ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE

Draft Pending Adoption

Draft: 11/26/24

Accounting Practices and Procedures (E) Task Force
Denver, Colorado
November 18, 2024

The Accounting Practices and Procedures (E) Task Force met in Denver, CO, Nov. 18, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Jamie Walker (TX); Mike Causey, Vice Chair, represented by Robert Croom (NC); Mark Fowler represented by Todrick Burks (AL); Alan McClain represented by Leo Liu (AR): Ricardo Lara represented by Laura Clements and Kim Hudson (CA); Andrew N. Mais represented by William Arfanis (CT); Karima M. Woods represented by N. Kevin Brown (DC); Trinidad Navarro represented by Rylynn Brown (DE); Michael Yaworsky represented by Jane Nelson (FL); Doug Ommen represented by Kevin Clark (IA); Dean L. Cameron represented by Eric Fletcher (ID); Vicki Schmidt represented by Levi Nwasoria (KS); Sharon P. Clark represented by Mark Griggs (KY); Timothy J. Temple represented by Bill Werner (LA); Robert L. Carey represented by Vanessa Sullivan (ME); Anita G. Fox represented by Judy Weaver and Kristin Hynes (MI); Grace Arnold represented by Kathleen Orth (MN); Chlora Lindley-Myers represented by Debbie Doggett and Shannon Schmoeger (MO); Mike Chaney represented by Josh Ammerman (MS); Jon Godfread represented by Matt Fischer and Colton Schultz (ND); Eric Dunning represented by Andrea Johnson and Tadd Wegner (NE); Justin Zimmerman represented by David Wolf (NJ); Adrienne A. Harris represented by Bob Kasinow (NY): Judith L. French represented by Dale Bruggeman (OH); Glen Mulready represented by Holly Mills (OK); Andrew R. Stolfi represented by Paul Throckmorton (OR); Michael Humphreys represented by Diana Sherman (PA); Michael Wise represented by Thomas Baldwin (SC); Larry D. Deiter represented by Johanna Nickelson (SD); Carter Lawrence represented by Trey Hancock (TN); Jon Pike represented by Jake Garn (UT); Scott A. White represented by and Jennifer Blizzard (VA); Mike Kreidler represented by Steve Drutz (WA); and Nathan Houdek represented by Amy Malm (WI).

1. Adopted its Summer National Meeting Minutes

Malm made a motion, seconded by Johnson, to adopt the Task Force's Aug. 14 minutes (*see NAIC Proceedings Summer 2024, Accounting Practices and Procedures (E) Task Force*). The motion passed unanimously.

2. Adopted the Report of the Statutory Accounting Principles (E) Working Group

Bruggeman provided the report of the Statutory Accounting Principles (E) Working Group, which met Nov. 17. During this meeting, the Working Group took the following action:

A. Adopted its Summer National Meeting minutes.

B. Adopted its Sept. 12 minutes. During this meeting, the Working Group adopted, via e-vote, revisions to *Statement of Statutory Accounting Principles (SSAP) No. 26—Bonds* and Issue Paper No. 169 to incorporate guidance for debt securities issued by funds that represent operating entities with a Jan. 1, 2025, effective date. (Ref #2024-01)

C. Adopted its Oct. 4 minutes. During this meeting, the Working Group exposed, via e-vote, the updated *Principles-Based Bond Definition Implementation Questions & Answers* (Q&A) for a public comment period ending Oct. 28. (Ref #2019-21)

Bruggeman stated that the Working Group adopted the following clarifications to statutory accounting guidance:

A. *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies, SSAP No. 93—Investments in Tax Credit Structures,* and *SSAP No. 94—State and Federal Tax Credits*: Adopted clarifications expand and update guidance on tax credit investments effective Jan. 1, 2025. (Ref #2024-18)

B. *SSAP No. 101—Income Taxes*: Adopted revisions reject, with modification, *Accounting Standards Update (ASU) 2023-09, Improvements to Income Tax Disclosures*. The adoption also removes an existing SSAP disclosure. (Ref #2024-11)

C. *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees*: Adopted revisions update the definition of a clearly defined hedging strategy (CDHS) to reflect the revised guidance pursuant to Valuation Manual (VM)-01, Definitions for Terms in Requirements. (Ref #2024-17)

D. *Interpretation (INT) 24-01: Principles-Based Bond Definition Implementation Questions & Answers (Q&A)*: Adopted the exposed Q&A, updated for interested parties' comments, in a new interpretation. (Ref #2019-21)

E. *Appendix D—Nonapplicable U.S. Generally Accepted Accounting Principles (GAAP) Pronouncements*: Rejected *ASU 2024-02, Codification Improvements* as not applicable to statutory accounting. (Ref #2024-19)

Bruggeman stated the Working Group exposed the following statutory accounting principle (SAP) concepts and clarifications to statutory accounting guidance for a public comment period ending Jan. 31, 2025, except for agenda item 2024-26EP, which is exposed for a public comment period ending Dec. 9, 2024.

A. *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*: Exposed revisions to the SSAP and the existing *Annual Statement Instructions/Illustrations* for the restricted asset disclosure in Note 5L specify how modified coinsurance (modco) and funds withheld assets reported within a ceding company's financial statements shall be captured. This exposure also includes a reconciliation of items reported as restricted between Note 5L and the general interrogatories. (Ref #2024-20)

B. *SSAP No. 16—Electronic Data Processing Equipment and Software*: Exposed revisions clarify references to accounting standards codification (ASC) by including the relevant ASUs. (Ref #2024-25)

C. *SSAP No. 26*: Exposed editorial revisions clarify the scope of the annual audited disclosure. The disclosure shall include investments receiving bond treatment by reporting categories. (Ref #2024-26EP)

D. *SSAP No. 86—Derivatives*: Exposed revisions ensure consistent terminology for financing derivatives and clarify that derivative premium shall not be captured as a realized gain or loss and shall not be included in the interest maintenance reserve (IMR). (Ref #2024-23)

E. *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*: Exposed concept agenda item with requests for comments on the options offered to include: 1) clarifying statutory accounting guidelines (and resulting reporting impacts) for investment subsidiaries; 2) sponsoring a blanks proposal to capture new investment schedules, or perhaps expansions to existing investment schedules, to detail the underlying assets held by an investment subsidiary; or 3) referrals to the Capital Adequacy (E) Task Force and related risk-based capital working groups to incorporate details that allow regulators to verify the RBC calculation for the underlying assets within an investment subsidiary. (Ref #2024-21)

F. *SSAP No. 104—Share-Based Payments*: Exposed revisions to adopt with modification *ASU 2024-01, Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards,* which provides clarifications on the application of the guidance to profit interests and similar awards. (Ref #2024-22)

G. *INT 24-02: Medicare Part D Prescription Payment Plans* and *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*: Exposed INT 24-02 and minor edits to INT 05-05 to provide accounting and reporting for the Medicare Part D prescription payment plan. Notification of the exposure will be provided to the Health Insurance and Managed Care (B) Committee and Health Risk-Based Capital (E) Working Group, and an annual statement blanks proposal and disclosures will be developed for future discussion. (Ref #2024-24)

H. *Annual Statement Blanks:* Re-exposed revisions to provide more granular reporting lines on Schedule BA Other Invested Assets for Collateral Loans. This action allows concurrent exposure with the Blanks (E) Working Group on its corresponding blanks proposal. (Ref #2023-28)

Bruggeman stated that the Working Group directed NAIC staff on the following items:

A. Directed NAIC staff to prepare an agenda item to classify issue papers in level 5 of the statutory hierarchy.

B. *SSAP No. 86*: Directed NAIC staff to modify the agenda item proposing to bifurcate embedded derivatives and capture limited revisions to clarify reporting when a bond is sold and reacquired from a special purpose vehicle (SPV) with derivative wrappers (or other components). (Ref #2024-16)

Bruggeman stated that the Working Group received updates on the following:

A. U.S. GAAP exposures, noting that items will be addressed during the normal maintenance process.

B. IMR Ad Hoc Group activities, noting that its discussions have focused on IMR from reinsurance transactions and has directed a reassessment of existing guidance.

C. The Bond Project Implementation Small Group, which has concluded its regular meetings. The Small Group addressed the items presented and referred the Q&A guide to the Working Group. The Small Group may resume future discussions if necessary.

D. Use of third-party vendors and checklists to determine bond definition compliance and classification.

E. International Association of Insurance Supervisors (IAIS) Audit and Accounting Working Group activities, including notice of the application paper on climate risk.

F. Reinsurance exposures. The comment deadline for three reinsurance-related agenda items (2024-05, 2024-06, 2024-07) exposed at the Summer National Meeting was delayed at the request of the American Council of Life Insurers (ACLI) to Dec. 9 and Dec 16. The ACLI provided short verbal comments.

G. Lloyd's has submitted requests that resulted in the removal of several inactive syndicates from the NAIC *Listing of Companies*. NAIC staff are coordinating with Lloyd's to determine if a guidance memorandum regarding year-end reporting instructions needs to be sent to the Blanks (E) Working Group.

Bruggeman made a motion, seconded by Orth, to adopt the report of the Statutory Accounting Principles (E) Working Group (Attachment One). The motion passed unanimously.

3. Adopted the Report of the Blanks (E) Working Group

Doggett provided the report of the Blanks (E) Working Group, which met Nov. 6. During this meeting, the Working Group adopted its Aug. 7 minutes. During this meeting, the Working Group, took the following action:

A. Adopted its May 23 minutes.

B. Adopted the following proposals:

   i. 2024-11BWG – Update the Annual and Quarterly Statement Instructions and Blanks for the New Market Tax Credit changes. Changes that will be made to the Annual include Assets; Notes to Financial Statements 5K, 14A, and 21E; Asset Valuation Reserve (AVR); Schedule BA, Parts 1 and 3; and Verification Between Years. Quarterly changes include Assets; Schedule BA, Part 3; and Verification Between Years.

   ii. 2024-12BWG – Update the quarterly investment schedules for editorial items to the bond project. (Schedule D Verification; Schedule D, Part 1B; Schedule D, Parts 3 and 4; Schedule DL, Parts 1 and 2; and Schedule E, Parts 1 and 2). Update the Quarterly Investment Schedule General Instructions for the changes adopted in the Annual Investment Schedule General Instructions. *(Reference adopted proposal 2023-06BWG.)*

C. Received a Statutory Accounting Principles (E) Working Group memorandum regarding instructional changes to the AVR to allow collateral loans backed by mortgage loans to flow through AVR as an "Other Invested Asset with Underlying Characteristics of Mortgage Loans."

D. Adopted its editorial listing.

Doggett stated that during its Nov. 6 meeting, the Working Group also took the following action:

A. Exposed eight new proposals for a 90-day public comment period ending Feb. 6, 2025.

B. Adopted its editorial listing.

C. Received a Statutory Accounting Principles (E) Working Group memorandum regarding the reporting of debt securities issued by funds representing operating entities.

Doggett made a motion, seconded by Hudson, to adopt the report of the Blanks (E) Working Group (Attachment Two). The motion passed unanimously.

Having no further business, the Accounting Practices and Procedures (E) Task Force adjourned.

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2024fallnm/minutes and summary/apptf 11-18-24 minutes tpr.docx

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Statutory Accounting Principles (E) Working Group
Denver, Colorado
November 17, 2024

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met in Denver, CO, Nov. 17, 2024. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kevin Clark, Vice Chair (IA); Kim Hudson (CA); William Arfanis and Michael Estabrook (CT); Rylynn Brown and Tom Hudson (DE); Cindy Andersen (IL); Bill Werner (LA); Judy Weaver and Steve Mayhew (MI); Doug Bartlett (NH); Bob Kasinow (NY); Diana Sherman (PA); Jamie Walker (TX); Doug Stolte and Jennifer Blizzard (VA); and Amy Malm (WI).

1. Adopted its Oct. 4, Sept. 12, and Summer National Meeting Minutes

Bruggeman said the Working Group met Oct. 4 and Sept. 12. On Oct. 4, the Working Group conducted an e-vote to expose an updated bond definition question and answer implementation guide (Q&A) with a comment period ending Oct. 28. The primary revisions to the Q&A were updates to include three additional topics addressing commercial mortgage-backed securities (CMBS) interest-only (IO) strips; commercial mortgage loan (CML) single asset, single borrower (SASB) investments; and hybrids. On Sept. 12, the Working Group conducted an e-vote to adopt revisions to the bond guidance adopted in *Statement of Statutory Account Principles* (SSAP) *No. 26—Bonds* (effective Jan. 1, 2025) and *Issue Paper No. 169—Principles-Based Bond Definition* to revise guidance that restricted issuer credit obligation classification to debt securities issued by U.S. Securities and Exchange Commission (SEC)-registered funds.

Additionally, the Working Group met Nov. 12, Oct. 15, and Oct. 9 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) and paragraph 6 (consultations with NAIC staff related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings, to discuss the Fall National Meeting agendas and Summer National Meeting exposures. No action was taken in those meetings.

Walker made a motion, seconded by Malm, to adopt the Working Group's Oct. 4 (Attachment One-A), Sept. 12 (Attachment One-B), and Summer National Meeting (*see NAIC Proceedings – Summer 2024, Accounting Practices and Procedures (E) Task Force, Attachment One*) minutes. The motion passed unanimously.

2. Reviewed Comments on Non-Contested Positions

The Working Group reviewed comments on non-contested positions (Attachment One-C).

A. Ref #2024-11

Bruggeman directed the Working Group to agenda item *Ref #2024-11: Accounting Standards Update (ASU) 2023-09, Improvements to Income Tax Disclosures* (Attachment One-D). William Oden (NAIC) stated that ASU 2023-09 was issued by the Financial Accounting Standards Board (FASB) to enhance the transparency and decision usefulness of income tax disclosures. This agenda item was developed to consider whether the ASU should be incorporated into the statutory accounting framework. Oden stated that interested parties had no comments on this item and that NAIC staff recommend the Working Group adopt revisions to reject ASU 2023-09 in *SSAP No. 101—Income Taxes* and adopt revisions to SSAP No. 101 to remove the disclosure detailed in paragraph 23b as it was determined to be no longer relevant to either U.S. generally accepted accounting principles (U.S. GAAP) or statutory accounting principles (SAPs).

B. Ref #2024-17

Bruggeman directed the Working Group to agenda item *2024-17: Clearly Defined Hedging Strategy* (Attachment One-E). Oden stated that, on Aug. 13, the Working Group exposed revisions to *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees* to update the definition of a clearly defined hedging strategy (CDHS) to mirror the revised guidance to *Valuation Manual (VM)-01, Definitions for Terms in Requirements* (VM-01) adopted by the Life Actuarial (A) Task Force in 2022 and effective in 2023. Oden stated that interested parties have no comments and that NAIC staff recommend that the Working Group adopt the exposed revisions.

C. Ref #2024-18

Bruggeman directed the Working Group to agenda item *2024-18: Clarifications to NMTC Project* (Attachment One-F). Oden stated that on Aug. 13, the Working Group exposed revisions to clarify the accounting guidance in *SSAP No. 93—Investments in Tax Credit Structures* for recognizing allocated and purchased tax credits in relation to the journal entry example and *SSAP No. 94—State and Federal Tax Credits* to fix an inconsistency between the journal entry examples and the accounting guidance and updates a sentence in *SSAP No. 48—Joint* Ventures*, Partnerships, and Limited Liability Companies* which was inadvertently not updated for the New Markets Tax Credit Program (NMTC Program). Oden noted that interested parties had no comments on this agenda item. Oden stated that NAIC staff recommend that the Working Group adopt the exposed revisions, effective Jan. 1, 2025, to SSAP No. 93, SSAP No. 94, and SSAP No. 48. The effective date of Jan. 1, 2025, is necessary to mirror the effective date of the guidance adopted with 2022-14.

