Statutory Accounting Principles (E) Working Group
2026 Fall National Meeting
Comment Letters Received

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October 2, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Ste 1000
Kansas City, MO 64106-2197

RE: SAPWG Ref # 2023-14 – Interest Maintenance Reserve (IMR)

Submitted Electronically

Dear Chair Clark:

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

ACLI supports the continued effort to establish durable guidance that appropriately distinguishes non-economic interest-rate-related gains and losses from credit-related and liquidity-driven losses. We also appreciate that many revisions in the current exposures reflect industry feedback and improve alignment among SSAP No. 7, the Issue Paper, other affected SSAPs, and the Annual Statement Instructions.

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

Revised SSAP No. 7

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

- Asset Valuation Reserve. ACLI supports the clarifications regarding realized losses on sales of fixed income investments and derivatives. We suggest the following edit for additional clarification (i.e., that derivative counterparties, which may have an NAIC designation, are not allocated to AVR per this paragraph).
  - 9. Realized losses on sales of fixed income investments and derivatives that otherwise would qualify for the IMR under paragraph 10 are allocated to AVR if the investment or derivative counterparty has experienced credit deterioration, as defined as one of the following: (IP 21)

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

- Known liquidity sale losses. ACLI supports immediate recognition of known liquidity sale losses and the related controls and attestation framework. However, ACLI's goal is to ensure the guidance is drafted in a manner that clearly conveys its intended application and minimizes ambiguity for reporting entities. ACLI believes this can be accomplished by further aligning the language in paragraphs 13 and 29 and providing additional specificity where appropriate. To support this objective, ACLI worked with NAIC staff to develop the following proposed revisions.
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  - 13. ~~Known l~~iquidity sale losses are realized losses that occur when an IMR qualifying fixed income investments are sold and the proceeds are not reinvested into other IMR qualifying fixed income investments. While it is impractical to track sales and reinvestment on an asset-by-asset basis, reporting entities shall not defer losses from sales for which it is known that proceeds will not be reinvested into other IMR qualifying fixed income investments. ~~These include s~~Situations in which reinvestment may be known to not occur include, ~~such as,~~ but are not limited to, sales used to fund surrenders/withdrawals, derivative collateral calls, or other needs that lead to a decision to sell investments. ~~as well as any other situation (e.g., derivative collateral calls or any other business entity expenses).~~ Additionally, ~~R~~reporting entities shall implement control procedures designed to identify material known liquidity sale losses. The reporting entity ~~and~~ shall attest to having identified and recognized all material known liquidity sales losses in the quarterly and annual financial statement disclosures. (IP 25)

  - 29. Reporting entities are required to complete the following disclosures in the annual and quarterly financial statements: (IP P 102)
    - b. Reporting entities shall include an attestation regarding know liquidity sales losses: (IP 103)
      i. The reporting entity has a documented process to identify material known liquidity sales losses, as addressed in paragraph 13. ~~Including but not limited to sales used to fund surrenders/withdrawals as well as other liquidity needs (e.g., derivative collateral calls or other business entity expenses).~~

- Treatment when the proof is not completed or passed. Paragraph 19 should expressly distinguish entities that are not required to complete the proof from entities that are required to complete it but do not do so or do not pass both tests. This distinction will avoid an unintended implication that all entities are subject to the same adjustment.
  - 19. Reporting entities (other than those described in paragraphs 17a and 17b) that do not pass both tests within the proof of reinvestment disclosure are only permitted to defer current year realized losses to the IMR that can be offset by current year IMR realized gains. Any realized losses in excess of realized gains must be recognized as realized capital losses. This guidance shall be followed regardless of whether a reporting entity admits net negative IMR. If a reporting entity does not complete or pass the proof of reinvestment, the reporting entity is permitted to recognize current year IMR losses beyond what is offset by current year IMR realized gains resulting from the following two exceptions only. These exceptions are permitted ~~as~~ because the net negative losses are

not from the sale of fixed-income investments~~, such as~~; therefore, these IMR impacts are outside the parameters of the proof of reinvestment calculations. (IP P. 28)

Issue Paper for SSAP No. 7

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

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

- Realized gains on liquidity sales should be allocated to IMR.
  - 104. Pursuant to the discussion involving excess withdrawals and the elimination of the excess withdrawal calculation, reporting entities shall include an attestation regarding known liquidity sale losses: (SSAP P.29b)
    - b. The reporting entity has not allocated any ~~gains or~~ losses to IMR from known liquidity sales. Realized losses allocated to the IMR are attributable to investment activity related to a block of recognized insurance liabilities, whereby the proceeds have been reinvested in fixed income investments.
- Appendix B & C – Proof of Reinvestment for both general and separate account: The proceeds of a liquidity sale are the transaction cash flows that are no longer available for reinvestment by the insurance company. The realized capital loss recognized on the disposal of the investment is an accounting value, not a cash flow.
  - **Line 6 of Proof of Reinvestment:** Proceeds of ~~K~~known liquidity sales where a realized capital loss was recognized
  - We also suggest paragraph 108c have the following changes:
    - c. Proceeds from Investments: Include the proceeds from sales of bonds and mortgage loans. As of year-end 2025, there was no data-captured disclosure that identified the proceeds from bond sales specifically, as available information aggregated proceeds from both sales and maturities. Revisions for year-end 2026 will include new data-captured disclosures for bonds to separately detail proceeds from sales and maturities. Upon implementation of the new disclosure, the proof of reinvestment calculation will refer to the location of that specific disclosure. Company internal records will be used for mortgage loans, which are not activity traded and have limited sales occurrences. The proceeds from the sales of bonds and mortgage loans in the proof is then adjusted to remove ~~realized capital losses that were recognized directly to capital losses due to known~~ the proceeds of all known liquidity sales in which a realized capital loss was recognized, where the proceeds were not reinvested into new qualifying fixed-income investments.

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

regarding whether a company chose not to perform the proof or was not eligible to defer losses because it did not meet the applicable requirements.

