1 and 4 should equal the sum of Line 23, Column 1 for the following pages:

Analysis of Operations by Lines of Business – Individual Life Insurance
Analysis of Operations by Lines of Business – Group Life Insurance
Analysis of Operations by Lines of Business – Individual Annuities
Analysis of Operations by Lines of Business – Group Annuities

Sum of Columns 2 and 3 should equal Line 23, Column 1 for the Analysis of Operations by Lines of Business – Accident and Health.

Details of Write-ins Aggregated on Line 9.3 for Expenses

List separately all expenses for which there is no pre-printed line on Exhibit 2.

Include:	Any type of expense that would represent more than 25 percent of Line 6.6, Sundry General Expenses. Adjustments due to fluctuations in foreign exchange rates.

Exhibit 3

ANNUAL STATEMENT INSTRUCTIONS – HEALTH

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 – ANALYSIS OF EXPENSES

Administrative Services Contracts (ASC) and Administrative Services Only (ASO) commissions, expenses and taxes paid by the administrator to administer such plan shall be reported on a gross basis by type of expense. General expense items must be itemized and entered in sufficient detail to indicate their precise nature. Expenses are not reported on a functional basis, except to the extent specifically permitted herein and only if: (1) services are independently organized, (2) rent, salaries and wages, and other major items of expense directly incident thereto, but not necessarily including the cost of employee benefit plans and Social Security taxes, are charged to function, and (3) adequate accounting thereof is maintained. Whenever personnel or facilities are used in common by two or more companies, or whenever the personnel or facilities of one company are used in the activities of two or more companies, each company shall assign its share of the expense to the same expense classification as if it had incurred the entire expense. This latter requirement shall not apply to activities such as administration of jointly underwritten group contracts and joint mortality and morbidity studies.

Costs for managed care activities must be allocated between claim adjustment expenses and general administrative expenses. Claim adjustment expenses should be allocated to either cost containment expenses, Column 1 or other claim adjustment expenses, Column 2, in accordance with *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses*.

Other costs such as network development costs, provider contracting costs and other similarly related costs should be allocated to Columns 1 through 3 as appropriate, in accordance with SSAP No. 55.

A reporting entity that pays any affiliated entity (including a managing general agent) for the management, administration, or service of all or part of its business or operations shall allocate these costs to the appropriate expense classification item (salaries, rent, postage, etc.) as if these costs had been borne directly by the ~~company~~reporting entity. Do not report management, administration, or similar fees as one-line expenses. The reporting entity may estimate these expense allocations based on a formula or other reasonable basis.

A reporting entity that pays any non-affiliated entity (including a managing general agent) for the management, administration, or service of all or part of its business or operations shall allocate these costs to the appropriate expense classification items as follows:

a. If the total payments for claims handling or adjustment services equals or exceeds 10 percent of the "Total Claim Adjustment Expenses Incurred," allocate these costs to the appropriate expense classification items as if these costs had been borne directly by the reporting entity.

b. Allocate payments for services other than claims handling or adjustment services to the appropriate expense classifications as if these costs had been borne directly by the ~~company~~reporting entity, if the total of such fees paid to the non-affiliate(s) equals or exceeds 10 percent of Column 3, Line 26. If the total is less than 10 percent, the ~~company~~ reporting entity may report the payments on Line 14.

The total management and service fees incurred attributable to affiliates and non-affiliates shall be reported in the footnote to Underwriting and Investment Exhibit – Part 3, and the method(s) used for allocation shall be disclosed in the Notes to Financial Statements. The reporting entity shall use the same method(s) on a consistent basis. Refer to *SSAP No. 70—Allocation of Expenses* for accounting guidance.

Line 1 – Rent

Include: Rent for all premises occupied by the reporting entity, including any adequate rent for occupancy of its own buildings, in whole or in part, except to the extent that allocation to other expense classifications on a functional basis is permitted and used.

Expenses incurred as tenant for light, heat, water, fuel, interest, taxes, building maintenance, alterations and service, etc.

Deduct: Rent under sublease.

Exclude: These items for health care delivery.

Line 2 – Salaries, Wages and Other Benefits

Include: Salaries and wages, bonuses and incentive compensation to employees, overtime payments, continuation of salary during temporary short-term absences, dismissal allowances, payments to employees while in training and other compensation to employees not specifically designated herein, except to the extent that allocation to other expense classifications is permitted and used.

Fees and other compensation to directors for attendance at board or committee meetings and any other fees and compensation paid to them in their capacities as directors or committee members.

Agency compensation other than commissions.

Payments by reporting entity under a program for pension, stock options, purchases, and award plans (including change in quoted market value) and total and permanent disability benefits, life insurance benefits, accident, health, hospitalization, medical, surgical, or other temporary disability benefits under a self-administered or trusteed plan or for the purchase of annuity or insurance contracts.

Appropriation or any other assignment of funds by ~~company~~ reporting entity in connection with any benefit plan of the types enumerated herein, (e.g., the net periodic postretirement benefit cost) whether it be defined in terms of specified benefits or in terms of monetary amounts.

Payments by reporting entity under a program for pension, stock options, purchases and award plans (including change in quoted market price), total and permanent disability benefits, death benefits, accident, health, hospitalization, medical, surgical, or other temporary disability benefits, where no contribution or appropriation is made prior to the payment of the benefit.

Meals to employees.

Contributions to employee associations or clubs.

Expense and maintenance of recreation grounds.

Payments to employees and agents in military service.

Expense of periodical medical or dental examinations, or of medical dispensary, convalescent home or sanitarium for employees and agents.

Earned amounts related to employee stock ownership plans.

Exclude: Contributions or appropriations for past service if reported in Capital and Surplus Account.

Benefit payments. (To be reported in the appropriate item of the Statement of Revenue and Expenses.)

Refer to *SSAP No. 12—Employee Stock Ownership Plans* and *SSAP No. 104~~R~~—Share-Based Payments*.

Line 3 – Commissions

Include: Collection or service fees, policy fees, membership fees and other fees, Commuted renewal commissions.

Line 4 – Legal Fees and Expenses

Include: Court costs, penalties and all fees or retainers for legal services or expenses in connection with matters before administrative or legislative bodies.

Exclude: Salaries and expenses of ~~company~~ reporting entity personnel.

Legal expenses associated with investigation, litigation and settlement of policy claims.

Legal fees specifically associated with real estate transactions.

Line 5 – Certifications and Accreditation Fees

Include: Fees associated with the certification and accreditation of a health plan, including but not limited to, fees paid to Joint Commission on Accreditation of Health Care Organizations (JCAHO); National Commission on Quality Assurance (NCQA); American Association for Health Care Certification (Utilization Review Accreditation Commission (URAC)).

Exclude: Rating agencies and other similar organizations.

Line 6 – Auditing, Actuarial and Other Consulting Services

Exclude: Fees for examinations made by State Departments.

Expense of internal audits by ~~company~~ reporting entity employees.

Line 7 – Traveling Expenses

Include: Traveling expense of officers, other employees, directors and agents, including hotel, meals, telephone, ~~telegraph~~ and postage charges incurred while traveling.

Amounts allowed employees for use of their own cars on company business.

The cost of, or depreciation on, and maintenance and running expenses of company-owned automobiles.

Exclude: Such expenses properly allocated to Real Estate Expenses (Line 21).

Line 8 – Marketing and Advertising

Include: Newspaper, magazine and trade journal advertising for the purpose of solicitation and conservation of business, whether in print or electronic formats.

Billboard, sign and directory advertising.

Television, radio broadcasting and motion picture advertising, excluding subjects dealing wholly with health and welfare.

All canvassing or other literature, such as pamphlets, circulars, leaflets, policy illustration forms and other sales aids, printed material, etc., prepared for distribution to the public by agents, ~~or~~ through the mail or electronic format for purposes of solicitation and conservation of business.

All calendars, blotters, wallets, advertising novelties, etc., for distribution to the public.

Printing, paper stock, etc., in connection with advertising.

Prospect and mailing lists when used for advertising purposes.

Fees and expenses of advertising agencies related to advertising.

Exclude: Pamphlets on health, welfare and educational subjects.

Advertising required by law, regulation or ruling except to the extent that it substantially exceeds the space required for compliance.

Salaries and expenses of advertising department.

Help wanted advertisements.

Advertising in connection with investments.

Line 9 – Postage~~, Express,~~ and Telephone

Include: Freight and cartage~~, cables, radiograms and teletype~~.

Postage.

Charges for use, installation and maintenance of related equipment if not included elsewhere.

Line 10 – Printing and Office Supplies

Expenses included in this line may be reported on a functional basis.

Include: Policy forms, riders, supplementary contracts, applications, etc., rate books, instruction manuals, ~~punch cards,~~ house organs (in-house periodical or employee periodical), and all other printed material that is not required to be included in any other expense classification.

Office supplies, pamphlets on health, welfare and educational subjects, annual reports to policyholders and stockholders if not included in Line 8.

Books, newspapers, periodicals, etc., including investment, tax and legal publications and information services, and including all such material for ~~company's~~ reporting entity's law department and libraries whether in print or electronic format.

Line 11 – Occupancy, Depreciation and Amortization

Include: The amount of depreciation and amortization expense that is directly associated with administrative services. Expenses associated with administrative services include the costs of occupancy to the health entity that are directly associated with health administration. These include the costs of using a facility, fire and theft insurance, utilities, maintenance, lease, etc.

Exclude: The cost or depreciation of equipment used by employees handling maintenance and repair work on company-occupied property.

Line 12 – Equipment

Include: Rental of all office equipment except for such charges as may be reported in Line 9.

Line 13 – Cost or Depreciation of EDP Equipment and Software

Include: Depreciation and amortization expense for electronic data processing equipment, operating software and non-operating software.