D. Ref #2024-19

Bruggeman directed the Working Group to agenda item *2024-19: ASU 2024-02, Codification Improvements—Amendments to Remove References to the Concepts Statements* (Attachment One-G). Oden stated that this agenda item was drafted in response to *ASU 2024-02, Codification Improvements—Amendments to Remove References to the Concepts Statements*, which removes references to FASB concept statements from the accounting standards codification (ASC) with the intent of simplifying the codification and drawing a clear distinction between authoritative and nonauthoritative literature. Oden noted interested parties had no comments on this agenda item and recommended that the Working Group adopt the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject ASU 2024-02 as not applicable to statutory accounting.

Kim Hudson made a motion, seconded by Sherman, to adopt the SAP concepts and clarifications in the described non-contested positions. The motion passed unanimously.

3. Reviewed Comments on Exposed Items

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

A. Agenda Item 2019-21

Bruggeman directed the Working Group to agenda item *2019-21: Principles-Based Bond Definition Implementation Questions and Answers*. Julie Gann (NAIC) stated that the Working Group exposed the draft Q&A for a comment period ending Sept. 27 to address issues of implementing the principles-based bond project that has been brought from industry to the bond/American Institute of Certified Public Accountants (AICPA) small group. The Q&A interprets how the SAP guidance should be applied to specific investment structures or investment characteristics.

Gann stated that, on Oct. 4, the Working Group exposed via e-vote an updated Q&A to incorporate three additional topics, including CMBS IO strips, CML SASB investments, and hybrids. Gann stated that three comment letters were received, including two from interested parties and one from Spectrum Asset Management. She stated that, with the Sept. 27 exposure, it was identified that interested parties had not provided comments on any of the prior bond implementation Q&As in the first exposure but had provided comments on the classification of issue papers in the statutory hierarchy. Gann stated that the updated Q&A included minor edits to paragraph 9.2 to eliminate this aspect from the Q&A without changing the intent of the guidance. She also noted that the Interpretation included the correct tracked edits, but the hearing agenda included a summary of the edits. The hearing agenda has a typo that references an edit in paragraph 3.3c which should note paragraph 3.1e.

Gann stated that no revisions were recommended from Spectrum Asset Management's comments, which said risk-based capital (RBC) impacts could occur for capital notes that are going to be classified in the scope of *SSAP No. 41—Surplus Notes.*

Gann recommended that the Working Group consider adoption of the exposed Q&A in a new *Interpretation (INT) 24-01: Principles-Based Bond Definition Implementation Questions and Answers* to *SSAP No. 21—Other Admitted Assets* and SSAP No. 26, with the edits suggested by interested parties and edits from the Oct. 4 comments. Gann stated that, in addition, NAIC staff recommend that the Working Group send a referral to the Property and Casualty Risk-Based Capital (E) Working Group and Health Risk-Based Capital (E) Working Group with information on the adopted revisions for the bond definition with identification that the non-bond debt securities will not have the opportunity for RBC based on Securities Valuation Office (SVO)-assigned designations. She stated that this referral will inquire whether the RBC working groups should consider more granular RBC reporting based on SVO-assigned designations in response to the Spectrum Asset Management comment letter.

Gann stated that in response to comments received from interested parties, NAIC staff recommend that the Working Group direct NAIC staff to work with the industry to develop an agenda item on SSAP No. 41 to consider slight revisions as requested by the small group and interested parties for the capital notes distinction for hybrids. She noted that capital notes are already in the scope of that statement.

Gann recommended that the Working Group also direct NAIC staff to move forward with a new agenda item to consider capturing issue papers in Level 5 of the statutory hierarchy. She noted that interested parties' recommendation was for Level 2 or Level 4 of the statutory hierarchy. She stated that NAIC staff is recommending a Level 5 classification to prevent unintended conflicts with other sources of statutory accounting.

Mike Reis (Northwestern Mutual), representing interested parties, noted a reference error in the hearing agenda that referenced a change made in INT 24:01 in paragraph 3.3c but had been made in paragraph 3.1e. Bruggeman agreed and noted that staff had confirmed that the change had been made in the correct paragraph in the interpretation, and this was only a reference error in the hearing agenda.

Bruggeman noted that some of the staff-directed agenda items may be ready for the Dec. 17 meeting. Bruggeman then reiterated that the principles-based bond definition, including this Q&A, would be fully effective starting Jan. 1, 2025, and hopefully, companies are far along with implementation. He noted the principles-based nature of the evaluations that will be occurring. Clark noted that the small group efficiently worked through some very complex questions in a productive manner.

Clark made a motion, seconded by Weaver, to: 1) adopt the exposed Q&A in a new interpretation with the edits suggested by interested parties (Attachment One-H); 2) direct NAIC staff to develop agenda items on SSAP No. 41 edits and on issue papers as Level 5 in the statutory hierarchy; and 3) send referrals to the Property and Casualty Risk-Based Capital (E) Working Group and Health Risk-Based Capital (E) Working Group. The motion passed unanimously.

B. <u>Agenda Item 2023-28</u>

Bruggeman directed the Working Group to agenda item *2023-28: Collateral Loan Reporting*. Gann stated that the Working Group exposed this agenda item with a request for comments on more granular Schedule BA collateral loan reporting lines. She stated that the Working Group also sponsored a blanks proposal to begin detailing the revisions to Schedule BA and the asset valuation reserve (AVR) that would occur with these changes. Gann stated that this action followed prior Working Group discussion and actions to allow, as an interim step, collateral loans with underlying mortgage loans to flow through AVR. She stated that this instructional change was supported by the Working Group on May 15, and corresponding RBC revisions were adopted on June 18. Correspondence to the Blanks (E) Working Group on this interim step was received on Aug. 7. She noted that comments on the interim step are requested.

Gann stated that NAIC staff recommend that the Working Group re-expose this agenda item without revisions and resume discussion once comments have been received on the Blanks (E) Working Group proposal, which was exposed on Nov. 6, 2024, for a 90-day comment period ending Feb. 6, 2025. She stated that the interested parties' comments predominantly addressed the presentation of changes within Schedule BA and the AVR schedule and not the overall category breakouts or concept for granularity with collateral loan reporting.

Kim Hudson made a motion, seconded by Walker, to re-expose this agenda item without revisions and resume discussion once comments have been received on the Blanks (E) Working Group proposal. The motion passed unanimously.

C. <u>Agenda Item 2024-16</u>

Bruggeman directed the Working Group to agenda item *2024-16: Repack and Derivative Investments*. Gann stated that on Aug. 13, the Working Group exposed revisions to *SSAP No. 86—Derivatives* with a proposal to require bifurcation of debt securities with derivative wrappers or components if the item did not reflect a structured note, as defined in SSAP No. 86. She stated that the exposed guidance then detailed the accounting and reporting for the bifurcated debt and derivative components. Gann stated that the detailed agenda item discussed the origination of credit repack notes, which are debt securities issued by a special purpose vehicle (SPV), that reflect a combined debt security and a derivative. The agenda item also detailed various statutory accounting and reporting aspects if the item was reported as a single debt instrument. Gann stated that a key aspect to note with the origination of the agenda item was how these debt securities would be accounted for under the principles-based bond definition.

Gann stated that the exposed agenda item proposed to revise the long-standing guidance in SSAP No. 86 that embedded derivatives shall not be separated from the host contract and accounted for separately as a derivative instrument and included proposed revisions to separate the debt securities and derivative components/wrappers in all instances, not just credit repacks. She stated that comments received from interested parties did not support the exposed revisions to bifurcate embedded derivatives from the host contracts. The comments indicated that holders of debt security structures should evaluate the securities in accordance with the principles-based bond definition.

Gann stated that NAIC staff recommends this proposal be modified to eliminate the exposed revisions to separate embedded derivatives. She recommended that this agenda item should be limited to sponsoring blanks revisions to clarify the guidance on the bond disposal/acquisition schedules to ensure that the sale of a security to an SPV for which a debt security is acquired back from the SPV with derivative wrappers or other components is shown as a disposal and acquisition. She stated that NAIC staff are not currently recommending revisions to encompass more disclosure or reporting codes to identify debt securities with derivative components that do not reflect structured notes and/or provide interpretative guidance under the bond definition. Gann recommended that the Working Group direct NAIC staff to proceed with drafting an annual statement blanks proposal to clarify reporting instructions for future discussion. Bruggeman noted that the instructions would clarify items that should be reflected as a disposal and an acquisition when the characteristics of the securities are changed.

Clark stated that the original request was from a limited number of parties, and he agreed with the reservations on bifurcation expressed by interested parties. He stated agreement with removing the bifurcation revisions from the agenda item. Gann affirmed that the recommendation was to remove the exposed revisions from the agenda item and develop reporting clarifications for the annual statement.

Clark made a motion, seconded by Weaver, to direct NAIC staff to modify the proposal to eliminate the exposed revisions to separate embedded derivatives and directed NAIC staff to sponsor a blanks proposal to clarify the guidance on the bond disposal/acquisition schedules (as shown in the agenda item) to ensure that the sale of a security to an SPV for which a debt security is acquired back from the SPV with derivative wrappers (or other components) is shown as a disposal and acquisition. The motion passed unanimously.

4. Considered Maintenance Agenda—Pending Listing

Malm made a motion, seconded by Sherman, to expose the following SAP concepts and clarifications to statutory accounting guidance for a public comment period ending Jan. 31, 2025, except for agenda item 2024-26EP, which was exposed for a public comment period ending Dec. 9, 2024. The motion passed unanimously.

A. Agenda Item 2024-20

Bruggeman directed the Working Group to agenda item *2024-20: Restricted Asset Clarification*. Gann explained that this agenda item clarifies how assets under modified coinsurance (modco) or funds withheld (FWH) agreements should be reported as restricted assets in Note 5L of statutory financial statements. She stated that it also proposes enhanced disclosures to identify the extent of restricted assets and differences between restricted asset disclosures and general interrogatories, which impact RBC formulas. Gann suggested revising life RBC instructions to clarify that if modco/FWH assets are used as collateral for purposes unrelated to the reinsurance agreement, they should not reduce RBC charges. She stated that this aligns with existing instructions that do not permit RBC credit when asset risk is not fully transferred to the assuming entity. Gann stated that the agenda item does not propose capturing modco/FWH assets in restricted asset reporting that affects general interrogatories and additional RBC charges. Instead, the agenda item suggests modifications to capture these assets in existing restricted asset disclosures, providing a complete view without additional RBC impact. She stated that NAIC staff support including these assets in restricted asset disclosures for consistency and comparability as this helps financial statement users assess available assets and borrowing capacity. She stated that the agenda item also proposes additional disclosures to identify differences between restricted assets in accordance with *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures* in Note 5L and the general interrogatories, addressing discrepancies and promoting uniform reporting practices.

She stated that if the proposal is adopted, there would be a recommended referral to specific RBC working groups. She stated that at the Fall National Meeting, there is only the recommendation to move to the active listing to expose the agenda item as a SAP clarification.

B. <u>Agenda Item 2024-21</u>

Bruggeman directed the Working Group to agenda item *2024-21: Investment Subsidiary Classification.* Gann stated that this agenda item addresses questions about classifying investments as investment subsidiaries in Schedule D-6-1 and the life RBC formula. She stated that historic *SSAP No. 46—Investments in Subsidiary, Controlled, and Affiliated Entities* defined investment subsidiaries as noninsurance subsidiary, controlled, or affiliated entities (SCAs) holding assets for the reporting entity's benefit, measured on a statutory basis. Gann stated that historic *SSAP No. 88—Investments in Subsidiary, Controlled, and Affiliated Entities* and later *SSAP No. 97—Investments in Subsidiary, Controlled, and Affiliated Entities* eliminated this concept, requiring SCAs to be reported based on audited U.S. GAAP equity value unless they are insurance subsidiaries or engage in specific activities and pass a revenue test.

She stated that under SSAP No. 97, SCAs that received U.S. GAAP with limited statutory adjustments entities must be insurance subsidiaries or engage pass a revenue and activity test, or they are reported based on audited U.S. GAAP equity value. She stated that *SSAP No. 25—Affiliates and Other Related Parties* still reflects the concept of an investment sub for non-economic transactions, where assets are transferred at fair value but gains are deferred until permanence is verified. Gann stated that NAIC staff recommend that the Working Group expose this concept agenda item with a request for comments on the options offered to clarify statutory accounting guidelines and resulting reporting impacts for investment subsidiaries. She stated that, except for possible revisions to SSAP No. 97, the other possible actions are to sponsor blanks proposals or send referrals to the Capital Adequacy (E) Task Force and related RBC working groups with a request for revisions.

Bruggman stated that sometimes entities created for liability protection are termed disregarded entities. He stated they did not want different conclusions if the assets are owned directly from when they are held by a disregarded or other similar entity. He noted that the possibility of different or unintended treatment should be considered when reviewing the exposed concept agenda item.

C. <u>Agenda Item 2024-22</u>

Bruggeman directed the Working Group to agenda item *2024-22: ASU 2024-01, Scope Application of Profits Interest and Similar Awards*. Oden stated that this agenda item was drafted in response to *ASU 2024-01, Scope Application of Profits Interest and Similar Awards* which was issued by FASB to clarify the application of stock compensation guidance on profits interest and similar awards. As profits interest holders only participate in future profits and/or equity appreciation and have no rights to the existing net assets of the partnership, FASB noted it can be complex to determine whether a profits interest award should be accounted for as a share-based payment arrangement (Topic 718) or similar to a cash bonus or profit-sharing arrangement (Topic 710, Compensation—General or Other Topics). Oden also noted that the proposed revisions to *SSAP No. 104—Share-Based Payments* do not include the illustrative examples added by ASU 2024-01 but do incorporate some of the guidance provided by the illustrative examples. Oden recommended that the Working Group move this item to the active listing and categorize it as a SAP clarification to adopt, with modification, ASU 2024-01 within SSAP No. 104.

D. Agenda Item 2024-23

Bruggeman directed the Working Group to agenda item *2024-23: Derivative Premium Clarifications.* Oden noted that this agenda item was developed to address two derivative premium issues noted by NAIC staff. Oden stated that the first issue was noted during internal reviews of SSAP No. 86 and the *Annual Statement Instructions*. It was noted that the terminology for derivative financing premium was inconsistent and that the guidance for derivative financing premiums could be further clarified.

Oden noted that the second issue was identified as part of the ongoing Interest Maintenance Reserve (IMR) Ad Hoc Group meetings. NAIC staff learned that there is some confusion within the industry regarding whether statutory accounting guidance allows for derivative premium costs to be captured in the calculation of realized losses for the derivative transaction. Oden stated that within SSAP No. 86 there are several sections that provide derivative-specific accounting guidance, and within these sections, the guidance is clear that companies are to amortize derivative premium costs over the life of the derivative contract. Per SSAP No. 86, derivative premiums represent the cost to acquire or write a derivative contract and are not an "underlying" in a derivative contract, and only the change in value attributable to the derivative underlying is allowed to be capitalized to IMR as a realized loss.

Since derivative premium costs are not a component of the derivative underlying, Oden noted that NAIC staff feel the guidance is clear that derivative premium costs should not be included in losses capitalized into IMR. To ensure that this is abundantly clear, revisions have been recommended to both the "Definitions" and "Derivative Premium" sections to add language that specifically states derivative premium costs cannot be capitalized into IMR. Oden stated that NAIC staff recommend that the Working Group expose revisions to SSAP No. 86 and the *Annual Statement Instructions* to ensure consistent terminology for derivative financing premiums and to further clarify that derivative premium costs are not to be capitalized to IMR.