- Suggestions for Separate Account Proof of Reinvestment:
  - **Line 7:** The Data Source should read "Sum of lines 4 + 5 – 6" to properly remove known liquidity losses in Line 6.
  - **Line 11:** The Description should read as follows to ensure the proper value is carried over from the Green Book - Bonds (General Account Basis Only) - Net Admitted
  - **Line 12:** The Description should read as follows to ensure the proper value is carried over from the Green Book - Mortgages (General Account Basis Only) - Net Admitted

Revisions to Other SSAPs

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

Proposed Reporting Changes

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

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

Implementation and Transition

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

- Finalize the accounting guidance, Annual Statement Instructions, forms, note disclosures, and interrogatories as a coordinated package sufficiently in advance of the effective date.
- Coordinate the final IMR guidance with the related ALM derivatives, replications, reinsurance, actuarial, and blanks projects to avoid conflicting effective dates or reporting requirements.

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

Sincerely,

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Appendix I

INTERIM MAINTENANCE RESERVE

Proposed New "Form for Calculating the Interest Maintenance Reserve"

New Rows are shaded and separate the adjustments to the reserve for transparency.

	Amount
1. Reserve as of December 31, prior year	
2a. Current year's net realized pre-tax capital gains (losses) of $_____transferred into the reserve net of taxes of $_____.	
2b. Net realized losses removed from IMR as a result of not completing or failing the proof of reinvestment tests at year-end.	
3. IMR Balance Before Adjustments and Amortization (Line 1+2a+2b)	
Adjustments to the Reserve:	
4. Reinsurance Ceded ~~– Subtraction from Reserve~~	
5. Reinsurance Assumed ~~– Addition to Reserve~~	
6. Market Value Adjustment: Gain ~~– Addition to Reserve~~	
7. Market Value Adjustment: Loss ~~– Subtraction from Reserve~~	
8. Other IMR Adjustments	
9. Net Adjustment to Reserve *(Sum of 4-8~~6~~)*	
10. Balance before reduction for current year amortization (Line 3+9 ~~1 + 2 + 7~~)	
11. Current Year's Amortization Recognized in Summary of Operations	
12. Reserve as of December 31, current year (Line 10 + 11)	

Note – With the proposed change to the Exhibit of Capital and Gains, the amount reported in 2.a (gross transfer to IMR) should agree to the "Allocated to IMR" from that schedule. The amortization schedule is not expected to be revised. (It is shown below abbreviated for space purposes.)

INTERIM MAINTENANCE RESERVE

Proposed Instructions – Shown Clean.

The prior ASI are proposed to be deleted. Any key reporting concepts will be brought in separately.

This exhibit is designed to capture the realized capital gains (losses) that result from changes in the overall level of interest rates and amortize them into income over the approximate remaining life of the investment sold pursuant to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

These instructions cover the Interest Maintenance Reserve (IMR) for both the General Account and Separate Accounts. If an IMR is required for investments in a Separate Account, IMR recognition shall follow all rules applicable to the general account IMR. IMR in a Separate Account shall be kept separate from the General Accounts IMR and all other Separate Accounts.

Line 1 – Reserve as of December 31, Prior Year

Enter the net negative IMR balance or net positive IMR balance from Page 2 or Page 3, respectfullyrespectively, ~~amount from~~ ~~Line 6~~ of the prior year's ~~schedule~~.

Line 2a – Current Year's Realized Pre-tax Net Capital Gains (Losses) of $_____ Transferred into the Reserve Net of Taxes of $_____

In accordance with SSAP No. 7, include interest-rate-related realized capital gains (losses) net of capital gains tax, using the federal marginal tax rate. in accordance with SSAP No. 7.

By capturing the realized capital gains (losses) net of tax, the capital gains tax associated with those capital gains (losses) due to an interest rate change is charged or credited to the IMR and amortized in proportion to the before-tax amortization.

The amount captured in this line shall reflect the total amount of net IMR allocated throughout the year (each quarter and at year-end) prior to the removal of any new capital losses due to the incompletion or failure of the proof of reinvestment tests.

Net capital gains shall be reported as a positive number. Net capital ~~gains~~ losses shall be reported as a negative number.

Line 2b

Current year net realized losses removed from IMR as a result of not completing or failing the proof of reinvestment tests.

In accordance with SSAP No. 7, reporting entities must complete the proof of reinvestment to support an initial recognition of a net negative IMR balance (from a prior positive IMR balance) or the increase of a net negative IMR balance. Reporting entities that do not complete the proof of reinvestment, or that fail the proof of reinvestment, are only permitted to retain in IMR current year losses that can be offset by current year gains.

The amount shall be reported as a positive number, as the proof of reinvestment shall only be required if the amount reported on line 2a is a net negative.

~~This reduction from IMR shall exclude current year adjustments to IMR from ceding or assuming reinsurance transactions or transfers to/from the separate account.~~

Line 3

IMR Balance Before Adjustments and Amortization (Line 1+2a+2b)

Line 4 – Adjustment for Reinsurance Ceded ~~Released from the Reserve – Subtraction from Reserve~~

Ceding Company means an insurer who has sold, transferred or reinsured a block of its in force liabilities under an agreement that qualifies for reinsurance accounting as described in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*. Pursuant to SSAP No. 7, amounts shall be removed from IMR when the policyholder obligations or related treaty balances to which those amounts were attributed have been eliminated. Amounts eliminated shall include:

- IMR from past sales attributed to a reinsured block of business. This includes remaining, unamortized interest related realized gains or losses taken to IMR from prior asset sales associated with the reinsured block of liabilities.

- IMR from current sales incurred, or from the transfer of assets to provide reinsurance premium. This includes the interest related gains and losses generated from the sale or transfer of qualifying fixed-income investments supporting the reinsurance transaction. Such amounts shall be recognized initially to IMR and then derecognized as part of the reinsurance transaction.

Insurers ceding business under a modified coinsurance or funds withheld agreement shall follow the guidance in SSAP No. 7 for the immediate IMR derecognition or subsequent pass-through of IMR amortization in accordance with the reinsurance agreement. Insurers with immediate derecognition

shall include the elimination of IMR in this line as a subtraction to the reserve. (~~Enter subtraction amount as a negative number~~ Net positive ceded IMR amounts shall be input as negative values and net negative ceded IMR amounts shall be input as positive values.)