Refer to *SSAP No. 16~~R~~—Electronic Data Processing Equipment and Software* for accounting guidance.

Line 14 – Outsourced Services Including EDP, Claims, and Other Services

Include: Expenses for administrative services, claim management services, new programming, membership services, and other similar services.

Exclude: Services provided by affiliates under management agreements.

Line 15 – Boards, Bureaus and Association Fees

Include: All dues and assessments of organizations of which the reporting entity is a member.

All dues for employees' and agents' memberships on the reporting entity's behalf.

Exclude: Contributions associated with scientific research, disease prevention, or other activity directly pertaining to the welfare of subscribers and the public.

Line 16 – Insurance, Except on Real Estate

Include: Premiums for Workers' Compensation, burglary, holdup, forgery and public liability insurance, fidelity or surety bonds, insurance on contents of company-occupied buildings and all other insurance or bonds not included elsewhere.

Line 17 – Collection and Bank Service Charges

Include: Collection charges on checks and drafts and charges for checking accounts and money orders.

Line 18 – Group Service and Administration Fees

Include: Administration fees, service fees, or any other form of allowance, reimbursement of expenses, or compensation (other than commissions) to agents, brokers, applicants, policyholders or third parties in connection with the solicitation, sale, issuance, service and administration of group business.

Line 19 – Reimbursements by Uninsured Plans

Report as a negative amount, pharmaceutical rebates of uninsured plans that are received or change in due and uncollected by the reporting entity, to the extent that they are in excess of amounts to be remitted to the uninsured plan, administrative fees, direct reimbursement of expenses, or other similar receipts or credits attributable to uninsured health plans and the uninsured portion of partially insured accident and health plans. Deduct administrative fees and related reimbursements from general administrative expenses or claim adjustment expenses if the administrative services provided include services for claim adjustment expenses as defined in *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses*.

Refer to *SSAP No. 84—Health Care and Government Insured Plan Receivables* for accounting guidance.

Line 20 – Reimbursements from Fiscal Intermediaries

Report as a negative amount, administrative fees, direct reimbursement of expenses, or other similar receipts or credits attributable to Medicare, ~~CHAMPUS~~ TRICARE and other federal and local governmental agencies.

Line 21 – Real Estate Expenses

Include: The cost of insurance, repairs, maintenance, service, and operation of all real estate properties, whether occupied by the company or not.

Expenses incurred in the rental of real estate properties.

Salaries and other compensation of real estate managing agents and their employees.

Legal fees specifically associated with real estate transactions other than sale; rent, salaries and wages, and other direct expenses of any branch or home office unit engaged solely in real estate work (not real estate and mortgages combined).

Salaries or wages of janitors, caretakers, maintenance workers and agents in connection with owned real estate.

Exclude: Salaries and wages of any other home office, general branch office, or investment branch-office employees. Charge these amounts to salaries and wages, where they will automatically be subject to allocation as "insurance" or "investment." The same rule applies to other expenses or charges associated with the activities of such employees.

Line 22 – Real Estate Taxes

Include: Those taxes directly assessed against property owned by the ~~company~~reporting entity. Canadian and other foreign taxes should be included appropriately.

Line 23.1 – State and Local Insurance Taxes

Include: Assessments of state industrial boards or other boards for operating expenses or for benefits to sick unemployed persons in connection with disability benefit laws or similar taxes levied by states. Canadian and other foreign taxes are to be included appropriately.

Advertising required by law, regulation or ruling, except advertising associated with investments.

State sales taxes, if ~~company~~ reporting entity does not exercise option of including such taxes with the cost of goods and services purchased.

State income taxes.

Line 23.2 – State Premium Taxes

Include: State taxes based on policy reserves, if in lieu of premium taxes. Canadian and other foreign taxes should be included appropriately.

Any portion of commissions or allowances on reinsurance assumed that represents specific reimbursement of premium taxes.

Deduct: Any portion of commissions or allowances on reinsurance ceded that represents specific reimbursement of premium taxes.

Line 23.3 – Regulatory Authority Licenses and Fees

Include: Assessments to defray operating expenses of any state insurance department. Canadian and other foreign taxes should be included appropriately.

Fees for examinations by state departments.

Exclude: Fines and penalties of regulatory authorities. Report these fines and penalties as a separate item on Page 4, Details of Write-ins Aggregated at Line 29 for Other Income or Expenses.

Line 23.4 – Payroll Taxes

Include: Accrued payroll tax including FICA, FUTA, SUTA and other federal, state and local payroll taxes.

Line 23.5 – Other

Include: Guaranty fund assessments and taxes of Canada or of any other foreign country not specifically provided for elsewhere.

Sales taxes, other than state sales taxes, if ~~company~~ reporting entity does not exercise option of including such taxes with the cost of goods and services purchased.

Line 24 – Investment Expenses Not Included Elsewhere

Include: Only items for which no specific provision has been made elsewhere, (e.g., contributions or assessments for bondholders' protective committees, fees of investment counsel, custodian and trustee fees).

All other costs, including internal costs or costs paid to an affiliated company, related to origination, purchase or commitment to purchase bonds.

Exclude: Home office salaries and expenses on account of investment work, salaries and expenses of mortgage loan branch offices.

Legal fees and expenses.

Real Estate expenses properly chargeable to Line 21.

Interest expense incurred for experience rated refunds.

Brokerage and other related fees, to the extent that these are included in the actual cost of a bond upon acquisition. Refer to *SSAP No. 26~~R~~—Bonds* for accounting guidance.

Line 25 – Aggregate Write-ins for Expenses

Enter the total of the write-ins listed in schedule Details of Write-ins Aggregated at Line 25 for Expenses.

Line 26 – Total Expenses Incurred

Column 1 + Column 2 should agree with Statement of Revenue and Expenses, Line 20. Column 3 should agree with Statement of Revenue and Expenses, Line 21. Column 4 should agree with the Exhibit of Net Investment Income, Line 11 plus 12.

Details of Write-ins Aggregated on Line 25 for Expenses

List separately all expenses for which there is no pre-printed line.

Enter in Column 3 interest incurred for experience rated refunds.

Exhibit 4

ANNUAL STATEMENT INSTRUCTIONS – TITLE

OPERATIONS AND INVESTMENT EXHIBIT

PART 3 – EXPENSES

A ~~company~~ reporting entity that pays management fees to an affiliate (including a managing general agent) shall allocate these costs to the appropriate expense classification item (salaries, rent, postage, etc.) as if these costs had been borne directly by the ~~company~~reporting entity. Management (or similar) fees should not be reported as a one-line expense. It is appropriate for the ~~company~~ reporting entity to estimate these expense allocations based on a formula or other reasonable basis.

The total management fees and the method(s) used for allocation shall be disclosed in the Notes to Financial Statements. The ~~company~~ reporting entity shall use the same allocation method(s) on a consistent basis. Refer to *SSAP No. 70—Allocation of Expenses* for accounting guidance.

Exclude from investment expenses brokerage and other related fees, to the extent they are included in the actual cost of a bond upon acquisition. Refer to *SSAP No. 26~~R~~—Bonds* for accounting guidance.

Include all other internal costs or costs paid to an affiliated company related to origination, purchase or commitment to purchase bonds.

Column 1 – Title and Escrow Operating Expenses - Direct Operations

The amounts shown in this column represent expenses related to the ~~company's~~ reporting entities' title and escrow operations. It does not include losses, loss adjustment expenses (allocated or unallocated) or investment expenses. The expenses include only amounts incurred directly by the ~~company~~reporting entity, and do not include expenses incurred by any agents (regardless of ownership interest).

Exclude: Expenses on orders not produced by the ~~company~~ reporting entity (report this in Column 6, Other Operations).

Column 2 – Title and Escrow Operating Expenses - Non-affiliated Agency Operations

The amounts shown in this column represent expenses related to the ~~company's~~ reporting entities' title and escrow non-affiliated agency operations. It does not include losses, loss adjustment expenses (allocated or unallocated) or investment expenses. The expenses include only amounts incurred directly by the ~~company~~ reporting entity and do not include expenses incurred by any agency (regardless of ownership interest).

Exclude: Expenses on orders not produced by the ~~company~~ reporting entity (report this in Column 6, Other Operations).

Column 3 – Title and Escrow Operating Expenses - Affiliated Agency Operations

The amount shown in this column represent expenses related to the ~~company's~~ reporting entities' title and escrow affiliated agency operations. It does not include losses, loss adjustment expenses (allocated or unallocated) or investment expenses. The expenses include only amounts incurred directly by the ~~company~~ reporting entity and do not include expenses incurred by any agency (regardless of ownership interest).

Exclude: Expenses on orders not produced by the ~~company~~ reporting entity (report this in Column 6, Other Operations).

An agency operation is affiliated if the agency is an affiliate as defined by *SSAP No. 25—Affiliates and Other Related Parties*.

Column 4 – Total

The amounts reported in this column are the total of Columns 1, 2 and 3.

Column 5 – Unallocated Loss Adjustment Expenses

The amounts shown in this column represent the indirect costs incurred by the ~~company~~ reporting entity in settlement of title and other claims. As an example, the costs related to salaried employees of the insurer involved in the management of claims are included in this category. Do not include any costs incurred by the agents in settlement of title or other claims.

The amounts shown on Line 24 should agree with the amounts reported on the Operations and Investment Exhibit, Part 2A, Line 9.

Column 6 – Other Operations

The amounts shown in this column represent the expenses incurred by the ~~company~~ reporting entity in operations other than title and escrow, or loss adjustment or investment activities.