E. Agenda Item 2024-24

Bruggeman directed the Working Group to agenda item *2024-24: Medicare Part D – Prescription Payment Plan*. Robin Marcotte (NAIC) stated that this agenda item proposes a new interpretation that would address the application of existing statutory accounting guidance to a new payment program added to the Medicare Part D prescription drug program which is effective starting in 2025. She stated that the Medicare Prescription Payment Program (MP3) requires Medicare Part D plans to pay pharmacies upfront for enrollee out-of-pocket costs (if the enrollee has opted into MP3). The enrollees then repay the Medicare Part D Plan in installments over the remaining policy term. She stated that the program does not decrease the enrollee's total out-of-pocket costs, but it simply allows installment payments.

Marcotte stated that reporting and accounting guidance is needed on where to report initial payments to pharmacies, related installment receivables from enrollees, and how to account for these payments. She stated that health insurance industry groups, including AHIP and Blue Cross Blue Shield Association (BCBSA), have provided input and recommendations in a letter that is included with the comment letters (Attachment One-C).

Marcotte summarized key points for the tentative *INT 24-02: Medicare Part D Prescription Payment Plans*, including that the installment receivables would be admitted if they are less than 90 days overdue. The installment receivables would be reported in the lines for health care receivables and other amounts receivable. She stated that the recommendation is to report the uncollectible (written off) installment receivables in Medicare Part D claims as there will be estimates for these losses included in premium bids. She noted that this is different from the Centers for Medicare & Medicaid Services (CMS) treatment for the medical loss ratio because CMS considers this expense to be an administrative cost and, therefore, will report the amount in the denominator of the medical loss ratios (MLRs). She noted that this proposed reporting and difference in MLR calculation would necessitate additional annual statement revisions including revisions in the Supplemental Health Care Exhibit (SHCE) instructions. She also stated additional disclosures are proposed to be researched and developed in the interim.

Marcotte stated that NAIC staff recommend that the Working Group expose the draft INT 24-02 and expose minor edits to *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*. She stated that the edits to INT 05-05 would add a reference to the proposed INT 24-02 regarding Medicare Part D prescription payment plans. She stated that the Working Group should also send notice of the exposure to the Health Insurance and Managed Care (B) Committee and the Health Risk-Based Capital (E) Working Group, and direct NAIC staff to coordinate with Blanks (E) Working Group staff to develop an annual statement blanks proposal in the interim and to develop disclosures for future inclusion in relevant SSAPs.

Bruggman noted that with the installment process, to the extent the amounts are not recovered from the enrollees, the recommendation to report as a claim makes some sense to him.

F. <u>Agenda Item 2024-25</u>

Bruggeman directed the Working Group to agenda item *2024-25: SSAP No. 16 ASU Clarification*. Jake Stultz (NAIC) stated that this agenda item was developed when staff noted instances in *SSAP No. 16—Electronic Data Processing Equipment and Software* where the FASB ASC topic has been referenced directly instead of the adopted ASU. When FASB adopts guidance, it is issued through an accounting standards update which formally adopts the guidance into the FASB accounting codification. The Working Group will then address the guidance in the ASU, which is the guidance at a moment in time, instead of the actual ASC, which represents guidance that will change over time as other ASUs are adopted. As the guidance stands now, a new ASU could be issued that impacts the ASC sections that are referenced in the SSAP, thereby changing statutory accounting guidance without the Working Group addressing and considering the issue. This agenda item proposes to add the effective ASUs to each of these references where it is missing in SSAP No. 16.

G. <u>Agenda Item 2024-26EP</u>

Bruggeman directed the Working Group to agenda item *2024-26EP: Fall 2024 Editorial Revisions.* Oden stated the disclosure in SSAP No. 26, paragraph 39e is an existing disclosure (pre-bond-definition revisions). However, the pre-bond-definition version of the disclosure included directions for disclosure by Schedule D broad reporting categories, with categories listed in the SSAP. These reporting categories were removed from the adopted revised SSAP No. 26 disclosure, effective Jan. 1, 2025. Although this disclosure is satisfied by the completion of Schedule D-1-1 and D-1-2 for statutory accounting purposes, comments have been made that the adopted revised language could require a listing of all bonds in the audited financial statements. As such, editorial revisions have been proposed to reinstate the prior language for receiving bond treatment. As adopted, revised *SSAP No. 43—Asset-Backed Securities*, paragraph 44m, points to this SSAP No. 26 disclosure for asset-backed securities (ABS) items and includes reference to reporting categories. A listing of the reporting categories is not deemed necessary within SSAP No. 26. Bruggeman stated support for this clarification.

5. Discussed Other Matters

   A. Review of U.S. GAAP Exposures

Stultz identified two U.S. GAAP items currently exposed by the FASB (Attachment One-I). He stated that comments are not recommended at this time and that NAIC staff recommend a review of the final issued ASUs under the SAP maintenance process as detailed in *Appendix F—Policy Statements*.

   B. Update on the IMR Ad Hoc Group

Marcotte stated that the IMR Ad Hoc group has met regularly since their first meeting in October 2023. Since the Summer National Meeting, the discussions have focused on IMR from reinsurance transactions. The reinsurance discussion is complex, and after assessing the application/interpretation of existing guidance, the group has directed a reassessment of guidance. With this approach, it is intended that principles for accounting/reporting of IMR in response to reinsurance transactions (including for the cedent, assuming entity, and in the event of recapture) will be established for application. Bruggeman stated that they have tried to group topics into four broad categories that can be brought to the Working Group for discussion in 2025.

   C. Update on the Bond Project Implementation/Bond Small Group

Marcotte stated that the Bond Small Group has concluded its regular meetings. The group addressed the items presented and referred the Q&A to the Working Group. Based on issues or questions raised, the group may resume future discussions as necessary.

   D. Use of Third-Party Vendors/Checklists to Determine Bond Definition Compliance/Classification

Bruggeman stated that vendors have developed tools or checklists to determine bond definitions and recommended that users exercise caution when using these resources. He reminded the group that this is a principle-based bond definition, and some tools might be more rule-based. If a tool provides direct inputs and outputs, it might be too rigid. Therefore, he urged caution and to "trust but verify." He stated that, if tools are available in this program, use them, but don't blindly accept the results.

Clark stated that they are not discouraging the use of technology for classification, as it is often necessary. However, he cautioned against tools that overpromise by claiming they can automatically classify pass versus fail for all investments. Given that this is a principles-based and judgmental standard, he advised using caution and ensuring ownership of the process.

   E. Update on the IAIS AAWG

Marcotte stated that Gann and Maggie Chang (NAIC) monitor International Association of Insurance Supervisors (IAIS) discussions. There have been no significant discussions since the Summer National Meeting. Beginning in

November 2024, it is anticipated that NAIC staff will review the 200 pages of comments received on the exposed IAIS climate risk materials and propose revisions to the application paper.

F. Update on Reinsurance Exposures

Marcotte stated that three reinsurance-related agenda items *#2024-05: A-791, Paragraph 2c.*; *#2024-06: Risk Transfer Analysis on Combination Reinsurance Contracts*; and *#2024-07: Reporting of Funds Withheld and Modco Assets*, were exposed at the Summer National Meeting. Agenda items 2024-05 and 2024-06 are related to referrals from the Valuation Analysis (E) Working Group, and 2024-07 are for the new modco disclosures. All three of these items have had delayed comment deadlines at the request of the American Council of Life Insurers (ACLI), and the Working Group requested that they provide a short update at this meeting.

Carrie Haughawout (ACLI) stated that ACLI members continue to believe that the two proposals, agenda items 2024-05 and 2024-06, are inextricably linked and should be considered together. She stated that ACLI members have noted that maintaining the language in A-791, paragraph 2c, is helpful because it reflects the fact that each contract is evaluated using the applicable statutory accounting risk transfer guidance and the specific facts and circumstances inherent in the agreement including premium levels. She stated that if more specifics can be established in 2024-06, additional changes to 2024-05, as currently contemplated, may be more appropriate. She stated that, ultimately, the ACLI concern continues to be that without more guidance about how to apply this concept of risk transfer analysis, there may be a diversity of practice about how the regulation could be applied, leading to more inconsistency across the states rather than less. She stated that, as a result, the ACLI would suggest a small working group of regulators and industry with an agreed-upon timeline to help structure the necessary guidance.

Marc Altschull (ACLI) spoke about agenda item 2024-07. He stated that ACLI members have had productive conversations with NAIC staff and regulators on this proposal. He noted that ACLI members have concerns about reporting confidential, treaty-level information regarding assets and pricing in a public filing. Additionally, the timing of this requirement could cause a resource strain with the bond project currently being a priority for the industry and third-party vendors. He noted that they look forward to discussion with the Working Group. Bruggeman stated he looks forward to a constructive conversation on the topic on Dec. 17.

G. Lloyd's Coordination

Stultz stated that NAIC staff have received questions on Lloyd's removal of several syndicates, and it is causing some confusion on reinsurance schedule reporting. NAIC staff has had preliminary conversations and is coordinating with Lloyd's staff to determine if any additional guidance needs to be shared with the Blanks (E) Working Group.

H. Dec. 17 Meeting

Bruggeman noted that the Working Group has scheduled a meeting for Dec. 17 for items with Nov. 8 and Dec. 9 comment deadlines.

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.

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Draft: 10/11/24

Statutory Accounting Principles (E) Working Group
E-Vote
October 4, 2024

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force conducted an e-vote that concluded Oct. 4, 2024. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kevin Clark, Vice Chair (IA); Kim Hudson (CA); William Arfanis (CT); Rylynn Brown (DE); Bill Werner (LA); Judy Weaver (MI); Doug Bartlett (NH); Jamie Walker (TX); and Amy Malm (WI).

1. Exposed an Updated Q&A Implementation Guide (Agenda Item 2019-21)

The Working Group considered an e-vote to expose an updated bond definition question and answer (Q&A) implementation guidance for a comment period ending Oct. 28. The primary revisions to the Q&A were to include three additional topics addressing commercial mortgage-backed securities (CMBS) interest-only (IO) strips, commercial mortgage loan single-asset, single-borrower (SASB) investments, and hybrids.

The Q&A was previously exposed at the Summer National Meeting for a comment period that ended Sep. 27. No comments were received on the specific questions and answers. However, a comment was received on the classification of issue papers within the statutory hierarchy. As this is a broader issue than the Q&A, a discussion on this aspect is planned for the Fall National Meeting. Minor edits were also incorporated into paragraph 9.2 of the Q&A to eliminate concerns on this topic within the Q&A document. These edits do not change the intent of the Q&A guidance.

Clark made a motion, seconded by Arfanis, to expose the updated Q&A for a comment period ending Oct. 28 to allow for discussion at the Fall National Meeting. The motion passed, with nine Working Group members responding affirmatively.

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.

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Draft: 9/19/24

Statutory Accounting Principles (E) Working Group
E-Vote
September 12, 2024

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force conducted an e-vote that concluded Sept. 12, 2024. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kevin Clark, Vice Chair (IA); Michael Estabrook (CT); Rylynn Brown (DE); Cindy Andersen (IL); Judy Weaver (MI); Doug Bartlett (NH); Bob Kasinow (NY); Diana Sherman (PA); Jamie Walker (TX); Jennifer Blizzard (VA); and Amy Malm (WI).

1. <u>Adopted Agenda Item 2024-01, Revisions to Adopted Bond Guidance</u>

The Working Group considered an e-vote to adopt revisions to the bond guidance adopted in *SSAP No. 26—Bonds* (effective Jan. 1, 2025) and *Issue Paper No. 169—Principles-Based Bond Definition* to revise guidance that restricted issuer credit obligation classification to debt securities issued by U.S. Securities and Exchange Commission (SEC)-registered funds. The revisions permit debt securities issued by funds that represent operating entities to be classified as issuer credit obligations. The guidance is specific that reporting entities are not permitted to use leverage limits allowed by SEC-registered funds in classifying debt securities and that debt securities issued from all non-SEC-issued funds must be assessed in accordance with the primary purpose of the issuance. Debt securities issued to raise debt capital are not permitted to be classified as issuer credit obligations and must be assessed as asset-backed securities (ABS).

The revisions considered for adoption were exposed at the Summer National Meeting with a shortened public comment period that ended Sept. 6. With exposure, it was identified that if no comments or only supportive comments were received, the Working Group would consider this exposure via e-vote. In response to this exposure, an interested party's comment letter stated support for the exposure (Attachment One-B1).

Clark made a motion, seconded by Bartlett, to adopt the exposed revisions to SSAP No. 26 and Issue Paper No. 169, with a Jan. 1, 2025, effective date. The motion passed with 11 Working Group members responding affirmatively (Attachment One-B2).

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.

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September 6, 2024

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Ref #2024-01: SSAP No. 26, Debt Securities Issued by Funds

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the following item that was exposed for comment by the Statutory Accounting Working Group (the Working Group) during the NAIC National Meeting with comments due September 6th.

This agenda item has been developed to clarify guidance in the principles-based bond definition on the treatment of debt securities issued by funds, particularly to eliminate inconsistent application between similar funds and to better align with the recently adopted definition of residual tranches. In the adopted bond definition, bonds issued by business development corporations (BDCs), closed-end funds (CEFs), or similar operating entities are provided as examples of issuer credit obligations (ICOs) when they are registered under the Investment Company Act of 1940 (the 1940 Act). It has been noted that this guidance is inconsistent with the stated intent of having the bond definition be principles-based as the registration of the fund appears to be the basis of classification as an ICO vs. an ABS, rather than based on principles. It has been noted that with the current guidance, two funds with issued debt that are virtually identical can have separate SSAP classification of the debt securities (resulting in different accounting/reporting) simply based on whether the fund is registered. Additionally, it would lead to debt securities being classified inconsistently with their equity counterparts. In concept, there should be consistency between the classification of a debt security as an asset-backed security, and the equity of that structure being classified as a residual interest. Using SEC-registration as currently adopted would result in misalignment of these concepts.

The changes captured within this agenda item propose to revise the principles-based bond definition guidance to clarify that debt securities issued by funds representing operating entities qualify as ICOs. This would allow consistent treatment of similar funds regardless of SEC registration status.

Guidance is also proposed to assist with distinguishing whether a fund represents an operating entity or a securitization vehicle.

Interested parties support this exposure.

Please feel free to contact either one of us if you have any questions or would like to discuss further.

Sincerely,

D. Keith Bell   Rose Albrizio

cc: Interested parties
NAIC staff

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Ref #2024-01

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

Issue: Bond Definition – Debt Securities Issued by Funds

Check (applicable entity):

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

Description of Issue: This agenda item has been developed to clarify guidance in the principles-based bond definition on the treatment on debt securities issued by funds, particularly to eliminate inconsistent application between similar funds and to better align with the recently adopted definition of residual tranches. In the adopted bond definition, bonds issued by business development corporations (BDCs), closed-end funds (CEFs), or similar operating entities are provided as examples of issuer credit obligations (ICOs) when they are registered under the Investment Company Act of 1940 (1940 Act). It has been noted that this guidance is inconsistent with the stated intent of having the bond definition be principles-based as the registration of the fund appears to be the basis of classification as an ICO vs ABS, rather than based on principles. It has been noted that with the current guidance, two funds with issued debt that are virtually identical can have separate SSAP classification of the debt securities (resulting with different accounting/reporting) simply based on whether the fund is registered. Additionally, it would lead to debt securities being classified inconsistently with their equity counterparts. In concept, there should be consistency between the classification of a debt security as an asset-backed security, and the equity of that structure being classified as a residual interest. Using SEC-registration as currently adopted would result in misalignment of these concepts.

The changes captured within this agenda item propose to revise the principles-based bond definition guidance to clarify that debt securities issued by funds representing operating entities qualify as ICOs. This would allow consistent treatment of similar funds regardless of SEC registration status. Guidance is also proposed to assist with distinguishing whether a fund represents an operating entity or a securitization vehicle.