Line 5 – Adjustment for Reinsurance ~~Ceded~~ Assumed ~~to the Reserve – Addition to Reserve~~

Ceding Company means an insurer who assumed a block of its in-force liabilities under an agreement that qualifies for reinsurance accounting as described in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*.

Pursuant to SSAP No. 7, a U.S. domiciled reporting entity that has assumed business via a qualifying reinsurance transaction from another U.S. domiciled insurer, shall set up an IMR balance that reflects an equal amount of IMR derecognized by the ceding insurance entity. This IMR recognition shall reflect the unamortized IMR balance of gains and losses from prior assets sales associated with the reinsured block of business and interest-related realized gains and losses from the current dispositions the ceding entity incurred to transfer the reinsurance obligation. (~~Enter addition as a positive number~~ Net positive assumed IMR amounts shall be input as positive values and net negative assumed IMR amounts shall be input as negative values.)

For insurers assuming business under a modified coinsurance or funds withheld agreement where the cedent is retaining the IMR shall not set up a corresponding IMR reserve.

Line 6 – Market Value Adjustment: Gains ~~– Addition to the Reserve~~

Gains, net of marginal tax impact, recognized by the insurance reporting entity as a result of market value adjustments that were backed by fixed-income investments. Market value adjustments shall not be captured for separate account products held at fair value. (Enter ~~addition~~ positive IMR as a positive number)

Line 7 – Market Value Adjustment: Losses ~~– Subtraction from the Reserve~~

Losses, net of marginal tax impact, recognized by the insurance reporting entity as a result of market value adjustments that were backed by fixed-income investments. Market value adjustments shall not be captured for separate account products held at fair value. (Enter ~~subtraction~~ negative IMR as a negative number)

Line 8 Other IMR Adjustments

Include additional IMR adjustments to reflect current year increases or decreases to the IMR not driven from reinsurance arrangements or market value adjustments.

This reporting category shall include IMR impacts from asset transfers to/from the general account and the separate account pursuant to SSAP No. 56. (Enter ~~additions to the IMR~~ positive IMR as a positive number and ~~subtractions to the IMR~~ negative IMR as a negative number.)

Line 9 – Net Adjustment to the Reserve

Sum of adjustments reflected in lines 4-8. This total shall be reflected in line 1, column 3 of the amortization schedule.

Line 10 – Balance Before Reduction for Amortization

Beginning balance, plus current year IMR, plus net adjustments. (Line 3 + Line 9)

Line 11 – Current year's amortization recognized in the Summary of Operations

Amount should agree to line 1, column 4 of the amortization schedule.

For reporting entities that do not complete or fail the proof of reinvestment and are required to eliminate current year realized losses in excess of realized gains at year-end, any associated amortization recognized previously in the year shall be recorded as an adjustment to column 3 of the amortization schedule to eliminate such amortization.

Line ~~10~~ 12 – Reserve as of December 31, current year.

Sum of Line 10 and Line 11. Amount shall be reported on the corresponding line on the asset page (negative IMR) or on the liability page (positive IMR).

Admittance of negative IMR on the asset page shall be determined in accordance with SSAP No. 7.



October 2, 2026

Mr. Kevin Clark
Chair, Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

Re: SAPWG Ref #2024-15: SSAP No. 109 – ALM Derivatives

Dear Chair Clark,

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

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

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

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

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

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

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

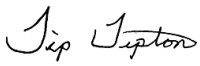
2) ALM derivatives are used as part of a prudent risk management framework and mitigate surplus volatility arising from asset-liability mismatches. These derivatives incorporate extensive safeguards in the form of effectiveness tests and other limitations on eligible derivative types. Failure to admit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

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

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

Sincerely,





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October 2, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
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1100 Walnut Street, Suite 1000
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Re: SAPWG Ref #2026-09, SSAP No. 86, Replication Synthetic Asset Transactions

Dear Chair Clark:

The American Council of Life Insurers ("ACLI") appreciates the opportunity to comment on Ref. #2026-09 (the "Exposure") regarding the accounting and reporting guidance for replication synthetic asset transactions ("RSATs") in SSAP No. 86, *Derivatives*. We support continued discussion with regulators as this proposal progresses and look forward to participating in the planned public educational session.

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

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

A Bond paired with a Credit Default Swap (CDS): The Markit CDX North American Investment Grade Index ("CDX IG") and the Markit CDX North American High Yield Index ("CDX HY") are two of the most liquid products within the credit markets today. By pairing exposures in these indices with bonds, life insurers have the ability to rapidly shift credit exposures in their portfolios in a

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diversified way, with minimal transaction costs. Index CDS liquidity persists when cash credit markets gap or close, so insurers can continue to manage exposure in stressed conditions rather than being forced into distressed cash sales. They can play an important part of life insurers' overall credit portfolio strategy. This RSAT changes the credit profile of the cash component, and these risks must be appropriately captured within a company's risk based capital calculations.

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

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

1. In some jurisdictions, a company's use of RSATs is addressed through a Derivative Use Plan or other filings with its domiciliary regulator.
2. Every RSAT must be reported to the Securities Valuation Office (SVO). Any changes to existing RSAT structures must be reported within 30 days, and any changes that break RSAT effectiveness terminates the RSAT immediately.
3. All RSATs are publicly reported on Schedule DB Part C.
4. Types of RSATs are generally confined to those defined in the Safe Harbor[1]. Each structure outside of the Safe Harbor is subject to review and approval by the SVO.
5. Every RSAT carries an NAIC Designation assigned by the SVO — that of the Cash Component, or of the Reference Security where the transaction changes the credit profile.
6. All RSATs must satisfy six separate effectiveness tests:
    a. The transaction is deemed to be an approved RSAT if it fits into a Safe Harbor Defined RSAT structures or has been reviewed and approved by the SVO pursuant to the "Transactions Subject to RSAT Approval Review" process.
    b. The Replicated (Synthetic Asset) must be an otherwise permissible investment.
    c. The insurer's maximum potential loss in the replicated asset cannot exceed the combined book/adjusted carrying value of the cash and derivative components.
    d. At no time is there derivative exposure without a corresponding Cash Component assigned exclusively to the replicated asset.
    e. The derivative maturity cannot be longer than the maturity of the cash component.
    f. At inception, the market value of the cash and derivative components must not be materially different from the market value ascribed to the RSAT.
7. In some jurisdictions, state law establishes limits or parameters governing RSAT usage relative to admitted assets.