Include: Expenses on orders not produced by the ~~company~~reporting entity, such as expenses incurred in the sale of title services to attorneys, agents, lenders or others. Expenses related to the revenue reported as Other Operating Income on Page 4, Line 2.

Exclude: Expenses allocated to providing services related to the issuance of a title policy by direct operations.

Column 7 – Investment Expenses

The amounts shown in this column represent the expenses incurred by the ~~company~~reporting entity, both internal and external, in connection with the production of the ~~company~~ reporting entity investment income.

Column 8 – Current Year Total

The amounts reported in this column are the total of Columns 4, 5, 6 and 7.

Column 9 – Prior Year Total

The amounts reported in this column are the amounts reported in Column 8 for the prior year.

Exhibit 4

INSTRUCTIONS FOR UNIFORM CLASSIFICATIONS OF EXPENSES OF

TITLE INSURERS

For the purposes of establishing uniformity in classifications of expenses of title insurers recorded in statements and reports filed with and statistics reported to Insurance Departments, all such reporting entities shall observe the instruction set forth below.

LIST OF OPERATING EXPENSE CLASSIFICATIONS FOR ANNUAL STATEMENT PURPOSES

1. Personnel Costs
   - 1.1 Salaries
   - 1.2 Employee Relations and Welfare
   - 1.3 Payroll Taxes
   - 1.4 Other Personnel Costs
2. Amounts Paid to or Retained by Title Agents
3. Production Services (purchased outside)
   - 3.1 Searches, Examinations and Abstracts
   - 3.2 Surveys
   - 3.3 Other
4. Advertising
5. Boards, Bureaus and Associations
6. Title Plant Rent and Maintenance
7. Claim Adjustment Services
8. Amounts Charged Off, Net of Recoveries
9. Marketing and Promotional Expenses
10. Insurance
11. Directors' Fees
12. Travel and Travel Items
13. Rent and Rent Items
14. Equipment
15. Cost or Depreciation of EDP Equipment and Software
16. Printing~~,~~ and Stationary~~, Books and Periodicals~~
17. Postage~~,~~ and Telephone~~, Messengers and Express~~
18. Legal and Auditing
20. Taxes, Licenses and Fees
   - 20.1 State and Local Insurance Taxes
   - 20.2 Insurance Department Licenses and Fees
   - 20.3 Gross Guaranty Association Assessments
   - 20.4 All Other (excluding Federal Income and Real Estate)

21. Real Estate Expenses
22. Real Estate Taxes
23. Miscellaneous

Line 1.1 – Salaries

Include: Salaries, bonus, overtime, contingent compensation, pay while on leave, dismissal allowances, pay while training and other compensation of officers and employees.

Commission and brokerage to employees when the activities for which the commission is paid are part of their duties as employees.

Exclude: Salaries or wages, etc., of janitors, caretakers, maintenance workers and agents paid in connection with owned real estate and premises leased for company use. (See Real Estate Expenses.)

Retirement allowances.

Directors' and committee fees.

Disability payments to or on behalf of employees under self-insurance plan.

Line 1.2 – Employee Relations and Welfare

Include: Cost of retirement insurance.

Payments or appropriations to funds irrevocably devoted to the payment of pensions or other employees' benefits.

Pensions or other retirement allowances.

Accident, health and hospitalization insurance for employees.

Group life insurance for employees.

Workers' compensation insurance.

Payments to or on behalf of employees under self-insurance.

Any other insurance for the benefit of employees.

Net periodic postretirement benefit cost.

Earned amounts related to employee stock option plans.

Payments by ~~company~~ reporting entity under a program for stock options, purchase and award plans (including change in quoted market value).

Refer to *SSAP No. 12—Employee Stock Ownership Plans* and *SSAP No. 104~~R~~—Share-Based Payments* for accounting guidance.

Exclude: Premiums for life insurance on employees when the ~~company~~ reporting entity is the beneficiary.

Payments or appropriations to pension funds not irrevocably devoted to the payment of pensions or other employees; benefits (such payments or appropriations shall not appear among expenses).

Items includable in Real Estate Expenses.

All other types of insurance premiums.

Line 1.3 – Payroll Taxes

Include: Employer FICA, FUTA, SUTA, and other federal state and local payroll taxes.

Exclude: Payroll taxes includable in Real Estate Expenses.

Line 1.4 – Other Personnel Costs

Include: Cost of the following:

Advertising related to recruiting.

Employment agency placement fees.

Training and welfare of employees.

Physical examinations of employees or applicants for employment.

Character or credit reports on employees or applicants for employment.

Gatherings, outings and entertainment for employees.

Visiting nurse service for or on behalf of employees.

Medical and hospital bills for employees (not included in Employee Relations and Welfare).

Direct payments other than salaries, to employees for injury and sickness (not included in Employee Relations and Welfare).

Overtime meals.

Donations to or on behalf of employees.

Food and catering for employees.

Exclude: Salaries, bonus, overtime, contingent compensation, pay while on leave, dismissal allowances, pay while training and other compensation of employees. (See Salaries.)

Items includable in Real Estate Expenses.

Cost of house organ (in-house periodical or employee periodical) and similar publications. (See Advertising, and Printing and Stationery.)

Line 2 – Amount Paid to or Retained by Title Agents

This line includes all amounts paid directly or indirectly to the title agent. It can include commissions or fees paid directly to the title agents. It can also include any amounts collected from the insureds for title insurance premiums that are retained by the title agent, and not remitted to the ~~company~~reporting entity.

Line 3.1 – Searches, Examinations and Abstracts

Include: Searching and examining, reading, closing, abstracts and continuations and tax searches, including continuations and mark offs.

State searches such as franchise tax, transfers, and estates, incorporation's, dissolution's of corporations and any other searches required of the State Department of Taxation.

Building Department searches such as tenement house, cost of certificate of occupancy, Department of Building and Housing, etc.

Other miscellaneous searches such as bankruptcy lists, street reports; examining conditional bills of sale, and chattel mortgage; death certificates, fire health and labor departments, abstracts or certified copies of anything pertaining to record proof required in the examination of title, including surrogate's proceedings, probate proceedings, transfer tax proceedings, bankruptcy proceedings, Federal Court proceedings, copies of deeds, letters testamentary, wills, etc.; appointment of trustees, etc.; last owners; and any other analogous thereto.

Exclude: Survey charges, appraisals and salaries of staff members providing search examination and abstract services.

Line 3.2 – Surveys

This account classification shall include the net charges of outside surveyors or other title companies for all survey work including possession surveys; enclosure surveys; locations surveys; surveying and locating building and showing same on map; survey, map, and descriptions; staking plot; furnishing tracings and prints; redating surveys; survey prints purchased.

Exclude: Compensation of salary staff members for making survey or property inspections.

Blueprints and photostats of surveys.

Line 3.3 – Other

Include: Purchases of atlases whether in print or electronic format.

Cost of keeping atlases current such as the insertion of new pages and corrections, indexing and other related expenses.

Cost of copies of filed land maps, damage maps, extracts of sheets from land maps, alteration maps obtained from topographical bureaus.

Binding, printing, mounting, and indexing land maps.

Sales tax and discounts on items included.

Other outside production services purchased, such as property inspections, policy or report typing.

Line 4 – Advertising

Include:

Services of advertising agents.

Public relations counsel.

Space in newspapers, trade publications, diaries, directories, yearbooks, billboards, programs and other publications including electronic formats.

Circulars, pamphlets, calendars and literature issued for advertising or promotional purposes.

Drawings, plates, etchings, etc., in connection with advertising.

All charges for printing, paper, etc., in bills covering advertising.

Media broadcasts (e.g., radio, television, etc.)

Prospect and mailing lists.

Advertising in connections with corporate proceedings.

Printed material issued or distributed for promotional purposes.

All charges for compiling material content, printing, paper, mailing expenses, including envelopes, labels, and boxes, etc., in connection with the distribution of promotional material.

Souvenirs and other promotional items for general distribution.

House organs (in-house periodical or employee periodical) and similar publications distributed to persons other than staff members.

Signs, frames, medals, etc., for agents.

Advertising required by law when more than the minimum space required to comply with the law is taken.

Exclude:

Compensation to employees. (See Salary.)

Items includable in Travel and Travel Items.

Items includable in Boards and Associations.

Items includable in Claim Adjustment Services.

Advertising and business development expenses allowed, reimbursed or paid to managers, agents, brokers, solicitors, and other producers.

Cost of advertising related to recruiting. (See Employee Relations and Welfare.)

Cost of advertising in connection with owned real estate. (See Real Estate Expenses).

Donations to organized charities. (See Miscellaneous.)

Costs of charts, maps, etc., used for routine company operations.

Cost of literature and booklets, placards, signs, etc., issued solely for employee benefits.

Cost of house organs (in-house periodical or employee periodical) and similar publications for use of employees. (See Printing and Stationery.)

Cost of souvenirs not generally distributed. (See Travel and Travel Items.)

Line 5 – Boards, Bureaus and Associations

Include: Dues, assessments, fees and charges of underwriting boards, rating organizations, statistical agencies, inspection and audit bureaus.

Underwriters' advisory and service organizations.

Accident and loss prevention organizations.

Claim organizations.

Underwriting syndicates, pools and associations and assigned risk plans (except Commission and Brokerage, Claim Adjustment Services, and Taxes, Licenses and Fees).

Specific payments to title or mortgage associations for rate manuals, revisions, fillers and other industry-wide literature.

Exclude: Dues and subscriptions to social or civic clubs or affairs and to associations of customers. (See Marketing and Promotion.)

Dues and subscriptions to accounting, legal, actuarial or similar societies and associations. (See Legal and Auditing.)

Cost of inspection, engineering or accident and loss prevention billed specifically to individual companies.