The original guidance, and the reference to the SEC registration, was an easy approach to determine whether a debt security from a fund qualified as an ICO. This is because SEC registered funds have leverage limits on how much debt can be issued. Although debt securities issued from SEC registered CEFs and BDCs are still permitted as ICOs, the proposed edits permit debt securities from non-registered funds to qualify as ICO if the funds are functioning as operating entities and are not issuing securities for the primary purpose of raising debt capital.

Existing Authoritative Literature:

- ***SSAP No. 26R—Bonds*** **(Effective Jan. 1, 2025)**

  7. An issuer credit obligation is a bond, for which the general creditworthiness of an operating entity or entities through direct or indirect recourse, is the primary source of repayment. Operating entity or entities includes holding companies with operating entity subsidiaries where the holding company has the ability to access the operating subsidiaries' cash flows through its ownership rights. An operating entity may be any sort of business entity, not-for-profit organization, governmental unit, or other provider of goods or services, but not a natural person or "ABS Issuer" (as defined in paragraph 8). Examples of issuer credit obligations include, but are not limited to:

a. U.S. Treasury securities, including U.S. Treasury Inflation-Indexed Securities; (INT 01-25).

b. U.S. government agency securities.

c. Municipal securities issued by the municipality or supported by cash flows generated by a municipally-owned asset or entity that provides goods or services (e.g., airport, toll roads, etc.).

d. Corporate bonds issued by operating entities, including Yankee bonds and zero-coupon bonds.

e. Corporate bonds issued by holding companies that own operating entities.

f. Project finance bonds issued by operating entities.

g. Investments in the form of securities for which repayment is fully supported by an underlying contractual obligation of a single operating entity (e.g., Credit Tenant Loans (CTLs), Equipment trust certificates (ETCs), other lease backed securities, Funding Agreement Backed Notes (FABNs), etc.). For purposes of applying this principal concept, repayment is fully-supported by the underlying operating entity obligation if it provides cash flows for the repayment of all interest and at least 95% of the principal of the security.

h. Bonds issued by real estate investment trusts (REITs) or similar property trusts.

i. Bonds issued by business development corporations, closed-end funds, or similar operating entities, in each case registered under the 1940 Act.

j. Convertible bonds issued by operating entities, including mandatory convertible bonds as defined in paragraph 20.b.

Issue Paper – Exposure Draft As of 2023 Summer National Meeting

32. Whether an issuer of debt represents an operating entity or ABS Issuer is expected to be clear in most instances, but certain instances may be less clear. Ultimately, for an issuer credit obligation, it comes down to whether support for repayment consists of direct or indirect recourse to an operating entity or entities. In addition to "traditional bond" structures previously included in SSAP No. 26R, examples of issuer credit obligations include:

a. Investments in the form of securities for which repayment is fully supported by an underlying contractual obligation of a single operating entity. (e.g., CTLs, ETCs, other lease backed securities, Funding Agreement Backed Notes (FABNs), etc.). For purposes of applying this principle concept, repayment is fully-supported by the underlying operating entity obligation if it provides cash flows for the repayment of all interest and at least 95% of the principal of the security.

b. Bonds issued by real estate investment trusts (REITS) or similar property trusts.

c. Bonds issued by business development corporations, closed-end funds or similar operating entities, in each case registered under the 1940 Act. With this inclusion, it is important to highlight that the intent is specific to bonds issued from SEC-registered entities. The reference to "similar entities" is not intended to capture items issued from collateralized fund obligations (CFOs) or other such structures. Although some may consider CFOs to be similar to closed-end funds, that assessment is not supported for classification as an issuer credit obligation. Instruments considered to reflect CFOs (and other like structures) are required to be assessed as asset-backed securities for inclusion on Schedule D-1.

d. Project finance debt issued by operating entities. These investments reflect financing of a single asset or "operation" (such as a toll road or power generation facility) that collateralizes a debt issuance and the cash flows produced by the asset/operation service the debt, where the issuer may also represent an operating entity. These designs have characteristics of both issuer credit operations, as the operation constitutes a stand-alone business, as well as characteristics of ABS, as they are formed for the purpose of raising debt capital backed by the cash flows from collateral held by a bankruptcy-remote entity. When viewed holistically, these issuing entities are typically used to facilitate the financing of an operating component of a project sponsor or municipality. Although the use of a bankruptcy-remote entity (e.g., SPV) facilitates the efficient raising of debt as a source of financing, the primary purpose is to finance an operating project. Therefore, when the issuing entity represents a stand-alone business producing its own operating revenues and expenses, where the primary purpose is to finance an operating project, the issuing entity shall be considered an operating entity despite certain characteristics that resemble ABS issuances.

i. It is important to highlight that the guidance for project finance is strictly for instruments issued by operating entities, similar to other instruments that qualify as issuer credit obligations under the principles-based bond definition. Consistent with other concepts, the naming convention (e.g., referring to an instrument as project finance) or the presence or absence of an SPV/trust structure are not definitive components in determining whether an investment qualifies for reporting on Schedule D-1, or is classified as an issuer credit obligation or ABS. Instruments (even if identified as "project finance") that do not qualify as issuer credit obligations as they not issued by operating entities, shall be assessed for qualification for reporting on Schedule D-1 as ABS. If the instruments do not qualify for reporting as ABS, they shall not be reported on Schedule D-1.

e. U.S. Treasury Inflation-Protected Securities (TIPs): The inclusion of U.S. TIPs specifically as an issuer credit obligation intends to highlight a specific exception to the determination as a creditor relationship as the variation is due to plain-vanilla inflation adjustment mechanisms. Although U.S. TIPs are specific as issuer credit obligations, Under the bond definition encompassing both issuer credit obligations and asset-backed securities, in order for a debt instrument to represent a creditor relationship, it must have pre-determined principal and interest payments (whether fixed interest or variable interest) with contractual amounts that do not vary based on the appreciation or depreciation (e.g., performance) of any underlying collateral value or other non-debt variable . For example, an issued security that has varying principal and interest payments based on the appreciation of referenced equity, real estate or other non-debt variables are precluded from bond treatment as they do not reflect creditor relationships. Although US TIPS are indexed to the consumer price index and grows with inflation, these securities shall be captured as issuer credit obligations on Schedule D-1.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

- *SSAP No. 26R—Bonds* and *SSAP No. 43R—Asset-Backed Securities*, reflecting new guidance to incorporate a principles-based bond definition were adopted during the 2023 Summer National Meeting. This guidance is effective Jan. 1, 2025. The corresponding Issue Paper has been updated as discussions occurred and has not yet been finalized as discussions involving SSAP No. 21R for the debt securities that do not qualify as bonds is not yet adopted.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): N/A

Ref #2024-01

Recommendation:
NAIC staff recommend that the Working Group include this agenda item on their maintenance agenda as a SAP clarification and expose revisions to *SSAP No. 26R—Bonds* incorporating the principles-based bond definition to clarify that debt securities issued by funds that represent operating entities are permitted as issuer credit obligations. These revisions would be in effect pursuant to the effective date of the revised SSAP No. 26R guidance, which is Jan. 1, 2025. The edits revise paragraph 7.i and incorporate a new paragraph 12 to the SSAP No. 26R guidance.

This agenda item also proposes revisions to the draft Issue Paper (paragraph 32c) to update the guidance previously included addressing 1940 Act registered BDCs and CEFs as issuer credit obligations.

Proposed Revisions to *SSAP No. 26R—Bonds* (Effective Jan. 1, 2025)

7. An issuer credit obligation is a bond, for which the general creditworthiness of an operating entity or entities through direct or indirect recourse, is the primary source of repayment. Operating entity or entities includes holding companies with operating entity subsidiaries where the holding company has the ability to access the operating subsidiaries' cash flows through its ownership rights. An operating entity may be any sort of business entity, not-for-profit organization, governmental unit, or other provider of goods or services, but not a natural person or "ABS Issuer" (as defined in paragraph 8). Examples of issuer credit obligations include, but are not limited to:

a. U.S. Treasury securities, including U.S. Treasury Inflation-Indexed Securities;(INT 01-25).

b. U.S. government agency securities.

c. Municipal securities issued by the municipality or supported by cash flows generated by a municipally-owned asset or entity that provides goods or services (e.g., airport, toll roads, etc.).

d. Corporate bonds issued by operating entities, including Yankee bonds and zero-coupon bonds.

e. Corporate bonds, issued by holding companies that own operating entities.

f. Project finance bonds issued by operating entities.

g. Investments in the form of securities for which repayment is fully supported by an underlying contractual obligation of a single operating entity (e.g., Credit Tenant Loans (CTLs), Equipment trust certificates (ETCs), other lease backed securities, Funding Agreement Backed Notes (FABNs), etc.). For purposes of applying this principal concept, repayment is fully-supported by the underlying operating entity obligation if it provides cash flows for the repayment of all interest and at least 95% of the principal of the security.

h. Bonds issued by real estate investment trusts (REITs) or similar property trusts.

i. Bonds issued by funds representing operating entities as described in paragraph 12.~~Bonds issued by business development corporations, closed-end funds, or similar operating entities, in each case registered under the 1940 Act.~~

j. Convertible bonds issued by operating entities, including mandatory convertible bonds as defined in paragraph 20.b.

8. An asset[1]-backed security is a bond issued by an entity (an "ABS Issuer") created for the primary purpose of raising debt capital backed by financial assets[2] or cash generating non-financial assets owned by the ABS Issuer, for which the primary source of repayment is derived from the cash flows associated with the underlying defined collateral rather than the cash flows of an operating entity[3]. In most instances, the ABS Issuer is not expected to continue functioning beyond the final maturity of the debt initially raised by the ABS Issuer. Also, many ABS Issuers are in the form of a trust or special purpose vehicle ("SPV"), although the presence or lack of a trust or SPV is not a definitive criterion for determining that a security meets the definition of an asset-backed security. The provisions in paragraphs 9-10 detail the two defining characteristics that must be present for a security to meet the definition of an asset-backed security.

9. The assets owned by the ABS Issuer are either financial assets or cash-generating non-financial assets. Cash-generating non-financial assets are defined as assets that are expected to generate a meaningful level of cash flows toward repayment of the bond through use, licensing, leasing, servicing or management fees, or other similar cash flow generation. For the avoidance of doubt, there must be a meaningful level of cash flows to service the debt, other than through the sale or refinancing of the underlying assets held by the ABS Issuer. Reliance on cash flows from the sale or refinancing of cash generating non-financial assets does not preclude a security from being classified as an asset-backed security so long as the conditions in this paragraph are met.

   a. *Meaningful Level of Cash Flows*: Determining what constitutes a "meaningful" level of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral pursuant to paragraph 9 is specific to each transaction, determined at origination, and shall consider the following factors:

      i. The price volatility in the principal market for the underlying collateral;
      ii. The liquidity in the principal market for the underlying collateral;
      iii. The diversification characteristics of the underlying collateral (i.e., types of collateral, geographic location(s), source(s) of cash flows within the structure, etc.);
      iv. The overcollateralization of the underlying collateral relative to the debt obligation; and
      v. The variability of cash flows, from sources other than sale or refinancing, expected to be generated from the underlying collateral.

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[1] The underlying collateral supporting an asset-backed security shall meet the definition of an asset by the ABS Issuer. Certain forms of collateral, such as rights to future cash flows, may not be recognized as assets by the selling entity but may be recognized as assets when sold to an ABS Issuer. These assets are permitted as the collateral supporting an asset-backed security, although they may not represent an asset that can be liquidated to provide payment toward the issued debt obligations (i.e., if the future cash flows do not materialize). The limited ability to liquidate the underlying collateral supporting an asset-backed security does not impact the structural determination of whether an issued security meets the definition of an asset-backed security but may impact the recoverability of the investment, as well as the consideration of whether there is sufficient credit enhancement.

[2] *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* defines a financial asset as cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right (a) to receive cash or another financial instrument from a second entity or (b) to exchange other financial instruments on potentially favorable terms with the second entity. As a point of clarity, for the purposes of this standard, financial assets do not include assets for which the realization of the benefits conveyed by the above rights depends on the completion of a performance obligation (e.g., leases, mortgage servicing rights, royalty rights, etc.). These assets represent non-financial assets, or a means through which non-financial assets produce cash flows, until the performance obligation has been satisfied.

[3] Dedicated cash flows from an operating entity can form the underlying defined collateral in an asset-backed security. This dynamic, perhaps noted in a whole-business securitization, still reflects an asset-backed security and is not an issuer credit obligation.

The factors for price variability and the variability of cash flows are directly related to the "meaningful" requirement. That is, as price volatility or variability of cash flows increase, the required percentage of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral must also increase. The factors for liquidity, diversification and overcollateralization are inversely related to the "meaningful" concept. That is, as liquidity, diversification or overcollateralization increase, the required percentage of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral may decrease.

b. As a practical expedient to determining whether a cash generating non-financial asset is expected to produce meaningful cash flows, a reporting entity may consider an asset for which less than 50% of the original principal relies on sale or refinancing to meet the meaningful criteria. In applying this practical expedient, only contractual cash flows of the non-financial assets may be considered. This practical expedient should not be construed to mean that assets cannot meet the meaningful criteria if they rely on sale or refinancing to service greater than 50% of the original principal or if they rely on cash flows that are not contracted at origination. Rather, such instances would require a complete analysis of the considerations described within the meaningful level of cash flows definition in paragraph 9.

10. The holder of a debt instrument issued by an ABS Issuer is in a different economic position than if the holder owned the ABS Issuer's assets directly. The holder of the debt instrument is in a different economic position if such debt instrument benefits from substantive credit enhancement through guarantees (or other similar forms of recourse), subordination and/or overcollateralization.

a. *Substantive Credit Enhancement*: The intent of the criteria requiring the holder to be in a different economic position is to distinguish qualifying bonds from instruments with equity-like characteristics or where the substance of the transaction is more closely aligned with that of the underlying collateral. To qualify as an ABS under this standard, there is a requirement that there are substantive credit enhancements within the structure that absorb losses before the debt instrument being evaluated would be expected to absorb losses. This is inherent in the context of an issuer credit obligation in scope of SSAP No. 26R as the owners of the equity in the operating entity are the first to absorb any variability in performance of the operating entity. The same concept applies to asset-backed securities. If substantive credit enhancement did not exist, the substance of the debt instrument being evaluated would be more closely aligned with that of the underlying collateral than that of a bond. Credit enhancement that is merely nominal or lacks economic substance does not put a holder in a different economic position. The substantive credit enhancement required to be in a different economic position is specific to each transaction; determined at origination; and refers to the level of credit enhancement a market participant (i.e., knowledgeable investor transacting at arm's length) would conclude is substantive.

b. The first loss position may be issued as part of a securitization in the form of a debt or equity interest, or it may be retained by the sponsor and not issued as part of the securitization. If the first loss position (or a more senior position(s), if the first loss position(s) lacks contractual payments along with a substantive credit enhancement) is issued as part of the securitization, and does not have contractual principal and interest payments along with substantive credit enhancement and is held by a reporting entity, the investment(s) does not qualify for reporting as a bond and shall be reported on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value consistent with the treatment for residuals. (These items are further addressed in *SSAP No. 21R—Other Admitted Assets*.)