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

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

Sincerely,



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202-624-2025

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

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October 2, 2026

Mr. Kevin Clark, Chairman
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

RE: Interested Parties Comments on Items Exposed for Comment by the Statutory Accounting Principles Working Group with Comments due October 2.

Dear Mr. Clark:

Thank you and the NAIC Statutory Accounting Principles (E) Working Group (the Working Group) for the opportunity to comment on the above-referenced items, which were exposed for comment by the Working Group during the NAIC Summer National Meeting in Columbus.

Ref #2023-14: SSAP No. 7, Asset Valuation Reserve and Interest Maintenance Reserve

The Working Group took the following actions:

1) Adopted an extension to the effective date of *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve* through December 31, 2027. The INT is nullified effective January 1, 2028. The proposed *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* will reflect an effective date of January 1, 2028.

2) Exposed a revised SSAP No. 7, issue paper, proposed revisions to other SSAPs and reporting changes with edits recommended by NAIC staff. With this exposure, continued interim work with industry was supported.

3) Requested industry to develop a plan to ensure compliance and accuracy of reporting for subsequent consideration. This industry request included the development of a disclosure or reporting component for inclusion in the statutory financial statements that would allow on-going verification of how admitted net negative IMR has been included in actuarial provisions and reconciliations.

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

Ref #2024-15: Asset Liability Management Derivatives

The Working Group exposed a revised SSAP and issue paper, with a revised January 1, 2028 effective date, to establish statutory accounting guidance for interest-rate hedging derivatives used for asset liability management. Revisions reflected in the SSAP and issue paper include:

- Requirement to eliminate derivative deferred assets and liabilities upon derecognition of the hedged liability portfolio due to a reinsurance agreement.
- Requirement to include derivative deferred gains and losses in actuarial projections, with a reconciliation of admitted deferred derivative losses to the reported deferred amounts reflected for principles-based reserving and cash flow testing.
- Elimination of the elective accelerated amortization provisions.

In addition to the exposure of the revised SSAP and issue paper, the Working Group directed a Life Actuarial (A) Task Force referral with a request to review and assess the proposed derivative guidance and to consider facilitating a pilot review in early 2027. The pilot proposed to focus on the specific hedge effectiveness tests and how effectiveness testing should be performed. Lastly, the Working Group directed NAIC staff to proceed with sponsoring a blanks proposal to incorporate new reporting lines for these derivatives on Schedule DB.

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

Ref #2026-02: Valuation of Funds Withheld Liability

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

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

1. Minor grammatical edits to paragraph 22(f)(ii):

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

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

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

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

Ref #2026-04: ASU 2025-10, Accounting for Government Grants Received by Business Entities

The Working Group exposed a revised draft of the proposed revisions to SSAP No. 24 which incorporates interested parties' recommendation to include additional guidance for asset-related grants.

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

> A grant related to an asset should be recognized on the balance sheet as a business entity incurs the related costs for which the grant is intended to compensate, either as:
>
> 1. Deferred income (the deferred income approach)

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

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

Interested parties have discussed the current exposure draft with staff and believe the re-exposure of the edits currently being developed by staff are more aligned with U.S. GAAP. We will provide comments on the revised draft once it is exposed during the NAIC Fall National Meeting.

Ref #2026-06: Fair Value Disclosures

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

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

For purposes of this SSAP, an operating entity is any business entity that conducts business operations other than holding investments for the purpose of generating investment income and/or capital appreciation. This is distinguished from a holding entity which is an entity that does not conduct business operations and holds investments for the purpose of generating investment income and/or capital appreciation.

Insurers' investments in real estate are frequently structured as operating entities that acquire, develop, and/or manage the real estate.

Operating entities include, but are not limited to, investments in scope of paragraphs 8.b.i, 8.b.ii and 8.b.iv. of SSAP No. 97 - *Investments in Subsidiary, Controlled and Affiliated Entities*. In addition, operating entities may include certain 8.b.iii. SCAs that conduct business operations other than holding investments for the purpose of generating investment income and or capital appreciation.

Investments in scope of SSAP No. 93 – *Investments in Tax Credit Structures* are not considered investments for the purpose of generating investment income and or capital appreciation.

Ref #2026-08: SSAP No. 21 – ICOLI

The Working Group exposed this as a concept agenda item with a request for comments on whether the amounts reported under SSAP No. 21, paragraph 9, should be captured on Schedule BA with a new reporting category for "Realizable Amounts Under ICOLI Policies," with reporting lines to capture the amount outside of an investment vehicle, and the amounts within an investment vehicle, divided by investment category. Consideration of comments will occur before formally moving this item to the SAPWG active agenda. The Working Group also directed a referral to the Capital Adequacy (E) Task Force to notify them of this exposure and request initial feedback on the potential inclusion of these items as an invested asset, with assessment of RBC factors.

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

Overview

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

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

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

Cash surrender value is an objective reporting measure but is not a representation of the contract's overall economic value that is paid at maturity, i.e., the amount of the death benefit. Because ICOLI is generally acquired to support long-term employee benefit and risk

management objectives, the contracts are expected to be maintained through maturity rather than surrendered in the ordinary course of business.

ICOLI Contract Structures

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

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

The Purchasers' Financial Statement Disclosures

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

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

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

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

Risk-Based Capital Treatment

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

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

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

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

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

Ref #2026-09: SSAP No. 86 - RSATs

The Working Group exposed a concept agenda item to assess potential revisions to the accounting and reporting guidance for replication synthetic asset transactions (RSATs) in SSAP No. 86. The exposure solicits consideration of revisions to key RSAT definitions and effectiveness requirements, consolidation of existing guidance within SSAP No. 86, and evaluation of whether guidance addressing RSATs with derivatives measured at fair value should be retained. It also requests comments on whether existing statutory accounting guidance should be clarified regarding permissible cash components and the types of investments that may be synthetically replicated to better align RSAT structures with their intended regulatory purpose, as well as clarifications intended to improve consistency in Schedule DB and RBC reporting. The exposure further contemplates referrals to the Capital Adequacy (E) Task Force to evaluate related RBC reporting and formula implications, and to the Investment Designation (E) Working Group to incorporate corresponding revisions into the P&P Manual.