Loss adjustment expenses billed specifically to individual companies. (See Claim Adjustment Services).

Allowances under reinsurance contracts for board and bureau expenses.

Payments to State Industrial Commissions. (See Taxes, Licenses and Fees.)

Payments into State Security Funds. (See Taxes, Licenses and Fees.)

Commission and Brokerage. Claim Adjustment Services, and Taxes, Licenses and Fees of underwriting syndicates, pools and associations.

Cost of survey, credit, moral hazard, character and commercial reports obtained for underwriting purposes.

Cost of commercial reporting services.

Line 6 – Title Plant Rent and Maintenance

The line includes all direct costs incurred in connection with the rental or lease of title plants. It also includes costs incurred by the ~~company~~ reporting entity in connection with the participation in joint maintenance agreements for title plants owned by others.

Line 7 – Claim Adjustment Services

Include: Other claim adjustment fees and expenses.

Outside services for unallocated claim administration.

Auditing fees and expenses of independent auditors for auditing payrolls and premium bases.

Exclude: Compensation to employees. (See Salaries.)

Expenses of salaried employees. (See Travel and Travel Items.)

Fees and expenses of lawyers for legal services in the defense, trial or appeal of suits, or for other allocated legal services rendered in connection with title claims (include in Title Losses and Loss Adjustment Expenses Paid).

Interests and costs assessed as part of or subsequent to judgment (include in Title Losses Paid).

Line 8 – Amounts Charged Off, Net of Recoveries

This line includes amounts charged off related to title insurance premiums, title agency remittances and other services accrued that could not be collected.

Include: Recoveries of amounts previously charged off.

Exclude: Items includable in Real Estate Expenses.

Line 9 – Marketing and Promotional Expenses

This line includes all amounts incurred for expenses directly related to the production of specific sales efforts.

Include: Dues and subscriptions to social or civic clubs or affairs and to associations of customers.

Exclude: Items included in Advertising, Line 4.

Compensation to employees. (See Salaries.)

Line 10 – Insurance

Include: Fidelity or surety bonds covering employees and agents.

Burglary and robbery insurance.

Public liability insurance premiums (excluding owned real estate).

Premiums for insurance on office contents.

Cost of insurance on automobiles.

All other insurance premiums not specifically provided for in other operating accounts.

Exclude: Items includable in Employee Relations and Welfare.

Items includable in Real Estate Expenses.

Items includable in Rent and Rent Items.

Items includable in Travel and Travel Items.

Line 11 – Directors' Fees

Include: Directors' fees and other compensation of directors for attendance at board or committee meetings.

Other fees, compensation and expenses paid to directors.

Exclude: Commissions to directors for the production of business.

Line 12 – Travel and Travel Items

Include: Transportation, hotel, meals, postage, shipping, delivery, telephone, ~~telegraph, express~~ and incidental living expenses of employees while traveling.

Expenses for transfer of employees.

Mileage allowance to employees for use of personal cars.

Depreciation repairs and other operating expenses of automobiles.

Rent of automobiles.

Fees for automobile registration.

Cost of insurance on rented automobiles.

Exclude: Items includable in Salaries; Advertising; Commissions; Taxes, Licenses and Fees; and Boards, Bureaus and Associations.

Cost of gatherings, outings, etc., and entertainment for employees. (See Other Personnel Costs.)

Items includable in Real Estate Expenses.

Donations to organized charities. (See Miscellaneous.)

Cost of souvenirs and other promotional items for general distribution. (See Advertising.)

Line 13 – Rent and Rent Items

Include: Rent of home office and branch offices.

Real Estate taxes in connections with leased premises. Refer to *SSAP No. 22~~R~~—Leases* for accounting guidance of leases by lessors and lessees.

Rent for space occupied in buildings owned.

Public liability insurance premiums.

Light, heat, power and water charges in leased premises.

Interest, taxes, etc., paid in lieu of rent for leased premises.

Cost of alterations and repairs of leased premises.

Rent of storage, safekeeping and warehouse space.

Rent of safe deposit boxes.

Rent of post office boxes.

Time clock service charges.

Cost of cleaning, towels, ice, water, electric lamp replacements and other expenses incidental to office maintenance.

Exclude: Compensation~~s~~ to employees. (See Salaries.)

Rent of furniture, equipment, and office machines. (See Equipment.)

Rent of Automobiles. (See Travel and Travel Items.)

Cost of insurance on rented automobiles. (See Travel and Travel Items.)

Amortization expense for leasehold improvements as lessee.

Rent allowed, reimbursed, or paid to managers, agents, brokers, solicitors and other producers.

Items includable in Real Estate Expenses.

Rent income from owned real estate.

Line 14 – Equipment

Include: Rent and repairs of furniture, equipment and office machines including printers' equipment and postage machines.

Equipment other than automobiles, purchased and fully depreciated or written off during the year.

Depreciation on furniture, equipment and office machines.

Exclude: Compensation to employees. (See Salaries.)

Rent, repair, and depreciation of automobiles. (See Travel and Travel Items.)

Cost of alterations and repairs of leased premises. (See Rent and Rent Items).

Equipment expenses allowed, reimbursed or paid to managers, agents, brokers, solicitors and other producers.

Items includable in Real Estate Expenses.

Depreciation and amortization expense for electronic data processing equipment, operating and non-operating systems software. (See Cost or Depreciation of EDP Equipment and Software.)

Line 15 – Cost or Depreciation of EDP Equipment and Software

Include: Depreciation and amortization expense for electronic data processing equipment, operating and non-operating systems software.

Cost of computer software

Refer to *SSAP No. 16~~R~~—Electronic Data Processing Equipment and Software* for accounting guidance.

Line 16 – Printing~~,~~ and Stationery~~, Books and Periodicals~~

Include: Printing, stationery and office supplies such as: letterheads, envelopes, paper stock, printed forms or manuals, adding machine tape, ~~carbon paper,~~ binders and posts, ~~photostatícted~~ copies, pencils, pens, ink, glue, stamps and stamp pads, staplers, staples, clips and pins, desk top equipment (calendars, trays, etc.), waste baskets, analysis pads, ledgers, journals, minute books, etc.

Policies and policy forms.

House organs (in-house periodical or employee periodical) and similar publications for the use of employees.

Books, newspapers and periodicals including investment, tax and legal publications and services, whether in print or electronic format.

Exclude: Compensation to employees. (See Salaries.)

Specific payments to boards, bureaus and associations for rate manuals, revisions, fillers, rating plans and experience data. (See Boards, Bureaus and Associations.)

Literature, booklets, placards, signs, etc., issued solely for accident and loss prevention. (See Surveys and Underwriting Reports.)

Items includable in Claim Adjustment Services.

Items includable in Advertising.

Printers' equipment in company owned printing department. (See Equipment.)

Printing and stationery costs allowed, reimbursed or paid to managers, agents, brokers, solicitors and other producers.

House organs (in-house periodical or employee periodical) and similar publications distributed to persons other than employees. (See Advertising.)

Commercial reporting services.

Items includable in Real Estate Expenses.

Line 17 – Postage and~~,~~ Telephone~~, Messengers and Express~~

Include: ~~Express, f~~Freight and cartage~~.~~

Postage~~.~~

Cost of telephone~~.~~

Bank charges for collection and exchange~~.~~

Exclude: Compensation to employees. (See Salaries.)

Rent, repairs, and depreciation of postage machine. (See Equipment.)

Postage and~~,~~ telephone~~, telegraph and express mail service~~ used by employees while traveling. (See Travel and Travel Items.)

Postage, shipping, delivery, and ~~,~~ telephone~~, telegraph, exchange and express mail service~~ allowed, reimbursed or paid to managers, agents, brokers, solicitors and other producers.

Profits or losses resulting from exchange on remittances to home office by a U.S. branch. Such profits or losses shall not be included in expenses.

Items includable in Real Estate Expenses.

Rent of post office boxes. (See Rent and Rent Items.)

Line 18 – Legal and Auditing

Include: Legal retainers, fees and other legal expenses and non-title related losses (except on title and escrow losses and salvage).

Auditing fees of independent auditors for examining records of home and branch offices.

Cost of services of tax advisors.

Services of consultants.

Fees of investment counsel.

Fees and expenses of other persons than employees, for collecting balances.

Notary fees.

Dues and subscriptions to accounting, legal, actuarial or similar societies and associations.

Exclude: Compensation to employees. (See Salaries.)

Expenses of salaried employees. (See Travel and Travel Items.)

Items includable in title or escrow losses and salvage.

Items includable in Real Estate Expenses.

Line 20.1 – State and Local Insurance Taxes

Include: State premium taxes, licenses and fees.

County and municipal premium taxes, licenses and fees.

Fire Patrol assessments.

Payments to State Industrial (or other) Commissions for administration of Workers' Compensation or other State Benefit Acts (including assessments for administering Financial Responsibility Laws) regardless of basis of assessment.

Net payments to State Security Funds, Reopened Case Funds, Social Injury Funds and other State Funds, when construed by the ~~company~~ reporting entity as operating expenses, regardless of basis of assessment.

Exclude: Allowances for taxes under reinsurance contracts.

Line 20.2 – Insurance Department Licenses and Fees

Include: Agents' licenses.

Certificates of authority, compliance, deposit, etc.

Filing fees.

Fees and expenses of examination by insurance department or other governmental agencies.

Business licenses, corporation licenses.

Exclude: Items includable in Line 20.1 - State and Local Insurance Taxes and Line 20.4 - All Other (Excluding Federal Income and Real Estate).

Items includable in Claim Adjustment Services.

Line 20.4 – All Other (Excluding Federal Income and Real Estate)

Include: Qualifying bond premiums.

Statement publication fees.