11. Whether an issuer of debt represents an operating entity or ABS Issuer is unambiguous in most instances, but certain instances may be less clear. For example, an entity may operate a single asset such as a toll road or power generation facility (e.g., project finance) which serves to collateralize a debt issuance, and the cash flows produced by the operation of the assets are pledged to service the debt. In many such instances, the entity is structured as a bankruptcy-remote entity that is separate from the municipality or project sponsor. Such entities have characteristics of operating entities as the operation of the asset constitutes a stand-alone business. They also have many common characteristics of ABS Issuers as they are formed for the purpose of raising debt capital backed by the cash flows from collateral held by a bankruptcy-remote entity. When viewed more holistically, these issuing entities are typically being used to facilitate the financing of an operating component of a project sponsor or municipality. The use of a bankruptcy-remote entity facilitates the efficient raising of debt to finance the operating project, but the primary purpose is to finance an operating project. Therefore, structures in which the issuing entity represents a stand-alone business producing its own operating revenues and expenses, where the primary purpose is to finance an operating project, shall be considered operating entities despite certain characteristics they may share with ABS Issuers.

12. Likewise, distinguishing between a fund that represents an operating entity and a securitization vehicle that represents an ABS Issuer can involve similar ambiguity. Both types of entities may hold only passive investments and issue debt securities for which ultimate recourse upon default is to those investments. However, a clear distinction can generally be made by evaluating the substance of the entity and its primary purpose:

a. A fund representing an operating entity has a primary purpose of raising equity capital and generating returns to its equity investors. Marginal amounts of debt may be issued to fund operations or produce levered returns to equity holders. However, this is in service to meeting the fund's primary equity-investor objective. For 1940-Act registered closed-end funds (CEFs) and business development corporations (BDCs), debt securities issued from the fund in accordance with permitted leverage ratios represent debt issued by operating entities and qualify as issuer credit obligations.

b. In contrast, an ABS Issuer has a primary purpose of raising debt capital and its structural terms and features serve to support this purpose. Perhaps most distinctively, in addition to the characteristics detailed in Paragraph 8, the contractual terms of the structure generally define how each cash flow generated by the collateral is to be applied. There is generally little discretion afforded to the manager/servicer of the vehicle and any discretion that is allowed is narrowly defined in the contractual agreements. This hardwiring of debtholder protections allows for the issuance of higher amounts of leverage than would be possible for a fund representing an operating entity, further supporting the entity's primary purpose of raising debt capital.

~~12.~~13. The definition of a creditor relationship, per paragraph 6, does not include equity/fund investments (such as mutual funds or exchanged-traded funds), or securities that possess equity-like characteristics or that represent an ownership interests in the issuer. However, as identified in paragraph 2, exchange traded funds (ETFs), which qualify for bond treatment, as identified in Part Three of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* and included in the 'SVO-Identified Bond ETF List' published on the SVO's webpage are provided special statutory accounting treatment and are included within the scope of this statement. These investments shall follow the guidance within this statement, as if they were issuer credit obligations, unless different treatment is specifically identified in paragraphs 32-38.

~~13.~~14. Investments within the scope of this statement issued by a related party, or acquired through a related party transaction, are also subject to the provisions, admittance assessments and disclosure requirements of *SSAP No. 25—Affiliates and Other Related Parties.*

~~14.~~15. Investments within the scope of this statement meet the definition of assets as defined in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement and SSAP No. 25.

Proposed Revisions to Draft Issue Paper:

32. Whether an issuer of debt represents an operating entity or ABS Issuer is expected to be clear in most instances, but certain instances may be less clear. Ultimately, for an issuer credit obligation, it comes down to whether support for repayment consists of direct or indirect recourse to an operating entity or entities. In addition to "traditional bond" structures previously included in SSAP No. 26R, examples of issuer credit obligations include:

a. Investments in the form of securities for which repayment is fully supported by an underlying contractual obligation of a single operating entity. (e.g., CTLs, ETCs, other lease backed securities, Funding Agreement Backed Notes (FABNs), etc.). For purposes of applying this principle concept, repayment is fully-supported by the underlying operating entity obligation if it provides cash flows for the repayment of all interest and at least 95% of the principal of the security.

b. Bonds issued by real estate investment trusts (REITS) or similar property trusts.

c. Bonds issued by funds representing operating entities. Determining whether a fund represents an operating entity can generally be made by evaluating the substance of the entity and its primary purpose. A fund representing an operating entity has the primary purpose of raising equity capital and generating returns to its equity investors. Marginal amounts of debt may be issued to fund operations or produce levered returns to equity holders. These debt issuances occur in accordance with the fund's primary equity-investor objective. Debt securities issued by closed-end funds and business development corps registered under the 1940 Act are permitted automatic qualification as issuer credit obligations as those funds are subject to strict limits or reporting components on the leverage (debt issuance) within the fund. ~~Bonds issued by business development corporations, closed-end funds or similar operating entities, in each case registered under the 1940 Act. With this inclusion, it is important to highlight that the intent is specific to bonds issued from SEC-registered entities. The reference to "similar entities" is not intended to capture items issued from collateralized fund obligations (CFOs) or other such structures.~~ In contrast, an ABS Issuer has a primary purpose of raising debt capital and its structural terms and features serve to support this purpose. More distinctively, the contractual terms of the structure generally define how each cash flow generated by the collateral is to be applied. For these structures, there is little or no discretion afforded to the manager/servicer of the vehicle and any discretion that is allowed is narrowly defined in the contractual agreements. The hardwiring of debtholder protections allows for the issuance of higher amounts of debt securities to be issued than what would be possible for a fund representing an operating entity. These features support the entity's primary purpose of raising debt capital. Although some may consider CFOs to be similar to closed-end funds, that assessment is not supported for classification as an issuer credit obligation. Instruments considered to reflect CFOs (and other like structures) are required to be assessed as asset-backed securities for inclusion on Schedule D-1.

d. Project finance debt issued by operating entities. These investments reflect financing of a single asset or "operation" (such as a toll road or power generation facility) that collateralizes a debt issuance and the cash flows produced by the asset/operation service the debt, where the issuer may also represent an operating entity. These designs have characteristics of both issuer credit operations, as the operation constitutes a stand-alone business, as well as characteristics of ABS, as they are formed for the purpose of raising debt capital backed by the cash flows from collateral held by a bankruptcy-remote entity. When viewed holistically, these issuing entities are typically used to facilitate the financing of an operating component of a project sponsor or municipality. Although the use of a bankruptcy-remote entity (e.g., SPV) facilitates the efficient raising of debt as a source of financing, the primary purpose is to finance an operating project. Therefore, when the issuing entity represents a stand-alone business producing its own operating revenues and expenses, where the primary purpose is to finance an operating project, the issuing entity shall be considered an operating entity despite certain characteristics that resemble ABS issuances.

   i. It is important to highlight that the guidance for project finance is strictly for instruments issued by operating entities, similar to other instruments that qualify as issuer credit obligations under the principles-based bond definition. Consistent with other concepts, the naming convention (e.g., referring to an instrument as project finance) or the presence or absence of an SPV/trust structure are not definitive components in determining whether an investment qualifies for reporting on Schedule D-1, or is classified as an issuer credit obligation or ABS. Instruments (even if identified as "project finance") that do not qualify as issuer credit obligations as they not issued by operating entities, shall be assessed for qualification for reporting on Schedule D-1 as ABS. If the instruments do not qualify for reporting as ABS, they shall not be reported on Schedule D-1.

e. U.S. Treasury Inflation-Protected Securities (TIPs): The inclusion of U.S. TIPs specifically as an issuer credit obligation intends to highlight a specific exception to the determination as a creditor relationship as the variation is due to plain-vanilla inflation adjustment mechanisms. Although U.S. TIPs are specific as issuer credit obligations, Under the bond definition encompassing both issuer credit obligations and asset-backed securities, in order for a debt instrument to represent a creditor relationship, it must have pre-determined principal and interest payments (whether fixed interest or variable interest) with contractual amounts that do not vary based on the appreciation or depreciation (e.g., performance) of any underlying collateral value or other non-debt variable . For example, an issued security that has varying principal and interest payments based on the appreciation of referenced equity, real estate or other non-debt variables are precluded from bond treatment as they do not reflect creditor relationships. Although US TIPS are indexed to the consumer price index and grows with inflation, these securities shall be captured as issuer credit obligations on Schedule D-1.

Status:

On January 10, 2024, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed this agenda item with the proposed revisions, as illustrated above, to clarify the guidance for debt securities issued by funds. These revisions permit debt securities issued by funds to be classified as issuer credit obligations if the fund represents an operating entity regardless of SEC-registration status. This item was exposed with a comment deadline of February 9, 2024.

On March 16, 2024, the Statutory Accounting Principles (E) Working Group re-exposed this item with a request for regulators and industry to provide comment on the proposed language that assists with clarifying the scope of guidance and to the types of debt securities issued by funds that should be considered as operating entities, and the proposed language to better define the extent of debt that may be issued to fund operations. This re-exposure and request for clarification intends to address interpretations from the original exposure that the revised guidance would permit feeder funds (and other structures that raise debt capital) to be classified as issuer credit obligations.

On August 13, 2024, the Statutory Accounting Principles (E) Working Group exposed revised language to SSAP No. 26 and the adopted issue paper for a shortened comment period ending September 6, 2024, as shown below. These revisions permit debt securities issued by funds that reflect operating entities to qualify as issuer credit obligations. These revisions clarify that SEC registration is a practical safe harbor intended only for SEC registered funds and should not be utilized as a proxy for other debt securities issued by funds. Other debt securities issued by funds should be assessed as to the issuer's primary purpose. Debt securities issued to raise debt capital must be assessed as an asset-backed security regardless of the amount of debt being issued. If no comments are received, or if only supportive comments are received, the Working Group may consider adoption via an evote.

Proposed Revisions to *SSAP No. 26—Bonds*

(Note: Non-revised subparagraphs have not been included for brevity.)

7. An issuer credit obligation is a bond, for which the general creditworthiness of an operating entity or entities through direct or indirect recourse, is the primary source of repayment. Operating entity or entities includes holding companies with operating entity subsidiaries where the holding company has the ability to access the operating subsidiaries' cash flows through its ownership rights. An operating entity may be any sort of business entity, not-for-profit organization, governmental unit, or other provider of goods or services, but not a natural person or "ABS Issuer" (as defined in paragraph 8). Examples of issuer credit obligations include, but are not limited to:

i. Bonds issued by funds representing operating entities as described in paragraph 12.~~Bonds issued by business development corporations, closed-end funds, or similar operating entities, in each case registered under the 1940 Act.~~

12. Likewise, distinguishing between a fund that represents an operating entity and a securitization vehicle that represents an ABS Issuer can involve similar ambiguity. Both types of entities may hold only passive investments and issue debt securities for which ultimate recourse upon default is to those investments. However, a clear distinction can generally be made by evaluating the substance of the entity and its primary purpose:

a. A fund representing an operating entity has a primary purpose of raising equity capital and generating returns to its equity investors. ~~Marginal amounts of~~Ancillary debt may be issued to fund operations or produce levered returns to equity holders. However, this is in service to meeting the fund's primary equity-investor objective. As a practical safe harbor,~~For~~ 1940-Act registered closed-end funds (CEFs) and business development corporations (BDCs), debt securities issued from the fund in accordance with permitted leverage ratios represent debt issued by operating entities and qualify as issuer credit obligations. This safe harbor for SEC-registered funds should not be viewed to extend to funds that are not SEC-registered by analogy, through comparison of leverage levels for example. All other funds should be classified in accordance with the determination of the issuer's primary purpose.

b. In contrast, an ABS Issuer has a primary purpose of raising debt capital and its structural terms and features serve to support this purpose. Perhaps most distinctively, in addition to the characteristics detailed in paragraph 8, the contractual terms of the structure generally define how each cash flow generated by the collateral is to be applied. There is generally little discretion afforded to the manager/servicer of the vehicle and any discretion that is allowed is narrowly defined in the contractual agreements. This hardwiring of debtholder protections allows for the issuance of higher amounts of leverage than would be possible for a fund representing an operating entity, further supporting the entity's primary purpose of raising debt capital.

Proposed Revisions to Issue Paper No. 169:

32. Whether an issuer of debt represents an operating entity or ABS Issuer is expected to be clear in most instances, but certain instances may be less clear. Ultimately, for an issuer credit obligation, it comes down to whether support for repayment consists of direct or indirect recourse to an operating entity or entities. In addition to "traditional bond" structures previously included in SSAP No. 26R, examples of issuer credit obligations include:

c. Bonds issued by funds representing operating entities. Determining whether a fund represents an operating entity can generally be made by evaluating the substance of the entity and its primary purpose. A fund representing an operating entity has the primary purpose of raising equity capital and generating returns to its equity investors. ~~Marginal amounts of~~Ancillary debt may be issued to fund operations or produce levered returns to equity holders. These debt issuances occur in accordance with the fund's primary equity-investor objective. Debt securities issued by closed-end funds and business development corps registered under the 1940 Act are permitted automatic qualification as issuer credit obligations as those funds are subject to strict limits or reporting components on the leverage (debt issuance) within the fund. This safe harbor for SEC-registered funds should not be viewed to extend to funds that are not SEC-registered by analogy, through comparison of leverage levels for example. All other funds should be classified in accordance with the determination of the issuer's primary purpose. (For example, although some registered funds allow a large percentage of debt, non-registered funds with comparable amounts of issued debt may reflect debt securities from feeder funds or equity-backed ABS, and those debt securities are required to be assessed as ABS. As such the percentage of debt permitted for a registered funds should not be utilized as a proxy in determining whether debt issued from a fund is permitted to be captured within the guidance.) ~~Bonds issued by business development corporations, closed-end funds or similar operating entities, in each case registered under the 1940 Act. With this inclusion, it is important to highlight that the intent is specific to bonds issued from SEC-registered entities. The reference to "similar entities" is not intended to capture items issued from collateralized fund obligations (CFOs) or other such structures.~~ In contrast, an ABS Issuer has a primary purpose of raising debt capital and its structural terms and features serve to support this purpose. More distinctively, the contractual terms of the structure generally define how each cash flow generated by the collateral is to be applied. For these structures, there is little or no discretion afforded to the manager/servicer of the vehicle and any discretion that is allowed is narrowly defined in the contractual agreements. The hardwiring of debtholder protections allows for the issuance of higher amounts of debt securities to be issued than what would be possible for a fund representing an operating entity. These features support the entity's primary purpose of raising debt capital. Although some may consider CFOs or feeder funds to be similar to closed-end funds, that assessment is not supported for classification as an ICO. Instruments considered to reflect CFOs (and other like structures) are required to be assessed as ABS for inclusion as a bond reported on Schedule D-1. Paragraphs 27-28 also detail the assessment expected in classifying feeder funds, and the requirement to determine the source of the underlying cash flows in determining classification and if the structure qualifies for reporting as a bond on Schedule D-1.

On September 12, 2024, the Statutory Accounting Principles (E) Working Group concluded an e-vote to adopt the August 2024 exposed revised language to SSAP No. 26 (effective Jan. 1, 2025) and related bond project issue paper. This e-vote noted a single comment letter received from interested parties indicating support for the exposed revisions. As the edits revise the guidance adopted for the bond definition, which is effective Jan. 1, 2025, the edits will follow the same effective date.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2024FallNM/Minutes and summary/SAPWG/Att One-B2-24-01-PBBD-SEC Funds.docx

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September 27, 2024

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
hut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Interested Parties Comments on the Items Exposed for Comment by the Statutory Accounting Principles Working Group with Comments due September 27th

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the following items that were exposed for comment by the Statutory Accounting Working Group (the Working Group) during the NAIC National Meeting in Chicago with comments due September 27th.

Ref #2019-21: Bond Definition Q&A

The Working Group exposed a Question-and-Answer Implementation Guide (Q&A) for comments. This Q&A provides interpretations on how the principles-based bond guidance should be applied to specific structures or investment characteristics.