Interested parties support the Working Group's efforts to review the statutory accounting and reporting framework governing replication synthetic asset transactions (RSATs) and, where warranted, pursue targeted modernization. RSATs are an important tool utilized by insurers to

manage asset-liability matching, efficiently access desired investment characteristics, and respond to changing market conditions in support of insurance obligations. When appropriately structured, RSATs provide insurers with flexibility to manage interest rate, credit, and currency exposures in a manner that can enhance risk management and align investment portfolios with underlying liabilities.

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

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

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

Ref #2026-10: SSAP No. 26 – Embedded ALM Risk

The Working Group exposed revisions to *SSAP No. 26—Bonds*, as illustrated in the exposure, to expand on the requirements for asset-backed securities to qualify for bond reporting.

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

Ref #2026-11: Residential Mortgage Loan Definition

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

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

1. We agree the Federal definition (12 CFR § 1266.1) should be adopted for one-to-four family property and multifamily properties. This would provide consistency with the definition used by other financial institutions such as banks.
2. Possible modifications to the 12 CFR § 1266.1 definitions:
    a. For mixed use real estate, i.e., retail and residential use in the same building, should be classified as residential if use is more than 50% residential based on square footage or LTV.

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

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

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

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

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

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

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

Ref #2026-12: Retroactive Reinsurance Exception

The Working Group exposed revisions to the disclosures in *SSAP No. 62—Property and Casualty Reinsurance* as illustrated in the exposure and requested comments regarding whether the existing exception to retroactive accounting in SSAP No. 62, paragraph 36.d, should remain unchanged, be considered for elimination, or be narrowed.

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

Prior to the adoption of FAS 113, reinsurance agreements covering events that occurred prior to the effective date of the reinsurance agreement generally resulted in an underwriting gain to the ceding insurer. FAS 113 changed reinsurance accounting to require gains from retroactive reinsurance to be deferred and recognized over the claims-paying period. When the guidance from FAS 113 was evaluated by the Property Casualty Reinsurance Study Group, the Study Group adopted most of the provisions of FAS 113 for statutory accounting, including the accounting for retroactive reinsurance between ceding insurers and unaffiliated reinsurers. However, for retroactive reinsurance among companies 100% owned by a common parent or ultimate controlling person, the affiliated insurers were exempt from retroactive reinsurance accounting as long as there was no gain in surplus from the transaction. This exception was adopted so that new intercompany reinsurance agreements and amendments to existing intercompany reinsurance agreements would continue to be accounted for as prospective reinsurance and continue to be reported in loss reserves and captured in the loss development reported in Schedule P.

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

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

Ref #2026-13: Medicaid Updates

The Working Group exposed revisions to *SSAP No. 47—Uninsured Plans* and *SSAP No. 54—Individual and Group Accident and Health Contracts*, as illustrated in the exposure, to add a principles-based statement that Medicaid contracts payments classified as capitated payments are included in insured plans. The Working Group also directed NAIC staff to send a referral to Health Risk-Based Capital (E) Working Group so that group can determine if the amounts previously classified as pass through payments should be considered for a risk charge that is to be similar to pass through payments.

Interested parties have no comments on this item.

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

The Working Group exposed revisions to nullify INT 18-03, effective Jan. 1, 2027, and to add language in *SSAP No. 101—Income Taxes* for NCTI. These revisions provide updates to guidance that was originally created by the TCJA, and subsequently updated by the OBBBA, or for guidance from the TCJA that included an ending date for the provisions. With nullification of the INT, it will move to the Appendix H – Superseded SSAPs and Nullified Interpretations of the Accounting Practices and Procedures Manual for historical purposes. Appendix H is available on the Working Group website.

Interested parties have no comments on this item.

Ref #2026-15: SSAP No. 23 – Canadian Translations

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

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

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

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

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

* * * *

Thank you for considering interested parties' comments. We look forward to working with you and the Working Group on these items. If you have any questions in the interim, please do not hesitate to contact either one of us.

Sincerely,

D. Keith Bell

Rose Albrizio

cc: Julie Gann, NAIC staff
Robin Marcotte, NAIC staff
Wil Oden, NAIC staff
Jake Stultz, NAIC staff
Interested parties

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August 20, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners

Re: Ref #2026-06 — SSAP No. 100R, Fair Value Disclosures; request for proposed guidance differentiating equity-method investments held in operating entities from those held in investment-holding structures

Dear Mr. Clark,

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

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

The categorization problem

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

- **An investment-holding structure** is valued by reference to the assets it holds. Fair value is derived by look-through, and the hierarchy tier of the interest is largely a function of the tiers of the underlying holdings.
- **An operating entity** is valued as a going concern. Fair value derives from earnings capacity, market comparables, or discounted cash flows, and is a Level 3 measurement in substantially all cases.

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

Proposed test

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

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

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

Why this test is operable with information already collected

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

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

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

On measurements that are not practicable

For interests where fair value is genuinely not practicable to estimate, I suggest the Working Group consider permitting disclosure of a **range** with a stated basis, rather than requiring either a point estimate or the "not practicable" category alone. A defensible range accompanied by its methodology is

more informative to a regulator than a point estimate carrying false precision, and more informative than a blank.

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

A closing observation

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

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

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

Respectfully submitted,

Jordan A. Davis
Vulcan Consulting Group
jordan.davis@vulcanconsultinggrp.com

cc: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, William Oden — NAIC staff

REINSURANCE ASSOCIATION OF AMERICA

September 30, 2026

Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners (NAIC)

Re: Ref. 2026-12, Retroactive Reinsurance Exception SSAP No. 62R, Paragraph 36.d

Dear Mr. Clark:

The Reinsurance Association of America (RAA) represents reinsurers doing business in the United States, including U.S.-headquartered and internationally headquartered groups that serve the U.S. market through U.S.-domiciled companies, U.S. branches and cross-border reinsurance. Many of our members operate through multiple affiliated legal entities across jurisdictions, making the coordinated management of risk and capital within the group, subject to applicable regulatory oversight, an important aspect of their operations.