Advertising required by law.

Personal property taxes.

State taxes on income or gross receipts.

Occupancy tax.

Capital stock taxes.

Business corporation licenses or fees (not includable Lines 20.1 or 20.2).

Marine profits taxes.

Documentary stamps on reinsurance.

Any other taxes not assignable under Lines 20.1, 20.2 and 20.3 and not otherwise excluded.

Exclude: Real estate taxes (See Real Estate Taxes).

Cost of advertising required by law where more than minimum space required to comply with the law is taken. Such expenses shall be included in Advertising.

Items includible in Claim Adjustment Services.

Fees for automobile license plates (See Travel and Travel Items).

Federal income taxes.

County and municipal premium taxes, licenses and fees.

Sales taxes, etc., included on invoice of vendors. Such taxes are to follow allocation of cost of items purchased.

Line 21 – Real Estate Expenses

Include: Salaries, wages and other compensation, including payroll taxes, of janitors, caretakers, maintenance workers and agents paid in connection with owned real estate.

Cost of operating and maintaining owned real estate.

Cost of insurance in connection with owned real estate.

Cost of advertising in connection with owned real estate.

Line 22 – Real Estate Taxes

Include: Taxes, licenses and fees on owed real estate.

Line 23 – Aggregate Write-ins for Other Expenses

Enter the total of the write-ins listed in schedule Details of Write-ins Aggregated at Line 23 for Other Expenses.

Details of Write-ins Aggregated at Line 23 for Other Expenses

List separately each category of other expense for which there is no pre-printed line in Part 3.

Expenses not listed as includable in other operating expense classifications, and not analogous thereto, shall be included in "Other." Specifically, the following shall be included:

Include: Donations to organized charities.

Cost of tabulating service when such service is rendered by outside organizations.

Amounts received and handled in accordance with the Instruction "Income from Special Services."

Differences between actual amounts paid, and amounts apportioned in accordance with the Instruction "Joint Expenses."

GENERAL INSTRUCTIONS IN CONNECTION WITH OPERATING EXPENSE CLASSIFICATIONS

A. Joint Expense

Whenever personnel or facilities are used in common by two or more companies, or whenever the personnel or facilities of one company are used in the activities of two or more companies, the expenses involved shall be apportioned in accordance with the instructions relating to Joint Expenses, and such apportioned expenses shall be allocated by each company to the same operating expense classifications as if the expenses had been borne wholly. Any difference between the actual amount paid, and the amount of such apportioned expenses, shall be included in the operating expense classification “Miscellaneous.”

This instruction does not apply to the following, which are covered by separate instructions herein:

Reinsurance commission and allowance (see Commission and Brokerage – Reinsured Assumed and Ceded)

Commission and brokerage paid to managers and agents (see Commission and Brokerage – Direct)

Allowances to managers and agents (see Allowances to Manager and Agents)

Expenses allocable in accordance with the instruction “Income from Special Services”

B. Expenses for Account of Another

Whenever expenses are paid by one company for account of another, the payments shall not appear among the expenses reported by the former, and shall be included by the latter in the same expense classification as if originally paid by it.

C. Income from Special Services

Whenever an insurance company receives compensation for sales or services, such as loss adjustment or inspection not related to policies written by the company, and such compensation is not calculated as a joint expense reimbursement, the amount thereof shall be included in the operating expense classification “Miscellaneous.” Where an insurance company pays the compensation, allocation shall be made to the expense classification dictated by the nature of the expense.

Reinsurance commission and allowances (See Commission and Brokerage – Reinsurance Assumed and Ceded).

Expenses incurred for the benefit of companies in the same group or fleet are covered by the instruction “Joint Expenses.”

D. Analogous Items

The list of expenses includible in the operating expense classifications is representative and do not exclude analogous items that are omitted from the lists.

OPERATIONS AND INVESTMENT EXHIBIT

PART 4 – NET OPERATING GAIN/LOSS EXHIBIT

Column 1 – Direct Operations

The amounts shown in this column represent the ~~company~~ reporting entity direct operations. No items from agency operations (even wholly-owned agencies) are to be included in this column; only home office and branch office operations are to be included in this column.

Column 2 – Non-affiliated Agency Operations

The amounts shown in this column represent the ~~company~~ reporting entity non-affiliated agency operations. This column should include all agency operations other than those that are reported in Column 3.

Column 3 – Affiliated Agency Operations

The amounts shown in this column represent the ~~company~~ reporting entity affiliated agency operations. Wholly-owned agencies should be included in the amounts shown in this column. The standards for reporting as an affiliated agency are the affiliation standards established under the holding company laws of the domestic state jurisdiction.

Column 4 – Total

The amounts reported in this column are the total of Columns 1, 2 and 3.

Column 5 – Other Operations

The amounts in this column represent amounts other than those shown in Columns 1, 2 or 3.

Column 6 – Current Year Total

The amounts reported in this column are the total of Columns 4 and 5.

Column 7 – Prior Year Total

The amounts reported in this column are the amounts reported in Column 6 for the prior year.

Line 1.1 – Title Insurance Premiums Earned

The amounts reported in this line are the amounts reported in Operations and Investment Exhibit, Part 1B, Line 3, Column 1.

Line 1.2 – Escrow and Settlement Services

The amounts reported in this line are the amounts reported in Operations and Investment Exhibit, Part 1A, Line 2.

Line 1.3 – Other Title Fees and Service Charges

The amounts reported in this line are the amounts reported in Operations and Investment Exhibit, Part 1A, Lines 3 to 6.

Line 3 – Total Operating Income

The amounts reported on this line are the totals of the amounts shown on Lines 1.1 through 1.3 plus the amount shown on Line 2.

Line 4 – Losses and Loss Adjustment Expenses Incurred

The amounts reported in this line are the amounts reported in Operations and Investment Exhibit, Part 2A, Line 10, Column 4.

Line 5 – Operating Expenses Incurred

The amounts reported in this line are the amounts reported in Operations and Investment Exhibit, Part 3, Line 24, Columns 1 through 3 and Column 6.

Line 6 – Total Operating Deductions

The amounts reported in this line are the amounts reported on Line 4 plus Line 5.

Line 7 – Net Operating Gain or (Loss)

The amounts reported in this line are the amounts reported on Line 3 less the amounts reported on Line 6.

ANNUAL STATEMENT BLANK – PROPERTY

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 – EXPENSES

	1 Loss Adjustment Expenses	2 Other Underwriting Expenses	3 Investment Expenses	4 Total
1. Claim adjustment services:				
1.1 Direct				
1.2 Reinsurance assumed				
1.3 Reinsurance ceded				
1.4 Net claim adjustment services (1.1+1.2-1.3)				
2. Commission and brokerage:				
2.1 Direct, excluding contingent				
2.2 Reinsurance assumed, excluding contingent				
2.3 Reinsurance ceded, excluding contingent				
2.4 Contingent—direct				
2.5 Contingent—reinsurance assumed				
2.6 Contingent—reinsurance ceded				
2.7 Policy and membership fees				
2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)				
3. Allowances to manager and agents				
4. Advertising				
5. Boards, bureaus and associations				
6. Surveys and underwriting reports				
7. Audit of assureds' records				
8. Salary and related items:				
8.1 Salaries				
8.2 Payroll taxes				
9. Employee relations and welfare				
10. Insurance				
11. Directors' fees				
12. Travel and travel items				
13. Rent and rent items				
14. Equipment				
15. Cost or depreciation of EDP equipment and software				
16. Printing and stationery				
17. Postage~~,~~ and telephone ~~and telegraph, exchange and express~~				
18. Legal and auditing				
19. Totals (Lines 3 to 18)				
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of $				
20.2 Insurance department licenses and fees				
20.3 Gross guaranty association assessments				
20.4 All other (excluding federal and foreign income and real estate)				
20.5 Total taxes, licenses and fees (20.1+20.2+20.3+20.4)				
21. Real estate expenses				
22. Real estate taxes				
23. Reimbursements by uninsured plans				
24. Aggregate write-ins for miscellaneous expenses				
25. Total expenses incurred				(a)
26. Less unpaid expenses—current year				
27. Add unpaid expenses—prior year				
28. Amounts receivable relating to uninsured plans, prior year				
29. Amounts receivable relating to uninsured plans, current year				
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)				
DETAILS OF WRITE-INS				
2401.				
2402.				
2403.				
2498. Summary of remaining write-ins for Line 24 from overflow page				
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above)				

(a) Includes management fees of $............... to affiliates and $............... to non-affiliates.