Interested parties appreciate the exposure of the Q&A as it will help address meaningful interpretative issues and facilitate more consistent implementation by insurance companies. Interested parties also would like to highlight the following language in paragraph 7.2:

> *This question highlights an important point. Issue papers are not authoritative accounting guidance. It is intended to provide key context regarding discussions leading to the development of new accounting standards. However, neither the issue paper nor this Q&A document represents authoritative accounting guidance. Any unintended language that conflicts with statements in the SSAP should be disregarded.*

First, interested parties would like to suggest that Issue Papers be recognized as authoritative guidance and included in Level 2, or alternatively Level 4, in the statutory hierarchy of authoritative guidance. Level 2 would place issue papers higher in the hierarchy than the annual statement instructions (Level 3) which arguably is appropriate. Level 4 specifically includes the preamble as authoritative guidance and paragraph 45 of the preamble states, "While it is not intended that there be any significant differences between an underlying issue paper and the resultant SSAP, if differences exist, the SSAP prevails and shall be considered definitive." This part of the preamble implies if a difference exists, and is not addressed by the SSAP, it is authoritative. If this interpretation by interest parties is not consistent with the NAIC's interpretation, it is important that the issue papers be explicitly included in the statutory hierarchy as many are drafted to include interpretative guidance not included in the SSAPs (e.g., feeder funds related to the new principles-based bond definition (PBBD) and superseded US GAAP OTTI impairment guidance that is still applicable for statutory accounting but is not codified within the SSAPs). Further, other areas of the Accounting Practices & Procedures Manual that suggest issues papers are not authoritative (e.g., Appendix E) would need to be updated for consistency.

Interested parties also believe the Q&A should be included in the statutory hierarchy, perhaps by including them as an interpretation (Level 2) which still serves the purpose of the language in paragraph 7.2 that puts the Q&A in a position subordinate to SSAP Nos. 26 and 43.

Ref #2023-28: Collateral Loan Reporting

The Working Group exposed revisions to Schedule BA with reporting lines to identify the types of collateral used to support recognition of collateral loans as an admitted asset, as well as additions to the Asset Valuation Reserve ("AVR") Schedule. The Working Group also directed NAIC staff to proceed with sponsoring a blanks proposal and to notify the Capital Adequacy (E) Task Force and related RBC Working Groups of this action. The RBC factors for the Schedule BA and AVR reporting lines will be contingent on the action of the Task Force.

The Working Group also requested input from regulators and interested parties to certain AVR related elements. Having reviewed the exposure, interested parties recommend several editorial changes that relate to the exposure.

Schedule BA

- Remove the italicized items under the sub-categories and incorporate them into the Schedule BA instructions.
- Consider renaming the sub-category 'Backed by Residual Interests' to 'Backed by Residual Tranches or Interests' for consistency with the Schedule BA category for Residuals.
- For the sub-category 'Backed by Debt Securities', clarify in the instructions that Debt Securities could be reported on either Schedule D or Schedule BA because it fails the bond definition.
- For the electronic-only column 'Percentage of Collateral to the Collateral Loan', rename the column 'Current Overcollateralization Percentage' for consistency with the Schedule D column.

AVR

- Consider renaming 'Backed by SSAP No. 48 Investments' to 'Backed by Investments in Joint Ventures, Partnerships, or Limited Liability Companies' (as reported in Schedule BA) for consistency.

- Consider renaming 'Backed by Residuals…' to 'Backed by Residual Tranches or Interests…' for consistency with the Schedule BA category for Residuals.
- Clarify if this new Collateral Loan section should be ahead of or after the newly adopted Capital/Surplus Note section of the schedule.
- Consider modification to the instructions to clarify that amounts include only admitted collateral loans.

Interested parties also suggest clarification from the Working Group if there should be a crosscheck between the newly adopted Note 5S Collateral Loans to the revised Schedule BA category for Collateral Loans, as the sub-categories are different.

The Working Group seeks feedback on whether 'collateral loans backed by mortgage loans' should be part of the new collateral loan category or remain under 'investments with underlying characteristics of mortgage loans' for now. While aligning the AVR and Schedule BA would streamline crosschecks, interested parties prefer continuing the current interim solution until the Life Risk-Based Capital Working Group examines the collateral loan section. Interested parties concur that the mortgage section could need to match the lines referenced in LR009 of the Life Risk-Based Capital Report if that working group desires to continue having these items feed LR009 instead of LR008 within the Life Risk-Based Capital Report. The Life Risk-Based Capital Working Group's initial proposal will provide the necessary detailed AVR lines to support data pulls between filings. We look forward to collaborating with NAIC staff and other groups as we finalize categories within the AVR.

Ref #2024-11: ASU 2023-09, Improvements to Income Tax Disclosures

The Working Group exposed revisions to reject ASU 2023-09 Improvements to Income Tax Disclosures in *SSAP No. 101—Income Taxes* and delete the disclosure in SSAP No. 101 paragraph 23b as it is no longer considered relevant due to changes in federal tax law.

Interested parties support the conclusion on this item and note that since paragraph 23.b has been deleted, paragraph 23. a should be changed to paragraph 23.

Ref #2024-16: Repack and Derivative Investments

The Working Group moved this item to the active listing, classified as a new SAP concept, and exposed revisions to *SSAP No. 86--Derivatives,* as shown above, to require bifurcation of debt securities with derivative wrappers or components if the item does not reflect a structured note. The guidance details the accounting and reporting guidance for the bifurcated debt and derivative components.
This agenda item has been developed to address debt security investments with derivative components that do not qualify as structured notes. Although the original focus was on specific "credit repack" investments, the scope of the agenda item has been expanded to include all debt security investments with derivative wrappers / components.

As an overview of a special purpose vehicle (SPV) "repacking," the structure consists of an SPV acquiring a debt security and reprofiling the cash flows by entering a derivative transaction with a derivative counterparty (known as "credit repacks"). The redesigned debt instrument (reflecting the combined debt security and derivative) is then sold to an investor. NAIC staff has recently received calls on the classification of repacks under the bond definition, but the discussions of these transactions have identified that additional guidance may be warranted to ensure consistent reporting of these transactions within the statutory financial statements. From the discussions, there are initiatives for these combined investments to become more prevalent with U.S. insurance entities, but investment firms have noted that these investments are already common in other countries.

As a key element, repacking (and potentially other derivative wrapped debt structures) takes two separate items (debt security and derivative) and combines them into one instrument that resembles a debt security. This is done at an SPV, with the SPV issuing a new debt security to the reporting entity. From discussions, there are several variations of the derivative components that can be combined with the debt security. Some of them are very simple (such as a cross-currency swap), but others are complex, altering both the amount and timing of cash flows. The structures can be customized allowing for ongoing innovation, benefiting insurers with the ability of entering derivative transactions to appropriately reduce risk, but creating difficulty in the ability to group repacks structures into limited exception guidance.

Interested parties note that U.S. insurance companies do not have significant holdings of credit repack securities and note the following challenges with the exposure:

An insurance company is not the counterparty to the derivative embedded within the SPV and therefore it would be inappropriate to report the derivative on schedule DB for the following reasons:

- The investor does not control or own the derivative directly and reporting the derivative in Schedule DB would be inconsistent with state law. Also, the investor would not have the requisite information to complete Schedule DB (e.g., when they are rolled into a new derivative, terms of the derivative, etc.),
- The insurer may not have the information to apply the requisite hedge accounting requirements including determining whether the derivative qualifies as hedging, income generation, or replication (synthetic asset) transactions and/or, and
- Companies would potentially need a new category within their derivative use plans.

These reasons would create unneeded complexity for companies when the "plain vanilla" derivatives (e.g., cross currency swaps or fixed for floating (or vice versa) swaps) could be used in replicating a bond through a replication strategy.

Lastly, bifurcating the derivative and the bond in such SPVs would presumably create a restricted asset (bond) as the derivative has no margin requirement. This could result in showing a liability for the insurance company which would be inconsistent with the overall approach used in statutory accounting and reporting and/or legal requirements.

Interested parties believe that insurers that own these types of instruments will need to evaluate the debt investment in its entirety to determine if the PBBD has been met. Therefore, we do not believe that further guidance is needed on this topic.

Ref #2024-17: Clearly Defined Hedging Strategy

The Working Group moved this item to the active listing as an SAP clarification, and exposed revisions to SSAP No. 108 to update the definition of a clearly defined hedging strategy to mirror guidance previously adopted by the Life Actuarial (A) Task Force.

Interested parties have no comments on this item.

Ref #2024-18: *Clarification of Accounting Guidance for Recognition of Tax Credits*

The Working Group exposed revisions to *SSAP No. 93—Investments in Tax Credit Structures*, *SSAP No. 94—State and Federal Tax Credit*, and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*.

Interested parties have no comments on this item.

Ref #2024-19: *ASU 2024-02—Codification Improvements—Amendments to Remove References to the Concepts Statements*

The Working Group exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2024-02, Codification Improvements—Amendments to Remove References to the Concepts Statements* as not applicable to statutory accounting.

Interested parties have no comments on this item.

Please feel free to contact either one of us if you have any questions or would like to discuss further.

Sincerely,

D. Keith Bell   Rose Albrizio

cc: Interested parties
NAIC staff

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October 28, 2024

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
hut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Interested Parties Comments on the Bond Definition Q&A

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the following item that was exposed for comment by the Statutory Accounting Working Group (the Working Group) with comments due October 28th.

Ref #2019-21: Bond Definition Q&A

The Working Group exposed an updated Question-and-Answer Implementation Guide (Q&A) on how the bond definition should be applied to specific investment structures or characteristics. The Q&A has been revised from prior exposure to include three additional topics.

Interested parties appreciate the exposure of the three additional Q&A topics as they will help address meaningful interpretative issues and facilitate more consistent implementation by insurance companies. Interested parties would like to share five editorial comments:

1) In paragraph 7.4, change “SSAP No. 26R” to “SSAP No. 26” to be consistent with other references to SSAP No. 26 throughout the document.
2) In the “Q” in paragraph 8, change Schedule “D-2-1” to “D-1-2” to properly reflect the ABS schedule.
3) In paragraph 10.3, remove the last “sentence” that ends in a colon. This sentence does not appear needed and ends in a colon which implies everything after paragraph 10.3 does not qualify under the bond definition while paragraph 10.6 includes bonds that do qualify.
4) In paragraph 10.6, make the last sentence a separate paragraph (e.g., 10.7) so it is clear the summary in Exhibit A is applicable to all paragraphs of Q10.

5) As a result of Q10, SSAP No. 41 may need slight revisions to appropriately reflect these new distinctions in classifications. Interested parties are happy to work with NAIC staff and regulators on this as appropriate.

Please feel free to contact either one of us if you have any questions or would like to discuss further.

Sincerely,

D. Keith Bell   Rose Albrizio

cc: Interested parties
NAIC staff

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October 28, 2024

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

RE: Comments on *Principles-Based Bond Definition Implementation Questions and Answers* (Last Updated: October 2, 2024)

Dear Mr. Bruggeman:
Thank you for the opportunity to provide comments on the *Principles-Based Bond Definition Implementation Questions and Answers* document dated October 2, 2024, during the NAIC National Meeting in Denver with comments due October 28th. Please note that our comments reflect our opinion only.

Regarding the "Implementation Questions and Answers" document, section 10.4:

"Investments in debt securities treated as regulatory capital by the issuer's primary regulatory authority, and ***that do not qualify*** *under the principles-based bond definition solely because interest can be cancelled in the event of financial stress in a non-resolution scenario without triggering an act of default are capital notes and shall be captured in SSAP No. 41—Surplus Notes. These capital notes are often issued by domestic or foreign banks, and the domestic or foreign bank regulator or the Issuer has the ability to cancel interest or dividends, without future interest accumulation or payment."*

We are specifically concerned about the RBC treatment of certain debt instruments moving to Schedule BA for P&C/Health filers. In particular, we are focused on securities classified as "capital notes" captured in SSAP No. 41 – Surplus Notes to be reported on Schedule BA as this rule change will have unintended and uneconomic consequences for the institutions holding these highly rated instruments.

For example, a highly rated security such as the Allianz 3.2% perpetual restricted Tier 1 notes (rated A3/A by Moody's/S&P) may classify under section 10.4 "capital notes" captured in SSAP 41 – Surplus Notes *(e.g.,* non-cumulative with optional coupon cancellation, albeit extremely remote based on issuer fundamentals and as indicated by the security ratings).

While Life insurers may be able to continue to use Filing Exempt (FE) designations or to file with the SVO to get a similar RBC factor as if it were held on Schedule D, Part 1, Bonds allowing an NAIC 1 bond factor for this instrument to be maintained on Schedule BA, P&C and Health cannot. As a result of this asset moving from Schedule D to Schedule BA, the RBC factor would increase to ~20% for P&C and Health from 1.5% and 1.9%, respectively today.

In our opinion, this reclassification imposes onerous capital requirements on a highly rated instrument (ratings which incorporate both credit and structure). We believe this deviates from the underlying fundamental risk as capital requirements would be higher than those for common equity holdings and could misallocate otherwise sound investments.

As such, we request that this matter be reviewed, and that P&C and Health insurers be able to file with the SVO/use Filing Exempt (FE) designations for RBC for capital notes reported on Schedule BA and suggest a change to P&C/Health RBC risk factors for capital notes, in line with that afforded to Life insurers. Thank you for your consideration as it relates to this matter.

Sincerely,

Jeffrey Gass and Chad Stogel
Spectrum Asset Management, Inc.
A member of the Principal Financial Group®

CC: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr and Wil Oden

Appendix: Structural ratings differentials between various credits and the prospective P&C RBC factors

					P&C		
		Moody's	S&P	Fitch	Current RBC Factor	New RBC Factor	Change in RBC Factor
Allianz	Restricted Tier 1	A3	A	N/A	1.50	20.00	18.50
	Senior Unsecured	Aa2	AA	AA-			
	Notching	4	3				
Barclays	Contingent Convertible Sec	Ba1	BB-	BBB-	5.50	20.00	14.50
	Senior Unsecured	Baa1	BBB+	A			
	Notching	3	5	4			
HSBC	Contingent Convertible Sec	Baa3	N/A	BBB	2.50	20.00	17.50
	Senior Unsecured	A3	A-	A+			
	Notching	3		4			
NatWest Group PLC	Contingent Convertible Sec	Baa3	BB-	BBB-	2.50	20.00	17.50
	Senior Unsecured	A3	BBB+	A			
	Notching	3	5	4			
Societe Generale	Contingent Convertible Sec	Ba2	BB	BB+	6.00	20.00	14.00
	Senior Non-Preferred	Baa2	BBB	A-			
	Notching	3	3	4			
Banco Santander	Contingent Convertible Sec	Ba1	BBB-	N/A	5.50	20.00	14.50
	Senior Non-Preferred	Baa1	A-	A-			
	Notching	3	3				
JP Morgan	Preferred	Baa2	BBB-	BBB+	1.00	1.00	0.00
	Senior Unsecured	A1	A-	AA-			
	Notching	4	3	4			
Bank of America	Preferred	Baa2	BBB-	BBB+	1.00	1.00	0.00
	Senior Unsecured	A1	A-	AA-			
	Notching	4	3	4			
Truist Financial	Preferred	Baa3	BBB-	BBB-	1.00	1.00	0.00
	Senior Unsecured	Baa1	A-	A-			
	Notching	2	3	3			
CMS Energy Corp	Preferred	Ba1	BBB-	BB+	2.00	2.00	0.00
	Senior Unsecured	Baa2	BBB	BBB			
	Notching	2	1	2			
Edison International	Preferred	Ba1	BB+	BB+	2.00	2.00	0.00
	Senior Unsecured	Baa2	BBB-	BBB			
	Notching	2	1	2			
Edison International	Junior Subordinated	Baa3	BB+	BB+	5.50	5.50	0.00
	Senior Unsecured	Baa2	BBB-	BBB			
	Notching	1	1	2			
NextEra	Junior Subordinated	Baa2	BBB	BBB	2.10	2.10	0.00
	Senior Unsecured	Baa1	BBB+	A-			
	Notching	1	1	2			
Prudential Fin	Junior Subordinated	Baa1	BBB+	BBB	1.80	1.80	0.00
	Senior Unsecured	A3	A	A-			
	Notching	1	2	2			

Observations:

- **NRSROs** (Nationally Recognized Statistical Rating Organizations) generally account for structural subordination in their security ratings. The greater the structural subordination, the greater the ratings notching which is reflected in the security ratings.