Purpose of Our Comments

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

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

Transactions Affected by the Exception

Intercompany Pooling
Intercompany pooling is a reinsurance arrangement through which affiliated insurers combine their business and allocate premiums, losses and expenses among participating companies according to agreed percentages. SSAP No. 63, paragraph 8, addresses modifications to pooling arrangements, and paragraph 14 incorporates the retroactive reinsurance provisions of SSAP No. 62, including paragraph 36.d. Changes in participation, acquisitions, dispositions and reorganizations typically

require amendments to or replacement of the pooling agreement. The exception allows each participant to continue prospective accounting for its revised share of the pooled business.

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

Loss Portfolio Transfers and Adverse Development Covers

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

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

RAA Position and Recommendations

Retain the Exception and Preserve Regulatory Review

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

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

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

Clarify Risk Transfer and the No Surplus Gain Condition

We agree that agreements using paragraph 36.d must satisfy applicable risk-transfer requirements. Paragraph 36.d does not specify whether its no-surplus-gain condition applies to the cedent or both parties; paragraph 37 expressly addresses gains to the ceding entity. We recommend clarifying that the condition applies to the cedent at inception. Subsequent recoveries or development under the original terms should not, by themselves, cause a qualifying agreement to lose the exception. Material amendments should be evaluated for their incremental effect, including any gain to the cedent when entered into. Paragraph 37 should be conformed as necessary.

A reasonable possibility of loss to the reinsurer does not necessarily produce a net surplus gain to the cedent. For example, an increase in gross loss liabilities may be offset by an increase in reinsurance recoverables. Risk transfer and eligibility require consideration of the complete arrangement, including limits, adjustable features, timing provisions and related agreements. The requested clarification should distinguish the inception test from subsequent accounting for recoveries and loss development.

The clarification should address an assuming insurer's gain without creating a separate basis for gain recognition. Affiliated reinsurance remains subject to SSAP No. 25, including applicable economic-substance requirements and demonstrable support for any arm's-length representation. Paragraph 4 directs accounting and valuation of pooling modifications to SSAP No. 63.[3] For other affiliated transfers, consideration above carried reserves should be supported by the coverage and obligations assumed; the difference alone does not establish either overpayment or fair pricing. The clarification should preserve applicable recognition, measurement and holding company requirements and should not permit unsupported transfers of value between affiliates.

Enhance Transparency Through Targeted Disclosure

We understand the Working Group's concern that use of the exception is not readily identifiable in the annual statement. Targeted disclosure is a reasonable way to address that concern. Ref. 2026-12 proposes adding paragraph 126 to SSAP No. 62 to require disclosure of contracts entered into during the reporting period that use the paragraph 36.d exception. We recommend distinguishing

REINSURANCE ASSOCIATION OF AMERICA

pooling modifications from other affiliated transactions so the disclosures reflect their different purposes and reporting requirements.

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

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

Conclusion

For these reasons, RAA opposes eliminating paragraph 36.d. We recommend retaining the exception, clarifying that the no-surplus-gain condition applies to the cedent at inception and limiting new transaction disclosures as described above. Any change to eligibility, recognition or measurement should be separately exposed as a substantive accounting change, with coordinated Schedule P and RBC analysis and transition provisions for existing agreements. We appreciate the Working Group's consideration and would welcome further discussion.

Sincerely,



Jeff Alton
Senior Vice President, Accounting, Finance & Risk
Reinsurance Association of America

1. NAIC Ref. 2026-12, Description of Issue and proposed paragraph 126. The current Manual uses "SSAP No. 62"; the subject retains the familiar "62R" designation.
2. INT 03-02, paragraphs 7–8, cited for its historical explanation. The interpretation was subsequently nullified by Ref. 2022-12 and is not cited as current authority.
3. SSAP No. 25, paragraphs 2, 4, 16 and 23. Paragraph 23.b excludes reinsurance from that specific transaction-description disclosure, not from the statement as a whole.



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October 2, 2026

Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Agenda item 2026-11, residential mortgage loan definition (SSAP No. 37)

Dear Chairman and Members of the Statutory Accounting Principles (E) Working Group,

The Alternative Credit Council,[1] the private credit affiliate of the Alternative Investment Management Association Ltd (AIMA), appreciates the opportunity to comment on agenda item 2026-11, Residential Mortgage Loan Definition, which the Statutory Accounting Principles (E) Working Group (Working Group) exposed as a concept agenda item on August 12, 2026. The agenda item responds to the May 26, 2026 referral from the Investment Analysis (E) Working Group and asks whether SSAP No. 37, Mortgage Loans, should define

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



AIMA is registered in England as a Company Limited by Guarantee, No. 4437037. VAT Registration no. 577 5913 90. Registered Office as above.

residential mortgage loans, how certain loan and property types should be classified, and whether Schedule B reporting should capture additional loan risk characteristics.

I. Introduction and summary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

are captured through the risk attributes previously outlined in Section II. Together with the value of each individual home, borrower-level factors make up the risk profile the residential mortgage loan category is intended to capture.

The manner of acquisition, holding or reporting should not change that classification. The Working Group recognized this principle in agenda item 2025-13, which expanded the scope of SSAP No. 37 to permit residential mortgage loans held in qualifying statutory trusts to be reported individually on Schedule B as if held directly. The Life Risk-Based Capital (E) Working Group applied the same look-through logic in Proposal 2026-02-L, which aligns with the treatment of residential mortgage loans held through unaffiliated Schedule BA structures with direct ownership. SSAP No. 37 should state expressly that a loan, or a pool of loans, remains within the residential mortgage loan definition where the collateral consists of individually divisible one-to-four family properties, regardless of the number of borrowers, loans or properties involved.

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

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

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

Pool reporting also offers a practical answer to the Working Group's concern about the length of Schedule B. We support permitting reporting entities to report pools of residential mortgage loans, and loans secured by multiple individually divisible and saleable one-to-four family properties, in aggregated lines, provided each aggregated line discloses the

key attributes described in Section II as distributions rather than single values. An aggregated line could report the number of loans, total balance, weighted average and stratified LTV and credit score, the share of loans by lien position, occupancy and loan purpose, and the largest state concentrations, with loan-level data available to the domiciliary regulator on request. Therefore, insurers should maintain loan-level and property-level data for every aggregated line and make it available to the domiciliary regulator and examiners in a consistent format. This approach preserves the analytical value of Schedule B and ensures that regulators do not mistake an aggregated line for a single high-balance loan.