ANNUAL STATEMENT BLANK – LIFE/FRATERNAL

EXHIBIT 2 – GENERAL EXPENSES

		Insurance				5	6	7
		1	Accident and Health		4			
			2 Cost Containment	3 All Other	All Other Lines of Business			
		Life				Investment	Fraternal	Total
1.	Rent							
2.	Salaries and wages							
3.11	Contributions for benefit plans for employees							
3.12	Contributions for benefit plans for agents							
3.21	Payments to employees under non-funded benefit plans							
3.22	Payments to agents under non-funded benefit plans							
3.31	Other employee welfare							
3.32	Other agent welfare							
4.1	Legal fees and expenses							
4.2	Medical examination fees							
4.3	Inspection report fees							
4.4	Fees of public accountants and consulting actuaries							
4.5	Expense of investigation and settlement of policy claims							
5.1	Traveling expenses							
5.2	Advertising							
5.3	Postage~~, express, telegraph~~ and telephone							
5.4	Printing and stationery							
5.5	Cost or depreciation of furniture and equipment							
5.6	Rental of equipment							
5.7	Cost or depreciation of EDP equipment and software							
6.1	Books and periodicals							
6.2	Bureau and association fees							
6.3	Insurance, except on real estate							
6.4	Miscellaneous losses							
6.5	Collection and bank service charges							
6.6	Sundry general expenses							
6.7	Group service and administration fees							
6.8	Reimbursements by uninsured plans							
7.1	Agency expense allowance							
7.2	Agents' balances charged off (less $.......... recovered)							
7.3	Agency conferences other than local meetings							
8.1	Official publication (Fraternal Benefit Societies Only)	XXX	XXX	XXX	XXX	XXX		
8.2	Expense of supreme lodge meetings(Fraternal Benefit Societies Only)	XXX	XXX	XXX	XXX	XXX		
9.1	Real estate expenses							
9.2	Investment expenses not included elsewhere							
9.3	Aggregate write-ins for expenses							
10.	General expenses incurred						(b)........	(a) ....
11.	General expenses unpaid December 31, prior year							
12.	General expenses unpaid December 31, current year							
13.	Amounts receivable relating to uninsured plans, prior year							
14.	Amounts receivable relating to uninsured plans, current year							
15.	General expenses paid during year (Lines 10 + 11 - 12 - 13 + 14)							
DETAILS OF WRITE-INS								
09.301.								
09.302.								
09.303.								
09.398.	Summary of remaining write-ins for Line 9.3 from overflow page							
09.399.	Totals (Lines 09.301 through 09.303 + 09.398) (Line 9.3 above)							

(a) Includes management fees of $........ to affiliates and $.......... to non-affiliates.
(b) Show the distribution of this amount in the following categories (Fraternal Benefit Societies Only)
1. Charitable $ ....; 2. Institutional $....................; 3. Recreational and Health $.................... ; 4. Educational $ ....
5. Religious $ ....; 6. Membership $....................; 7. Other $ .... ; 8. Total $....................

ANNUAL STATEMENT BLANK – HEALTH

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 – ANALYSIS OF EXPENSES

	Claim Adjustment Expenses		3	4	5
	1 Cost Containment Expenses	2 Other Claim Adjustment Expenses	General Administrative Expenses	Investment Expenses	Total
1. Rent ($......... for occupancy of own building)	....	....	....	....	....
2. Salaries, wages and other benefits	....	....	....	....	....
3. Commissions (less $ .... ceded plus $ ....assumed)	....	....	....	....	....
4. Legal fees and expenses	....	....	....	....	....
5. Certifications and accreditation fees	....	....	....	....	....
6. Auditing, actuarial and other consulting services	....	....	....	....	....
7. Traveling expenses	....	....	....	....	....
8. Marketing and advertising	....	....	....	....	....
9. Postage~~, express~~ and telephone	....	....	....	....	....
10. Printing and office supplies	....	....	....	....	....
11. Occupancy, depreciation and amortization	....	....	....	....	....
12. Equipment	....	....	....	....	....
13. Cost or depreciation of EDP equipment and software	....	....	....	....	....
14. Outsourced services including EDP, claims, and other services	....	....	....	....	....
15. Boards, bureaus and association fees	....	....	....	....	....
16. Insurance, except on real estate	....	....	....	....	....
17. Collection and bank service charges	....	....	....	....	....
18. Group service and administration fees	....	....	....	....	....
19. Reimbursements by uninsured plans	....	....	....	....	....
20. Reimbursements from fiscal intermediaries	....	....	....	....	....
21. Real estate expenses	....	....	....	....	....
22. Real estate taxes	....	....	....	....	....
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes	....	....	....	....	....
23.2 State premium taxes	....	....	....	....	....
23.3 Regulatory authority licenses and fees	....	....	....	....	....
23.4 Payroll taxes	....	....	....	....	....
23.5 Other (excluding federal income and real estate taxes)	....	....	....	....	....
24. Investment expenses not included elsewhere	....	....	....	....	....
25. Aggregate write-ins for expenses	....	....	....	....	....
26. Total expenses incurred (Lines 1 to 25)	....	....	....	....	....
27. Less expenses unpaid December 31, current year	....	....	....	....	....
28. Add expenses unpaid December 31, prior year	....	....	....	....	....
29. Amounts receivable relating to uninsured plans, prior year	....	....	....	....	....
30. Amounts receivable relating to uninsured plans, current year					
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30)					
DETAILS OF WRITE-INS					
2501.	....	....	....	....	....
2502.	....	....	....	....	....
2503.	....	....	....	....	....
2598. Summary of remaining write-ins for Line 25 from overflow page	....	....	....	....	....
2599. Totals (Line 2501 through 2503 + 2598) (Line 25 above)					

(a) Includes management fees of $..................... to affiliates and $.................. to non-affiliates.

OPERATIONS AND INVESTMENT EXHIBIT

PART 3 – EXPENSES

	Title and Escrow Operating Expenses				5	6	7	Totals	
	1	Agency Operations		4				8	9
	Direct Operations	2 Non-affiliated Agency Operations	3 Affiliated Agency Operations	Total (Cols. 1+2+3)	Unallocated Loss Adjustment Expenses	Other Operations	Investment Expenses	Current Year (Cols. 4+5+6+7)	Prior Year
1. Personnel costs:									
1.1 Salaries									
1.2 Employee relations and welfare									
1.3 Payroll taxes									
1.4 Other personnel costs									
1.5 Total personnel costs									
2. Amounts paid to or retained by title agents									
3. Production services (purchased outside):									
3.1 Searches, examinations and abstracts									
3.2 Surveys									
3.3 Other									
4. Advertising									
5. Boards, bureaus and associations									
6. Title plant rent and maintenance									
7. Claim adjustment services	XXX	XXX	XXX	XXX		XXX	XXX		
8. Amounts charged off, net of recoveries									
9. Marketing and promotional expenses									
10. Insurance									
11. Directors' fees									
12. Travel and travel items									
13. Rent and rent items									
14. Equipment									
15. Cost or depreciation of EDP equipment and software									
16. Printing, stationery, books and periodicals									
17. Postage~~,~~ and telephone, ~~messengers and express~~									
18. Legal and auditing									
19. Totals (Lines 1.5 to 18)									
20. Taxes, licenses and fees:									
20.1 State and local insurance taxes									
20.2 Insurance department licenses and fees									
20.3 Gross guaranty association assessments									
20.4 All other (excluding federal income and real estate)									
20.5 Total taxes, licenses and fees (Lines 20.1 + 20.2 + 20.3 + 20.4)									
21. Real estate expenses									
22. Real estate taxes									
23. Aggregate write-ins for other expenses									
24. Total expenses incurred (Lines 19+20.5+21+22+23)								(a)	
25. Less unpaid expenses - current year									
26. Add unpaid expenses - prior year									
27. TOTAL EXPENSES PAID (Lines 24 - 25 + 26)									
DETAILS OF WRITE-INS									
2301.									
2302.									
2303.									
2398. Summary of remaining write-ins for Line 23 from overflow page									
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)									

(a) Includes management fees of $.......... to affiliates and $........... to non-affiliates.

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

Issue: Updates on Economic Scenario Generator and Non-Variable Annuities

Check (applicable entity):

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

Description of Issue:
This agenda item is to coordinate regarding updates to the *Valuation Manual* (VM) on two topics:

1. APF 2025-04 updates the economic scenario generator references to reflect the adoption of the new prescribed economic scenario generator. The revisions from APF 2025-04 are effective January 1, 2026, and include an optional phase in which allows partial recognition of the impact over a period of up to 36 months. The following chapters of the VM were impacted by the revisions from Life Actuarial (A) Task Force agenda item APF 2025-04:

   - VM-20: Requirements for Principles Based Reserves for Life Products,
   - VM-21: Requirements for Principles Based Reserves for Variable Annuities,
   - VM-31: PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation

2. APF 2025-11 introduces a new principle-based reserving framework for non-variable annuities, in VM-22, Requirements for Principles Based Reserves for Non-Variable Annuities. The revisions from APF 2025-11 are effective January 1, 2026, and include an optional implementation period of up to 3 years whereby a company may elect to utilize applicable formulaic reserving methodologies for blocks of business instead of applying VM-22. The following chapters of the VM were impacted by the revisions from Life Actuarial (A) Task Force agenda item APF 2025-11:

   - VM-01: Definitions for Terms in Requirements
   - VM- 22: Requirements for Principles Based Reserves for Non-Variable Annuities
   - VM-31: PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation
   - VM-G: Appendix G – Corporate Governance Guidance for Principle-Based Reserves
   - VM-V: Statutory Maximum Valuation Interest Rates for Formulaic Reserves

   The VM-22 transition guidance is as follows:

   > A company may elect to establish minimum reserves pursuant to applicable requirements in VM-A, VM-C, VM-M, and VM-V for business otherwise subject to VM-22 PBR requirements and issued during the first three years following the effective date of VM-22. If a company during the three-year transition period elects to apply VM-22 PBR to a block of such business, then a company must continue to apply the requirements of VM-22 for future valuations of this business. Irrespective of the transition date, a company shall apply VM-22 PBR requirements to all applicable blocks of business on a prospective basis starting three years after the effective date.

Existing Authoritative Literature:

SSAP No. 3—Accounting Changes and Corrections of Errors (Bolding added for emphasis):

- Paragraph 13.d. was added by agenda item 2019-47: Grade in of Variable Annuity Reserves.