    - **Contingent Convertible Securities (CoCos)**: For UK banks, CoCos are typically notched 3, 5, and 4 ratings lower by Moody's, S&P, and Fitch, respectively, from their senior unsecured ratings. For EU banks, CoCos are usually notched 3, 3, and 4 lower from their senior non-preferred ratings.
    - **US G-SIB preferred securities**: These are generally notched 4, 3, and 4 ratings lower from their senior unsecured ratings, while non-G-SIB bank preferreds are notched 2, 3, and 3 (or 4) lower.
    - **Junior Subordinated Securities**: These are typically notched 1, 1, and 2 ratings lower from their respective senior ratings.

- RBC factors for most securities previously classified as "hybrids" are expected to remain unchanged, except for the securities captured by section 10.4 in the "Implementation Questions and Answers" document above. Using the securities above, on average, the securities captured by 10.4 move from a ~ 4% RBC factor to 20% for P&C Insurers ~ a move of 16%.

Recommendations to SAPWG Regarding Statutory Accounting for the Part D Medicare Prescription Payment Plan

Introduction and Purpose

The Inflation Reduction Act of 2022 introduced various changes to Medicare, including the addition of a new program intended to help members of Part D plans to manage their payments for prescription drugs. Known as the Medicare Prescription Payment Plan ("MP3"), the new program introduces some transactions that will be new for Part D plan sponsors, and with some new risks and costs. MP3 will go into effect January 1, 2025.

Of concern to Part D plan sponsors is how to account in their statutory financial statement filings to state insurance regulators for the ultimate cost resulting from uncollectible balances due from MP3 enrollees. A potential point of confusion in resolving that issue is the requirement imposed by the Centers for Medicare and Medicaid Services ("CMS") that Part D plan sponsors treat any unsettled balances from MP3 enrollees as part of the Part D plan sponsor's administrative costs for purposes of reporting their minimum medical loss ratio ("MLR") to CMS. Without taking exception to that CMS requirement for MLR purposes, the Trades' view is that for statutory financial statement filings with state insurance regulators, the ultimate costs resulting from such unsettled MP3 balances should be reported as a component of claims/benefit expense.

The purpose of this paper is to set forth the relevant details of MP3, current statutory accounting guidance that is applicable to reporting losses from unsettled MP3 balances, rationale and conclusions for the Trades' view on the appropriate statutory accounting treatment MP3, including whether and, if so, what, new guidance should be recommended to the NAIC's Statutory Accounting Principles Working Group ("SAPWG") in order to address any gaps in statutory accounting guidance and to assure uniformity in reporting across Part D plans in their statutory financial statement filings with state insurance regulators.

Relevant Features of MP3

MP3 is a new program that requires all Medicare prescription drug plans ("Part D plans") – including both standalone Medicare prescription drug plans and Medicare Advantage plans with prescription drug coverage – to provide their members with the option to pay their out-of-pocket ("OOP") prescription drug costs in the form of monthly payments over the remainder of the plan year instead of all at once to the pharmacy.

Part D plan members who so elect to participate in MP3 ("MP3 Enrollees") will pay $0 to the pharmacy for covered Part D drugs. Instead, the Part D plan sponsor is obligated to respond by fully paying the pharmacy the total of a participant's OOP amount and the Part D plan sponsor's portion of the payment in accordance with Part D prompt payment requirements, thereby making an MP3 Enrollee's OOP costs an extension of the original insurance claim. The Part D plan sponsor will then bill the MP3 Enrollee monthly for any cost sharing they incur while enrolled in MP3. The design of MP3 is such that MP3 Enrollees will not save money on prescription drug purchases (there are other Part D programs in place to help qualifying Part D plan members with affordability issues); rather, MP3 simply spreads payments over the remaining term of the plan year which may help many Part D plan members to better manage their monthly cash flow.

In an ideal situation where all parties pay their obligations timely and in full, the result would be a balance sheet-only impact to the Part D sponsor. The Part D plan sponsor would credit cash for the payment to the pharmacy and create a corresponding receivable; both amounts would then be reduced over the ensuing months as the MP3 Enrollee repays the Part D plan sponsor.

However, MP3 introduces new risks to the Part D plan sponsor: (1) the risk that the MP3 Enrollee will cease membership in the Part D plan resulting in some portion of the MP3 balance not being paid back to the Part D plan sponsor (i.e., uncollectible amounts); (2) the risk that, even if the MP3 Enrollee remains in the Part D plan that they will, for whatever reason, be unwilling or unable to fully pay their MP3 balance, and (3) the risk that the ultimate costs of uncollectible amounts and other aspects of implementing the payment plan will vary from amounts that had been factored into premium rates.

Whereas existing Part D programs involve funds that are due from the federal government (for which payment is effectively assured), MP3 funds are due from individuals – MP3 Enrollees. Part D Plan sponsors have a long history of billing and collecting premiums from members, but they have no prior experience akin to CMS's mandate that they pay OOP costs for MP3 enrollees. Consequently, MP3 is expected to result in Part D plans incurring (and paying to the pharmacy) MP3 Enrollees' OOP pharmacy claim costs for which some amounts billed back to the MP3 Enrollee may ultimately be uncollectible.

CMS Requirements that Apply When a MP3 Balance is Not Repaid

Unlike financing arrangements where the reporting entity has numerous options to mitigate the risk of loss from uncollectible balances, CMS imposes requirements on Part D plan sponsors to *insure* the risk of uncollectible balances. Other key differences include the following:

- Late fees, interest payments, or other fees, such as for different payment mechanisms, are not permitted under MP3.
- While Part D plan sponsors may create their own billing and payment procedures for MP3, they are required to prioritize payments towards Part D plan premiums to avoid a Part D enrollee losing their Part D coverage. This would apply in situations in which it is unclear whether a payment received from an MP3 Enrollee is intended by the participant to cover their outstanding Part D plan premium or their MP3 balance.
- CMS considers participation in MP3 as an arrangement between the Part D plan sponsor and the MP3 Enrollee; pharmacies cannot be held responsible for any unsettled balances of an MP3 Enrollee or for collecting unpaid balances from the MP3 Enrollee on the Part D plan sponsor's behalf.
- A Part D plan sponsor must terminate an individual's participation in MP3 if that individual fails to pay their monthly billed amount. However, the Part D plan sponsor is not permitted to terminate that individual's membership in the Part D plan because they failed to pay their MP3 billed amounts. An MP3 Enrollee will be considered to have failed to pay their monthly billed amount only after the conclusion of the required grace period of at least two months. Sponsors must continue to bill amounts owed under the program in monthly amounts not to exceed the maximum monthly cap according to the statutory formula for the duration of the plan year after an individual has been terminated.
- Part D plan sponsors must also reinstate an individual who has been terminated from MP3 if the individual demonstrates good cause for failure to pay the program billed amount within the grace period and pays all overdue amounts billed.
- A Part D plan sponsor may only preclude an individual from opting into MP3 in a subsequent year if the individual owes an overdue balance to that Part D plan sponsor. Preclusion is only permitted in Part D plans that are offered by the same parent organization. In other words, an individual who owes an overdue balance under the program cannot be barred from MP3 in a subsequent year by a different Part D plan sponsor that does not have the same parent organization.
- Part D plan sponsors (and any third parties with whom Part D plan sponsors contract) that collect unpaid balances related to the program may be subject to other applicable federal and state laws and requirements, including those related to payment plans, credit reporting, and debt collection.

If facilitating the spreading of payments by an MP3 Enrollee for MP3 balances due was an administrative function at the discretion of a Plan D sponsor to offer, features akin to many of the above requirements imposed by CMS would not have been selected. But as explained further, below, MP3 is not a discretionary administrative function such as the financing of premiums; it is a program benefit imposed by federal law and CMS rules, with different implications as to its treatment for statutory accounting purposes. Provisions imposed by CMS such as those above are part of the design of MP3 as a benefit for Part D plan members, and thus are quite different than what would be in place by a company to manage credit risk for the discretionary offering of financing balances owed.

Statutory Accounting/Blanks Reporting for MP3 -- Considerations

In considering the reporting of statutory financial statements to state insurance regulators there are various considerations:

MP3 Balances Receivable: Considerations include:

- Admitted Assets. The Trades believe that MP3 balances are admitted assets. Repayment is the obligation of MP3 Enrollees, which represents a probable future economic benefit to the Part D plan sponsor resulting from past transactions or events (i.e., paying the MP3 Enrollee's OOP costs to the pharmacy). To cover potential uncollectible balances, CMS allows Part D plans to include an estimate in their premium bids; to the extent of the resulting incremental premium, MP3 balances are, in essence, secured. That said, SSAP No. 4 provides that a non-admitted asset is defined as an asset which is accorded limited or no value in statutory reporting and is one which is (a) Specifically identified within the Accounting Practices and Procedures Manual ("Manual") as a non-admitted asset; or (b) Not specifically identified as an admitted asset within the Manual. Since MP3 is new, it is not currently mentioned in the Manual at all. ***The Trades would thus encourage the NAIC's SAPWG to provide in the Manual explicit language that makes it clear that MP3 balances are admitted assets (subject to non-admission after billed amounts are 90 days past due).***
- Impairments. Current statutory accounting guidance for recognizing the impairment of assets is contained in Statement of Statutory Accounting Principles ("SSAP") No. 5 "*Liabilities, Contingencies, and Impairment of Assets*" of the Manual. It states that, "An estimated loss from a loss contingency or the impairment of an asset shall be recorded by charge to operations if both of the following conditions are met: (a) Information available prior to issuance of the statutory financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the statutory financial statements; it is implicit in this condition that it is probable that one or more future events will occur confirming the fact of the loss or incurrence of a liability; and (b) The amount of loss can be reasonably estimated."

  With one exception, the Trades' view is that the existing guidance in SSAP No. 5 is sufficient to address their members' needs in assessing and reporting impairments related to uncollectible MP3 balances. That exception pertains to the expense category to which impairments should be recorded. The Trades' view is that such amounts are an integral component of overall claim /benefit expense of operating a Part D plan. Rationale and support for that conclusion is addressed in the following sections of this memo.
- Disclosures. Depending on the resolution of treatment of MP3-related losses in the quarterly and annual financial statement blanks, supplemental disclosures may be desirable to disaggregate MP3-related amounts that may be included in broader line-item categories. The Trades are open to the possibility of such supplemental disclosures, but the subject is beyond the scope of this memo and will be better addressed once the timing of planned discussions on the matter by SAPWG and/or the NAIC's Blanks Working Group is known.

Losses From Uncollectible MP3 Balances are an Inseparable Component of Part D Benefits

The risk of loss from uncollectible MP3 balances is a cost of being in the Part D business. The Inflation Reduction Act ("IRA") resulted in various provisions that are intended to make the cost of prescription drugs more affordable and manageable to seniors. In addition to MP3, these include authorizing the federal government to negotiate prices for certain drugs; requiring drug companies to pay rebates to Medicare if prices rise faster than inflation for drugs used by Medicare beneficiaries; limiting monthly cost sharing for insulin; eliminating cost sharing for adult vaccines covered under Medicare Part D; expanding eligibility for full benefits under the Medicare Part D Low-Income Subsidy Program, beginning in 2024; and capping OOP spending for Medicare Part D enrollees and make other Part D benefit design changes, beginning in 2024.

The bigger picture is relevant; combined with these other changes brought about by the IRA, MP3 is another means by which the federal government intends to make the cost of prescription drugs more manageable – and thus more likely to be used – to more Medicare participants. The Congressional Budget Office has reported that some of the resulting increased costs in Part D are expected, to some extent, to reduce government spending in Parts A and B of Medicare. While MP3 will likely raise costs to Part D plan sponsors, it is thus recognized that there are other benefits to the government that were also considered in developing the overall Part D program and in obtaining the necessary legislative and budgetary authority to proceed.

In essence, taking on the risk of MP3-related losses was not the decision of Part D plan sponsors; rather, it was the decision of the federal government resulting from negotiations over a broader legislative response to address the societal issue of the cost of prescription drugs. With respect to MP3, the Part D plan sponsor thus acts as an insurer, by regulation, of the federal government for any uncollectible balances due from MP3 Enrollees. This is acknowledged in the final MP3 rules published by CMS which state, in part, that "Section 1860D-2(b)(2)(E)(v)(VI) of the Act specifies that any unsettled balances with respect to amounts owed under the Medicare Prescription Payment Plan "shall be treated as plan losses and the Secretary shall not be liable for any such balances outside of those assumed as losses estimated in plan bids."

Stated differently, the government is responsible for the amounts of estimated MP3 losses that are included in premium bids submitted by Part D plan sponsors. Part D plan sponsors receive incremental revenue to that extent, which helps to defray losses resulting from MP3 Enrollees' uncollectible balances. However, it is important to note that risk of loss to the Part D plan sponsor remains, nonetheless. There is pricing/underwriting risk relating to the needs for MP3 by the specific covered population of each Part D plan and the risk that the Part D plan sponsor will inaccurately estimate the amount of ultimate loss to include in the premium bid. For 2025 premium bids in particular, that risk is magnified because of the lack of prior experience upon which to base estimates with a high degree of confidence. In short, MP3 creates additional insurance risk for Part D plan sponsors.

Other pertinent factors indicating that MP3 is about additional insurance risk and not credit risk include the following:

- Part D is offered on a guaranteed coverage basis, i.e., there is no underwriting. Enrollment in MP3 is effectively guaranteed as well; those who elect MP3 cannot be refused (until year 2 if they have been involuntarily terminated for non-payment and have not qualified for reinstatement pursuant to CMS rules).
- Part D plan sponsors thus have no ability to effectively manage (as a credit risk) potential losses from those enrolled in MP3 who do not pay their balances in full. For example, CMS does not permit use by a Part D plan sponsor of any credit risk techniques (credit risk assessment, credit history, collateral, etc.).
- Part D plan sponsors are not allowed to be compensated for taking on credit risk through MP3, e.g., through charging interest or fees of any kind. To offer Part D, plan sponsors must bear the resulting losses.

Risk management pertaining to MP3 is nonetheless achievable by Part D plan sponsors but is limited by CMS to the Part D plan sponsor's inclusion of estimated uncollectible balances in premium bids that are submitted to CMS. As a component of premium, additional funds received are fungible and cover or defray any and all claims and costs – they are not earmarked or appropriated solely for MP3 losses. The risk of uncollectible MP3 balances from enrollees is thus managed as a pricing /underwriting risk (not as a credit risk) that is not separable from other pricing/underwriting risks associated with offering Part D coverage.

The economic substance is that MP3-related costs have been foreseen by the government and the government has addressed that by requiring that Part D plan sponsors bear those costs but also be compensated to the extent of estimates of such losses included in premium bids. MP3-related costs are the result of governmental decisions to alter the design of Part D to provide additional benefits in the form of a technique to enable MP3 Enrollees to better manage their monthly cash flow when they have high OOP costs. MP3 is a benefit mandated by the government for Part D plan members just as much as other Part D-related provisions that resulted from the IRA. MP3 costs are not the result of discretionary administrative actions by Part D plans to manage benefits; they are the result of MP3 as an insured benefit itself for which the federal government pays a premium and for which the Part D plan sponsor bears pricing risk. Accordingly, MP3 costs should be reported for statutory accounting purposes as a benefit expense.