Recommendation. Add to SSAP No. 37 a statement that (1) a loan is within the residential mortgage loan definition where its collateral consists of individually divisible one-to-four family properties, whether held as a pool of individual loans or as a single loan secured by multiple properties, and regardless of the number of borrowers; (2) a loan secured by a horizontal multifamily community is a commercial mortgage loan where the individual homes cannot be conveyed separately; and (3) qualifying residential mortgage loans are permitted aggregated Schedule B reporting of such loans subject to attribute-level disclosure and availability of loan-level and property-level data to regulators and examiners upon request.

IV. Responses to specific questions

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

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

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

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

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

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

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

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

V. Conclusion

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

- Adopt the one-to-four family property definition in 12 CFR § 1266.1 as the scope of the residential mortgage loan category in SSAP No. 37.
- Base any updated categorization, disclosure or referral for RBC differentiation on identified key risk attributes, including lien position, LTV, borrower credit score, occupancy, loan purpose and documentation, rather than on product labels or loan value limits.
- Clarify that a loan is within scope where its collateral consists of individually divisible and saleable one-to-four family properties, regardless of the number of borrowers, loans or properties, whether held directly, through a qualifying statutory trust or through a look-through structure.
- Revise the proposed clarification in question 2c so that classification turns on whether the project collateral consists of individually divisible and saleable one-to-four family properties.
- Permit aggregated Schedule B reporting of such pools, subject to attribute-level disclosure and availability of loan-level and property-level data to the domiciliary regulator and examiners upon request.

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

We appreciate the opportunity to comment and would welcome the chance to discuss these points with the Working Group or NAIC staff, including by facilitating discussions with ACC members that originate and manage residential mortgage loans for insurers.

If you have any questions or would like to discuss further, please do not hesitate to contact us at jkrol@aima.org or Joe Engelhard, Head of Private Credit & Asset Management Policy, Americas, at jengelhard@aima.org.

Sincerely,





Jiří Król
Global Head of Alternative Credit Council

Joe Engelhard
Head of Private Credit & Asset Management Policy, Americas

ATHENE

October 2, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Ref #2026-11 — *Residential Mortgage Loan Definition (SSAP No. 37—Mortgage Loans)*

Dear Mr. Clark:

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

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

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

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

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

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

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

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

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

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

I. Classification should follow the nature of the collateral

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

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

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

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

II. Enhanced Schedule B reporting to capture risk attributes

Athene supports new Schedule B reporting codes for risk attributes that include lien position, loan-to-value (LTV) ratio at origination and combined LTV ratio for subordinate liens, borrower credit quality at origination measured by FICO, occupancy, loan purpose, construction status, documentation type, debt-service-coverage ratio (DSCR) for investor loans, dwelling-unit count and property type, and property state. The Annual Statement

Instructions should define each field and its measurement date so that the data are comparable across insurers.

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

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

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

III. Conclusion

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

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

Respectfully submitted,



Michael Consedine
Executive Vice President
Global Head of Government and Regulatory Affairs
Athene Holding Ltd.

Appendix A—Classification of mortgage loans by illustrative collateral type

A loan is classified as a residential mortgage loan or a commercial mortgage loan based on the collateral that secures it. A one-to-four family property is individually divisible and saleable where it is a separate legal parcel with its own legal description that can be conveyed, and released from the lien, independently of the other properties securing the loan.

Loan type	CML classification	RML classification	Where Reported
One-to-four family property	The collateral does not meet the one-to-four family property definition.	The collateral meets the one-to-four family property definition in 12 CFR § 1266.1.	Schedule B, as residential or commercial according to the classification
Condominium	The loan is secured by the building as a whole, and the units have not been established as separate legal parcels under a recorded condominium declaration	Each unit is a separate legal parcel, so a loan secured by a unit is an RML regardless of the number of units in the building.	Schedule B, residential, by unit or in an aggregated line as proposed in Section II
Townhomes	Multiple townhomes sit on a single legal parcel and cannot be conveyed separately.	Each townhome is a separate legal parcel that can be conveyed separately.	Schedule B, as residential or commercial according to the classification
Mixed-use, single property	Commercial use accounts for 50 percent or more of appraised value or property income.	Residential use accounts for more than 50 percent of appraised value or property income. The full balance is reported as residential.	Schedule B, residential, with a mixed-use flag
Cross-collateralized pools w/ mixed use	More than 50 percent of the allocated loan amount is secured by properties that are not individually divisible and saleable one-to-four family properties.	At least 50 percent of the allocated loan amount is secured by individually divisible and saleable one-to-four family properties. Each property is listed on the mortgage with a property-level allocated loan amount and can be released independently.	Schedule B, residential, in a single line reporting the number of properties and the attribute distributions proposed in Section II
Build-to-rent	The loan is secured by a horizontal multifamily community: detached homes on a single legal parcel that cannot be conveyed separately without a subdivision or condominium process.	The loan is secured by a community platted into separate legal parcels, each individually saleable.	Schedule B, as residential or commercial according to the classification
Loans held through a qualifying statutory trust	The collateral securing an underlying loan meets the CML tests above.	The collateral securing an underlying loan is an individually divisible and saleable one-to-four family property. Classification follows the underlying loan and collateral, not the trust.	Schedule B, each underlying loan reported individually as if held directly, or in an aggregated line as proposed in Section II

Appendix B—Responses to specific questions in exposure

Question 1 Other definitions

Response. Use 12 CFR 1266.1 as the Level 1 anchor. The related definitions should be incorporated together to provide one framework for one-to-four family, multifamily, construction-stage, mixed-use, and nonresidential property. Any competing industry definition is unnecessary.

Question 2a Mixed-use property

Response. Classify the full loan by the property's predominant use rather than splitting one balance between categories. A property should be residential when residential use represents more than 50 percent of appraised value or property income, with a mixed-use flag reported on Schedule B.