Disclosures

13. Disclosure of material changes in accounting and correction of errors shall include:

a. A brief description of the change, encompassing a general disclosure of the reason and justification for change or correction;

b. The impact of the change or correction on net income, surplus, total assets, and total liabilities for the two years presented in the financial statements (i.e., the balance sheet and statement of income and operations);

c. The effect on net income of the current period for a change in estimate that affects several future periods, such as a change in the service lives of depreciable assets or actuarial assumptions affecting pension costs. Disclosure of the effect on those income statement amounts is not necessary for estimates made each period in the ordinary course of accounting for items such as uncollectible accounts; however, disclosure is recommended if the effect of a change in the estimate is material;

d. **Changes in accounting that are changes in reserve valuation basis as described in *SSAP No. 51—Life Contracts,* which have elected phase-in provided for in the *Valuation Manual*, Section VM 21, shall also include in the change in accounting disclosures information regarding the application of any phase-in as provided for in SSAP No. 51;** and

e. When subsequent financial statements are issued containing comparative restated results as a result of the filing of an amended financial statement, the reporting entity shall disclose that the prior period has been restated and the nature and amount of such restatement.

SSAP No. 51—Life Contracts: (Bolding added for emphasis)

- Guidance on voluntary decisions shown in bold in SSAP No. 51, paragraph 37b was added by agenda item 2020-04: Commissioner Discretion in the Valuation Manual. Similar wording was also added to *SSAP No. 52—Deposit-Type Contracts, paragraph 14* and *SSAP No. 54R—Individual and Group Accident and Health Contract, paragraph 22.*
- Disclosure guidance in paragraph 39 was added by agenda item 2019-47: Grade in of Variable Annuity Reserves.

37. Changes in reserves developed under paragraph 22 or AG 43 shall be reviewed to determine whether the change represents a change in valuation basis and if it meets the definition of a change in accounting as defined in SSAP No. 3.

a. Changes in principle-based reserving assumptions are often the result of updating assumptions and other factors required by the existing reserving methodology. Reserve changes resulting from the application of principle-based reserving methodology including, but not limited to, updating assumptions based on reporting entity, industry or other experience, and having the reported reserve transition between net premium reserve, deterministic reserve or stochastic reserve, as required under existing guidance, shall not be considered a change in valuation basis. These types of changes also include, but are not limited to, periodic updates in Valuation

Manual tables, such as industry valuation basic tables, asset spread tables and default cost tables.

b. A change in valuation basis for principle-based reserves shall include cases where the required reserve methodology has changed or the insurer makes a voluntary decision to choose one allowable reserving method over another. These types of changes include, but are not limited to, new standardized mortality tables such as Commissioners Standard Ordinary tables and regulatory changes in methodology. **Voluntary decisions to choose one allowable reserving methodology over another, which require commissioner approval under the Valuation Manual, shall be reported as a change in valuation basis.**

38. Consistent with SSAP No. 3, any increase (strengthening) or decrease (destrengthening) in actuarial reserves resulting from such a change in valuation basis shall be recorded directly to surplus (under changes to surplus in the change in valuation basis annual statement line) rather than as a part of the reserve change recognized in the summary of operations.

39. The impact of a change in valuation basis on surplus is based on the difference between the reported reserve under the old and new methods as of the beginning of the year. This difference shall not be phased in over time unless this statement or the *Valuation Manual,* Section VM-21 Requirements for Principle-Based Reserves for Variable Annuities (VM-21), prescribes a new method and a specific transition that allows for grading. Some changes will meet the definition of a change in accounting as defined in SSAP No. 3 and a change in valuation basis as described in paragraphs 36-38 of this statement, but the adjustment to surplus will be zero. This can happen when the change in valuation basis is prospective and only applies to new policies and reserves meaning that policies inforce for the prior year-end are not affected, or situations in which the change in reserving methodology did not change the reserves reported in the financial statements. The changes remain subject to the disclosures prescribed in SSAP No. 3. **Effective January 1, 2020, if VM-21 (on variable annuities) or this statement prescribes or permits a phase-in period or provides the option of multiple phase-in periods, reporting entities shall also include in the change in accounting disclosures required by SSAP No. 3, disclosure of the following:**

a. **The phase-in period being applied, and the remaining time period of the phase-in;**

b. **Any adjustments to the phase-in period;**

c. **Amount of change in valuation basis phase-in; and**

d. **The remaining amount to be phased in.**

Effective Date and Transition

57. This statement is effective for years beginning January 1, 2001. Contracts issued prior to January 1, 2001 shall be accounted for based on the laws and regulations of the domiciliary state. State laws and regulations shall be understood to include anything considered authoritative by the domiciliary state under the individual state's statutory authority and due process procedures. 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 paragraph 14 was originally contained within *INT 00-30: Application of SSAP No. 51 Paragraph 6 to Waiver of Deduction on Flexible Premium Universal Life Insurance Policies* and was effective December 4, 2000. The guidance in paragraph 51 was originally contained within *INT 01-26: SSAP No. 51 and Reserve Minimum or Required Amount* and was effective January 1, 2001. The revisions adopted in November 2018 to expand liquidity disclosures are effective year-end 2019, concurrent with the inclusion of data-captured financial statement disclosures.

58. Substantive changes that reference the *Valuation Manual* in this statement are effective for January 1, 2017, and thereafter. However, the *Valuation Manual* provides for a 3-year period, starting from the operative date, during which companies are able to continue using the current reserve methodologies, as described in paragraphs 17-21.

SSAP No. 52—Deposit-Type Contracts (Bolding added for emphasis of the revisions from Ref #2020-04)

Change In Valuation Basis

14. A change in valuation basis shall be defined as a change in the interest rate assumption or other factor affecting the reserve computation of policies in force and meets the definition of an accounting change as defined in *SSAP No. 3—Accounting Changes and Corrections of Errors*. Consistent with SSAP No. 3, any increase (strengthening) or decrease (destrengthening) in actuarial reserves resulting from such a change in valuation basis shall be recorded directly to surplus rather than as a part of the reserve change recognized in the summary of operations. The impact on surplus is based on the difference between the reserve under the old and new methods as of the beginning of the year. This difference shall not be graded in over time unless an actuarial guideline adopted by the NAIC prescribes a specific transition that allows for grading. **Voluntary decisions to choose one allowable reserving methodology over another, which require commissioner approval under the *Valuation Manual*, shall be reported as a change in valuation basis.**

Effective Date and Transition

26. This statement is effective for years beginning January 1, 2001. Contracts issued prior to January 1, 2001 shall be accounted for based on the laws and regulations of the domiciliary state. State laws and regulations shall be understood to include anything considered authoritative by the domiciliary state under the individual state's statutory authority and due process procedures. 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. Guidance in paragraph 17 was previously included within INT 08-08: Balance Sheet Presentation of Funding Agreements Issued to a Federal Home Loan Bank and was effective for periods beginning March 15, 2009. Guidance in paragraph 21 related to FHLB agreements was initially effective January 1, 2014. The revisions adopted in November 2018 to expand liquidity disclosures are effective year-end 2019, concurrent with the inclusion of data-captured financial statement disclosures.

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 Working Group previously addressed revisions to the VM that had phase in periods in 2020

- **2019-47: Grade in of Variable Annuity Reserves -** Revisions add phase-in disclosures and references to VM-21 Requirements for Principle-Based Reserves for Variable Annuities, requirements for reporting changes in the valuation basis for years beginning January 1, 2020 in *SSAP No. 3—Accounting Changes and Corrections of Errors, paragraph 13d* and *SSAP No. 51R—Life Contract, paragraph 39.* The guidance specifically references VM 22 for Variable Annuities and SSAP No. 51. The phase-in disclosures currently in SSAP No. 51, paragraph 39 are regarding the phase-in period, any adjustments to the phase-in and the remaining amount to be phased-in. In addition, this agenda item added revisions regarding the CARVM methodology in SSAP No. 51, paragraph 40.

- **2020-04: Commissioner Discretion in the *Valuation Manual*** - Revisions to *SSAP No. 51R—Life Contracts, SSAP No. 52—Deposit-Type Contracts* and *SSAP No. 54R—Individual and Group Accident and Health Contracts* specify that voluntary decisions to choose one allowable reserving methodology over another, which requires commissioner approval under the Valuation Manual, shall be reported and disclosed as a change in valuation basis.

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: Robin Marcotte – NAIC Staff, October, 2025

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. 3—Accounting Changes and Corrections of Errors, SSAP No. 51—Life Contracts* and *SSAP No. 52—Deposit-Type Contracts* as described below and illustrated in the agenda item. With the exposure, NAIC staff will coordinate with Blanks staff regarding 2026 updates to the phase-in disclosures and notify the Life Actuarial (A) Task Force of the exposure**.**

- The revisions to SSAP No. 3 and SSAP No. 51 expand the existing phase-in disclosure to reflect the APF 2025-04 phase-in by adding reference to VM 20. The revisions to SSAP No. 51 also move the existing phase-in disclosure in paragraph 39 (subheading change in valuation basis) to a new paragraph 53 in the disclosure section of SSAP No. 51. Finally, the effective date of both disclosures is noted in SSAP No. 51.

- The revisions to SSAP No. 51 and SSAP No. 52 effective date paragraphs provide that the VM-22 (non-variable annuities) optional implementation period in APF 2025-11 is reported as a change in accounting principle/ change in valuation basis when implemented.

Proposed revisions to SSAP No. 3—Accounting Changes and Corrections of Errors:

Disclosures

13. Disclosure of material changes in accounting and correction of errors shall include:

    a. A brief description of the change, encompassing a general disclosure of the reason and justification for change or correction;

    b. The impact of the change or correction on net income, surplus, total assets, and total liabilities for the two years presented in the financial statements (i.e., the balance sheet and statement of income and operations);

    c. The effect on net income of the current period for a change in estimate that affects several future periods, such as a change in the service lives of depreciable assets or actuarial assumptions affecting pension costs. Disclosure of the effect on those income statement amounts is not necessary for estimates made each period in the ordinary course of accounting for items such as uncollectible accounts; however, disclosure is recommended if the effect of a change in the estimate is material;

    d. Changes in accounting that are changes in reserve valuation basis as described in *SSAP No. 51—Life Contracts*, which have elected phase-in provided for in the Valuation Manual, chapters~~Section~~ VM-20 or VM~~-~~21, shall also include in the change in accounting disclosures information regarding the application of any phase-in as provided for in SSAP No. 51; and

e. When subsequent financial statements are issued containing comparative restated results as a result of the filing of an amended financial statement, the reporting entity shall disclose that the prior period has been restated and the nature and amount of such restatement.

Proposed revisions to SSAP No. 51—Life Contracts
Drafting note: Move existing phase-in disclosure in paragraph 39 to a new paragraph 53 and expand VM references to include VM-20.

39. The impact of a change in valuation basis on surplus is based on the difference between the reported reserve under the old and new methods as of the beginning of the year. This difference shall not be phased in over time unless this statement or the Valuation Manual, Section VM-21 Requirements for Principle-Based Reserves for Variable Annuities (VM-21), prescribes a new method and a specific transition that allows for grading. Some changes will meet the definition of a change in accounting as defined in SSAP No. 3 and a change in valuation basis as described in paragraphs 36-38 of this statement, but the adjustment to surplus will be zero. This can happen when the change in valuation basis is prospective and only applies to new policies and reserves meaning that policies inforce for the prior year-end are not affected, or situations in which the change in reserving methodology did not change the reserves reported in the financial statements. The changes remain subject to the disclosures prescribed in SSAP No. 3. ~~Effective January 1, 2020, if VM-21 (on variable annuities) or this statement prescribes or permits a phase-in period or provides the option of multiple phase-in periods, reporting entities shall also include in the change in accounting disclosures required by SSAP No. 3, disclosure of the following:~~

~~a. The phase-in period being applied, and the remaining time period of the phase-in;~~

~~b. Any adjustments to the phase-in period;~~

~~c. Amount of change in valuation basis phase-in; and~~

~~d. The remaining amount to be phased in.~~

Disclosures
Drafting note: Only the Shaded text and commas are new, the rest of the revisions are moving the existing disclosure from paragraph 39.

53. ~~Effective January 1, 2020, if~~ If VM-20 (Life Contracts), or VM-21 (on variable annuities), or this statement prescribes or permits a phase-in period or provides the option of multiple phase-in periods, reporting entities shall also include in the change in accounting disclosures required by SSAP No. 3, disclosure of the following:

a. The phase-in period being applied, and the remaining time period of the phase-in;

b. Any adjustments to the phase-in period;

c. Amount of change in valuation basis phase-in; and

d. The remaining amount to be phased in.

Effective Date and Transition

57. This statement is effective for years beginning January 1, 2001. Contracts issued prior to January 1, 2001 shall be accounted for based on the laws and regulations of the domiciliary state. State laws and regulations shall be understood to include anything considered authoritative by the domiciliary state under the individual state's statutory authority and due process procedures. 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 paragraph 14 was originally contained within *INT 00-30: Application of SSAP No. 51 Paragraph 6 to Waiver of Deduction on Flexible Premium Universal Life Insurance Policies* and was effective December 4, 2000. The guidance in paragraph 51 was originally contained within *INT 01-26: SSAP No. 51 and Reserve Minimum or Required Amount* and was effective January 1, 2001. The revisions adopted in November 2018 to expand liquidity disclosures are effective year-end 2019, concurrent with the inclusion of data-captured financial statement disclosures.

58. Substantive changes that reference the *Valuation Manual* in this statement are effective for January 1, 2017, and thereafter. However, the *Valuation Manual* provides for a 3-year period, starting from the operative date, during which companies are able to continue using the current reserve methodologies, as described in paragraphs 17-21.

59. Phase-in disclosures regarding VM-21 (variable annuities) were originally effective January 1, 2020. The phase-in disclosure was expanded to include VM-20 (life contracts) effective January 1, 2026.

~~59.~~60. Effective January 1, 2026, the *Valuation Manual* was expanded to include VM-22 on non-variable annuities. The guidance includes an optional implementation period of up to 3 years. Consistent with the guidance paragraph 37, implementation of the non-variable annuities guidance shall be reflected as a change in valuation basis and a change in accounting in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors.*

Proposed revisions to SSAP No. 52—Deposit-Type Contracts

Change In Valuation Basis

14. A change in valuation basis shall be defined as a change in the interest rate assumption or other factor affecting the reserve computation of policies in force and meets the definition of an accounting change as defined in *SSAP No. 3—Accounting Changes and Corrections of Errors*. Consistent with SSAP No. 3, any increase (strengthening) or decrease (destrengthening) in actuarial reserves resulting from such a change in valuation basis shall be recorded directly to surplus rather than as a part of the reserve change recognized in the summary of operations. The impact on surplus is based on the difference between the reserve under the old and new methods as of the beginning of the year. This difference shall not be graded in over time unless an actuarial guideline adopted by the NAIC prescribes a specific transition that allows for grading. Voluntary decisions to choose one allowable reserving methodology over another, which require commissioner approval under the *Valuation Manual*, shall be reported as a change in valuation basis.

Effective Date and Transition

26. This statement is effective for years beginning January 1, 2001. Contracts issued prior to January 1, 2001 shall be accounted for based on the laws and regulations of the domiciliary state. State laws and regulations shall be understood to include anything considered authoritative by the domiciliary state under the individual state's statutory authority and due process procedures. 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. Guidance in paragraph 17 was previously included within INT 08-08: Balance Sheet Presentation of Funding Agreements Issued to a Federal Home Loan Bank and was effective for periods beginning March 15, 2009. Guidance in paragraph 21 related to

FHLB agreements was initially effective January 1, 2014. The revisions adopted in November 2018 to expand liquidity disclosures are effective year-end 2019, concurrent with the inclusion of data-captured financial statement disclosures. Effective January 1, 2026, the *Valuation Manual* was expanded to include VM-22 on non-variable annuities. The guidance includes an optional implementation period of up to 3 years. Consistent with the guidance paragraph 14, implementation of the non-variable annuities guidance shall be reflected as a change in valuation basis and a change in accounting in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors.*

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/12-9-25 Fall National Meeting/Meeting/N - 25-34 -VM 22 goes updates.docx

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Roy Eft, Chair of the Blanks (E) Working Group
Steve Drutz, Vice Chair of the Blanks (E) Working Group

FROM: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group
Kevin Clark, Vice Chair of the Statutory Accounting Principles (E) Working Group

DATE: December 9, 2025

RE: Schedule S, Part 8—Reporting of Modco and Funds Withheld Assets

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On May 22, 2025, the Statutory Accounting Principles (E) Working Group adopted agenda item 2024-07, Reporting of Funds Withheld and Modco Assets, where a new Schedule S, Part 8 was added to the Life/Fraternal Annual Statement Instructions and Blank, and this was then incorporated in the blank and instructions through Blanks (E) Working Group agenda item 2025-05BWG. This reporting is effective Dec. 31, 2025, and the agenda item did not result in any changes to statutory accounting, it only added the new reporting schedule for the reporting of assets associated with a funds withheld or modified coinsurance (modco) arrangement.

As a result of comments received during the drafting and exposure process, the scope of the project was changed for the final adoption. The initial project intended to capture any and all assets that are subject to a funds withheld or modco arrangement, but the final adoption narrowed this scope to be only assets that are subject to a funds withheld or modco arrangement **where investment risk is transferred**. The goal of this change was to make the new reporting schedule work more cleanly with the Life/Fraternal RBC reporting schedule. The new Schedule S, Part 8 was not intended to impact the RBC calculation or to override or conflict with the RBC instructions, the goal of Schedule S, Part 8 was only to report these assets in categories that would then support and agree to the numbers that were reported on the RBC schedules. This would give regulators an improved level of confidence in the balances reported in the RBC schedules.

This memorandum intends to address questions that were received after the adoption of the new Schedule S, Part 8. The new Schedule S, Part 8 was not intended to change any part of the way that assets subject to a modco or funds withheld arrangement are factored into the Life/Fraternal RBC calculation. The goal of Schedule S, Part 8 is to create a schedule that matches with already the existing reporting in RBC and does not change or override the guidance that exists in Life/Fraternal RBC reporting.

Washington, DC 1101 K Street NW, Suite 650, Washington, DC 20005-7032 p | 202 471 3990
Kansas City 1100 Walnut Street, Suite 1000, Kansas City, MO 64106-2197 p | 816 842 3600
New York One New York Plaza, Suite 4210, New York, NY 10004 p | 212 398 9000
www.naic.org

Additional wording was added to be consistent with the existing, long-standing guidance In the Life/Fraternal RBC Reporting Instructions in LR045, LR046, LR047 and LR048, which is excerpted below.

> This schedule reports the assets supporting modified coinsurance (MODCO) and other reinsurance transactions with funds withheld where the entire asset credit or variability in statement value risk associated with the assets supporting the business reinsured is transferred to the assuming company for the entire duration of the reinsurance treaty. Only the portion of the assets used to support the ceded or assumed liabilities should be included, i.e. amounts in excess of the reserve should be excluded.
>
> The ceding company is required to supply the assuming company with sufficient information in order for the assuming company to determine the amount of assets withheld under Modco or other funds withheld. An assuming company that has not received timely information shall follow the procedures in the Life Risk-Based Capital instructions for Modco or Funds Withheld Reinsurance Agreements (LR045, LR046, LR047 and LR048) to apply the Modco liability ratio by asset category. The allocated assets should support the portion of the funds held by or deposited with reinsured companies that represents the investment risk assumed as described above, that is, the estimated investment risk assumed should not be greater than the assets reported on the asset page.