Question 2b Multifamily property

Response. Treat one-to-four family properties as residential mortgage loans, but identify them separately by property type and dwelling-unit count on Schedule B. This preserves the distinction without creating another mortgage reporting category.

Question 2c Project-level collateral

Response. Do not make seriatim reporting a condition of classification. A single loan may qualify when it is secured by separate one-to-four family parcels that can each be conveyed and released independently. An project with indivisible units that cannot be sold home by home should not receive one-to-four family treatment.

Question 2d Loan value limits

Response. Do not use a balance cap to determine asset type. Balance is relevant to concentration and should be disclosed, but it does not change the nature of the collateral securing the loan.

Question 2e Specific loan types

Response. Classify accessory dwelling unit, non-owner-occupied, one-to-four family DSCR, residential construction, fix-and-flip, home equity, line-of-credit, bridge, and transitional loans by the underlying collateral. Report their lien, occupancy, purpose, and property status as risk attributes in Schedule B.

Question 3 Schedule B risk factors

Response. Yes. At a minimum, Schedule B should capture lien position, LTV, borrower credit score, occupancy, loan purpose, property status, documentation, investor-loan DSCR, dwelling-unit count, property type, and state, using definitions and measurement dates in the Annual Statement Instructions.

Question 4 Aggregated reporting

Response. Keep residential mortgage loans on Schedule B. Permit aggregated lines for pools and loans secured by multiple qualifying properties when the line reports attribute distributions and that the insurer maintains loan-level and property-level data for regulators and examiners.

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October 2, 2026

Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
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Via email: Julie Gann, jgann@naic.org
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Re: 2026-13, Medicaid Updates

Dear Chair Clark:

On behalf of AHIP[i], we appreciate the opportunity to provide comments on the above referenced item that was exposed (the Exposure) during the August 12, 2026 meeting of the Statutory Accounting Principles (E) Working Group (SAPWG). For purposes of this SAPWG Exposure, please find below AHIP's comments.

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

The Exposure's proposal to include Medicaid contracts payments classified as capitated payments in insured plans seems intended to align with federal rules pertaining to Medicaid Managed Care Organization (MCO) contracts. In this letter and relative to the Exposure, AHIP does not dispute the federal Medicaid rules for the purposes to which they apply, but believes it is important to understand that they do not directly apply to statutory accounting principles (SAP) utilized by

state-regulated insurers pursuant to state solvency regulation. Rather, SAP is driven by its own principles and must be evaluated in that light.[ii]

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

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

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

The Exposure characterizes its proposal to include all Medicaid contracts payments classified as capitated payments in insured plans as principle-based. AHIP respectfully views the proposal differently. As drafted, the approach appears more prescriptive than principle-based because it would require "at risk", or underwritten, SAP reporting treatment regardless of the underlying contractual terms and risk exposure. As presented, the proposed revisions may be better understood as a practical expedient rather than a principles-based approach. Framing the Exposure's proposal as a practical expedient would appear to be more consistent with our understanding of NAIC staff's objectives of developing revisions to SSAPs 47 and 54 that avoid unnecessary complexity.

While the impact on SAP income and surplus would be the same whether or not Medicaid contracts payments classified as capitated payments are included in insured plans, the RBC impact would not necessarily be the same. If all such Medicaid payments of an insurer are treated as underwritten when, in substance, some are not, the resulting risk charges could be materially overstated relative to the actual underlying risk exposure. Thus, a practical expedient that says all Medicaid contracts

are underwritten/ at risk for SAP purposes should not be relied on by the Health Risk-Based Capital (E) Working Group to determine the degree of risk in the establishment of risk factors.

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

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

Thank you for the opportunity to provide these comments. AHIP looks forward to continuing to discuss these important matters with you and your colleagues at SAPWG.

Sincerely,

Miranda Motter
AHIP Senior Vice President of State Affairs and Policy

[i] AHIP is the national association whose members provide health care coverage, services, and solutions to hundreds of millions of Americans every day. We are committed to market-based solutions and public-private partnerships that make health care better and coverage more affordable and accessible for everyone. Visit www.ahip.org to learn how working together, we are Guiding Greater Health.

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

October 9, 2026

VIA ELECTRONIC MAIL TO RMarcotte@naic.org

Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners (NAIC)

Re: SAPWG Ref. 2026-12, Retroactive Reinsurance Exception in SSAP 62, Paragraph 36.d.

Dear Mr. Clark:

The North Carolina Department of Insurance is providing the following observations and recommendations for the Working Group's consideration.

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

Transactions that should Remain in Scope of the Exception

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

Transactions that should be Scoped Out of the Exception

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

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

Recommendations

The nature of the risks assumed by a reinsurer under a retroactive agreement when an insured event has already occurred is fundamentally different than under a prospective agreement, and we believe the accounting should follow the nature of the transaction (prospective or retroactive) and not who the counterparty is (affiliated or unaffiliated). We therefore recommend retaining the exception in paragraph 36.d. for new and amended intercompany pooling agreements and for amendments to other intercompany reinsurance agreements that incepted on a prospective basis, but revising the exception to exclude affiliated reinsurance agreements that incept on a retroactive basis. We believe this puts true retroactive reinsurance agreements with affiliates and non-affiliates on equal footing and provides for more consistent financial statement presentation and disclosures.

If this approach is followed, those transactions scoped out of paragraph 36.d. should likely also be considered for scoping out of the requirements of paragraph 37 to prevent creative contract structuring designed to avoid a gain in surplus. Given the time value of money is a core economic driver behind true LPTs and discounting is a key input in their pricing, they often result in an initial gain, which paragraph 34 of SSAP 62 recognizes and prescribes very specific recognition,

measurement and disclosure guidelines for. The exposed disclosure may also need to be amended to only address amendments or modifications to other (non-pooling) intercompany reinsurance agreements that originally incepted on a prospective basis, since disclosure of affiliated reinsurance agreements accounted for as retroactive would be captured in Note 23F and intercompany pooling agreements should continue to be disclosed in Note 26.

Thank you for considering our views and recommendations on this important matter and we are happy to answer any questions or participate in additional discussions. I can be reached at 919-807-6143 or marwan.zabaneh@ncdoi.gov.

Sincerely,

Marwan Zabaneh

Marwan Zabaneh, CPA
Financial Research Manager