Related Existing Statutory Accounting Guidance

ASC 944, Accounting and Reporting by Insurance Enterprises, provides in part the following guidance for GAAP purposes (emphasis added):

> "The liability for unpaid claims shall be based on the estimated **ultimate cost** of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends, and any other factors that would modify past experience. Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims shall be recognized in income of the period in which the estimates are changed, or payments are made."

SSAP No. 55, *Unpaid Claims, Losses, and Adjustment Expenses,* is consistent with the cited guidance above from ASC 944. SSAP 55 supports that GAAP guidance by stating that the liability for claim reserves and claim liabilities, unpaid losses, and loss/claim adjustment expenses shall be based upon the estimated **ultimate cost** of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends, and any other factors that would modify past experience.

The *AICPA Audit and Accounting Guide: Property & Casualty Insurance Companies* (*AICPA P&C Audit and Accounting Guide*) further echoes that guidance, stating that both SAP and GAAP require that insurance companies report a provision for all incurred losses that are unpaid as of the balance sheet date, including losses incurred but not reported. Further, the liability is based on management's estimate of the **ultimate cost** of settling each loss.

The focus on "ultimate cost" is a common theme in other sections of SAP and GAAP guidance as well. In applying that guidance to Part D plan sponsors, it is important to recognize the overall Part D program design and the ultimate costs relating to all of Part D's intended benefits that the government has offered to Part D beneficiaries. As stated above, MP3 is one such benefit that is mandated by the government. As such, costs related to MP3 should include estimated future losses resulting from events that have occurred prior to the balance sheet date and should be reported as a component of claims/benefit expense.

Based on the applicable guidance cited above, losses attributable to MP3 enrollees' unpaid balances are a component of the ultimate cost of Part D claims. However, and by way of comparison, costs associated with operating the MP3 program, such as staff support to handle MP3 billings, are administrative costs for SAP.

Basis for Conclusion:

Under MP3, Part D plan sponsors are required to reimburse a network pharmacy the total of a participant's OOP amount and the Part D plan sponsor portion of the payment for a covered Part D drug, and to do so within specified time frames as prescribed in the MP3 final rules. The obligation of the Part D plan sponsor is to pay those amounts to the pharmaceutical provider. The ultimate cost of the claim should be tied to the pharmacy payment, including additional costs from the MP3 Enrollee associated with the claim, as a benefit cost.

Further, MP3 is a benefit for members of Part D plans that is inseparable from other benefits provided to Part D beneficiaries through legislative mandates, such as lower costs for prescription drugs. MP3-related costs emanate from those government-mandated benefits, and from a risk management perspective are addressed by Part D plans as required by CMS as a pricing/underwriting risk. It follows that such costs should be reported as benefit/claim expense for statutory accounting purposes.

This position is also consistent with existing statutory and GAAP guidance discussed above that state the liability for unpaid claims shall be based on the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors).

This Paper acknowledges that the Centers for Medicare and Medicaid Services ("CMS") requires Part D plan sponsors to treat any unsettled balances from MP3 Enrollees as part of the Part D plan sponsor's administrative costs for minimum MLR reporting purposes. This paper does not address that position. However, for reporting on a statutory reporting basis, CMS does not govern; rather, statutory reporting to state insurance regulators is the authority of those regulators, generally acting through NAIC's SAPWG to maintain its published Manual to encourage consistency in application across reporting entities and states. The reporting of ultimate losses associated with uncollectible MP3 balances can therefore be treated differently from CMS guidance.

To enhance consistency in treatment across Part D plan sponsors as well as consistency in interpretation by regulatory examiners and analysts, it is recommended that SAPWG update the Part D guidance in INT 05-05 to address MP3. The update should briefly explain MP3 for the benefit of all users of the Manual and, more specifically, ***clarify by way of interpretation that losses incurred by a Part D plan sponsor that are attributed to uncollectible MP3 balances should be reported for statutory reporting purposes as a claim/benefit cost***.

Ref #2024-11

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

Issue: ASU 2023-09, Improvements to Income Tax Disclosures

Check (applicable entity):

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

Description of Issue: In December 2023, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2023-09, Improvements to Income Tax Disclosures* (the ASU) to enhance the transparency and decision usefulness of income tax disclosures. The ASU amends and expands the disclosures for rate reconciliation between income tax expense and statutory expectations for both public and private entities. Per the ASU, "The objective of these disclosure requirements is for an entity, particularly an entity operating in multiple jurisdictions, to disclose sufficient information to enable users of financial statements to understand the nature and magnitude of factors contributing to the difference between the effective tax rate and the statutory tax rate." Public entities are required to provide detailed quantitative and qualitative disclosures, while private are only required to provide qualitative rate reconciliation disclosures on certain specified categories. Additionally, the ASU also requires all entities to provide additional disclosures on income tax expense and income taxes paid, and removes the disclosure requirement for positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date (ASC 740-10-50-15d), and the cumulative amount of each type of temporary difference related to unrecognized deferred tax liabilities (ASC 740-30-50-2b).

Existing Authoritative Literature:
SSAP No. 101—Income Taxes:

Disclosures

21. Statutory financial statement disclosures shall be made in a manner consistent with the provisions of paragraphs 43-45 and 48 of FAS 109. However, required disclosures with regard to a reporting entity's GAAP valuation allowance shall be replaced with disclosures relating to the statutory valuation allowance adjustment and the nonadmittance of some portion or all of a reporting entity's DTAs. The financial statements shall include the disclosures required by paragraph 47 of FAS 109 for non-public companies. Paragraphs 22-28 describe the disclosure requirements as modified for the difference between the requirements of FAS 109 and those prescribed by this statement.

22. The components of the net DTA or DTL recognized in a reporting entity's financial statements shall be disclosed as follows:

a. The total of all DTAs (gross, adjusted gross, admitted and nonadmitted) by tax character;

b. The total of all DTLs by tax character;

c. The total DTAs nonadmitted as the result of the application of paragraph 11;

d. The net change during the year in the total DTAs nonadmitted;

e. The amount of each result or component of the calculation, by tax character of paragraphs 11.a., 11.b.i., 11.b.ii., and 11.c., and the ExDTA ACL RBC Ratio, the ExDTA Surplus plus Contingency Reserves/Required Aggregate Risk Capital Ratio, or the Adjusted Gross DTA/Adjusted Capital and Surplus Ratio used in the applicable *Realization Threshold Limitation Table* (the RBC Reporting Entity Table, the Financial Guaranty or Mortgage Guaranty Non-RBC Reporting Entity Table, or the Other Non-RBC Reporting Entity Table) in paragraph 11.b., as applicable; and

f. The impact of tax-planning strategies on the determination of adjusted gross DTAs and the determination of net admitted DTAs, by percentage and by tax character, and whether the tax-planning strategies include the use of reinsurance-related tax planning strategies.

23. To the extent that DTLs are not recognized for amounts described in paragraph 31 of FAS 109, the following shall be disclosed:

a. A description of the types of temporary differences for which a DTL has not been recognized and the types of events that would cause those temporary differences to become taxable;

b. The cumulative amount of each type of temporary difference;

c. The amount of the unrecognized DTL for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration if determination of that liability is practicable or a statement that determination is not practicable; and

d. The amount of the DTL for temporary differences other than those in paragraph 23.c. that is not recognized in accordance with the provisions of paragraphs 31 of FAS 109.

24. The significant components of income taxes incurred (i.e., current income tax expense) and the changes in DTAs and DTLs shall be disclosed. Those components would include, for example:

a. Current tax expense or benefit;

b. The change in DTAs and DTLs (exclusive of the effects of other components listed below);

c. Investment tax credits;

d. The benefits of operating loss carryforwards;

e. Adjustments of a DTA or DTL for enacted changes in tax laws or rates or a change in the tax status of the reporting entity; and

f. Adjustments to gross deferred tax assets because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset, and the reason for the adjustment and change in judgment.

25. Additionally, to the extent that the sum of a reporting entity's income taxes incurred and the change in its DTAs and DTLs is different from the result obtained by applying the federal statutory rate to its pretax net income, a reporting entity shall disclose the nature of the significant reconciling items.

26. A reporting entity shall also disclose the following:

a. The amounts, origination dates and expiration dates of operating loss and tax credit carryforwards available for tax purposes;

b. The amount of federal income taxes incurred in the current year and each preceding year, which are available for recoupment in the event of future net losses; and

c. The aggregate amount of deposits admitted under Section 6603 of the Internal Revenue Service Code.

27. For any federal or foreign income tax loss contingencies as determined in accordance with paragraph 3.a. for which it is reasonably possible that the total liability will significantly increase within 12 months of the reporting date, the reporting entity shall disclose an estimate of the range of the reasonably possible increase or a statement that an estimate of the range cannot be made.

28. If a reporting entity's federal income tax return is consolidated with those of any other entity or entities, the following shall be disclosed:

a. A list of names of the entities with whom the reporting entity's federal income tax return is consolidated for the current year; and

b. The substance of the written agreement, approved by the reporting entity's Board of Directors, which sets forth the manner in which the total combined federal income tax for all entities is allocated to each entity which is a party to the consolidation. (If no written agreement has been executed, explain why such an agreement has not been executed.) Additionally, the disclosure shall include the manner in which the entity has an enforceable right to recoup federal income taxes in the event of future net losses which it may incur or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

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

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None.

Convergence with International Financial Reporting Standards (IFRS):
None.

Staff Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions, as detailed below, to reject *ASU 2023-09 Improvements to Income Tax Disclosures* in *SSAP No. 101—Income Taxes*. NAIC staff does recommend that the Working Group remove the disclosure detailed in paragraph 23b as it is no longer considered relevant due to changes in federal tax law.

The disclosure detailed in ASC 740-30-50-2(b) (SSAP No. 101, paragraph 23b) was removed by ASU 2023-09 as it requires disclosure of the cumulative amount of each type of temporary tax difference when a deferred tax liability is not recognized for undistributed foreign earnings. Based on discussion within the ASU, Stakeholders indicated that the changes as a result of the Tax Cuts and Jobs Act reduces the relevance of the existing disclosure of the cumulative temporary differences related to foreign subsidiaries when a deferred tax liability is not recognized. As the rationales detailed within the ASU would also be relevant under statutory accounting, we have recommended that paragraph 23b disclosures be removed.

The disclosure detailed in ASC 740-10-50-15(d) (SSAP No. 101, paragraph 27) was removed by ASU 2023-09 due to a conflict with Chapter 8 of the FASB Concepts Statement 8, however the FASB Concepts Statements have not been adopted within the statutory accounting framework. As this conflict does not exist within statutory accounting, we do not recommend removal of the disclosure detailed in SSAP 101 paragraph 27.

Staff Review Completed by:
NAIC Staff – William Oden, February 2024

Status:
On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions to adopt, with modification, *ASU 2023-09 Improvements to Income Tax Disclosures* in *SSAP No. 101—Income Taxes*, as illustrated below.

Spring National Meeting - Proposed Revisions to SSAP No. 101:

Disclosures

23. To the extent that DTLs are not recognized for amounts described in paragraph 31 of FAS 109, the following shall be disclosed:

a. A description of the types of temporary differences for which a DTL has not been recognized and the types of events that would cause those temporary differences to become taxable;

b. ~~The cumulative amount of each type of temporary difference;~~

26. A reporting entity shall also disclose the following:

a. The amounts, origination dates and expiration dates of operating loss and tax credit carryforwards available for tax purposes;

b. The amount of federal income taxes incurred in the current year and each preceding year, which are available for recoupment in the event of future net losses; and

c. The aggregate amount of deposits admitted under Section 6603 of the Internal Revenue Service Code.

d. Income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign shall.

~~d.~~e. Income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign. Income taxes on foreign earnings that are imposed by the jurisdiction of domicile shall be included in the amount for that jurisdiction of domicile (that is, the jurisdiction imposing the tax).

f. The amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign.

~~e.~~g. The amount of income taxes paid (net of refunds received) to each individual jurisdiction in which income taxes paid (net of refunds received) is equal to or greater than 5% of total income taxes paid (net of refunds received)

29. Nothing in this statement is intended to discourage an entity from reporting additional information specific to the disclosures detailed below to further an understanding of the entity and the related disclosures. If not already disclosed in paragraph 24, the reporting entity shall disclose the following:

a. The nature and effect of specific categories of reconciling items, as listed below, and individual jurisdictions that result in a significant difference between the tax rate and the effective tax rate. The objective of this disclosure requirement is for an entity, particularly an entity operating in multiple jurisdictions, to disclose sufficient information to enable users of financial statements to understand the nature and magnitude of factors contributing to the difference between the effective tax rate and the tax rate.

i. State and local income tax, net of federal (national) income tax effect

ii. Foreign tax effects

iii. Effect of changes in tax laws or rates enacted in the current period

iv. Effect of cross-border tax laws

v. Tax credits

vi. Changes in valuation allowances

vii. Nontaxable or nondeductible items

viii. Changes in unrecognized tax benefits.

Relevant Literature

30. This statement adopts, with modification, *ASU 2023-09 Improvements to Income Tax Disclosures*. The statutory modifications include:

a. Did not include public entity only disclosures as statutory accounting does not a the private/public company concept. Additionally, the public entity rate reconciliation was determined to be too onerous to apply to all insurance companies.

~~a.~~b. Did not delete the disclosure detailed in paragraph 27 from this statement as the conceptual conflict between the disclosure and FASB Concepts Statement 8, Chapter 8, does not exist within statutory accounting.

On August 13, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions, as detailed below, to reject ASU 2023-09 Improvements to Income Tax Disclosures in *SSAP No. 101—Income Taxes* and delete the disclosure in SSAP No. 101, paragraph 23.b., as it is no longer considered relevant due to changes in federal tax law.

Summer National Meeting - Proposed Revisions to SSAP No. 101:

Disclosures

23. To the extent that DTLs are not recognized for amounts described in paragraph 31 of FAS 109, the following shall be disclosed:

a. A description of the types of temporary differences for which a DTL has not been recognized and the types of events that would cause those temporary differences to become taxable;

~~b. The cumulative amount of each type of temporary difference;~~

~~c.~~b. The amount of the unrecognized DTL for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration if determination of that liability is practicable or a statement that determination is not practicable; and

~~d.~~c. The amount of the DTL for temporary differences other than those in paragraph 23.c. that is not recognized in accordance with the provisions of paragraphs 31 of FAS 109.

Relevant Literature

38. This statement rejects *ASU 2023-09, Improvements to Income Tax Disclosures*. The disclosure detailed in paragraph 23.b. was deleted from statutory accounting guidance as the Tax Cuts and Jobs Act made this disclosure effectively irrelevant.

On November 17, 2024, the Statutory Accounting Principles (E) Working Group adopted the revisions exposed at the Summer National meeting, as shown above, to reject *ASU 2023-09 Improvements to Income Tax Disclosures* in *SSAP No. 101—Income Taxes* and delete the disclosure detailed in SSAP No. 101, paragraph 23.b

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2024FallNM/Minutes and summary/SAPWG/Att One-D-24-11-ASU 2023-09 Improvements to Income Tax Disclosures.docx

Ref #2024-17

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

Issue: Clearly Defined Hedging Strategy

Check (applicable entity):

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

Description of Issue: This agenda item has been prepared to update the guidance in *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees* for a clearly defined hedging strategy (CDHS) to mirror guidance adopted by the Life Actuarial (A) Task Force in 2022, and in effect starting with the 2023 version of the Valuation Manual. The guidance previously included in SSAP No. 108 referred to the CDHS defined in VM-21, and the actuarial guidance has been modified to ensure consistent definitions of a CDHS in both VM-20 and VM-21 and is now captured within VM-01.

The proposed revisions are limited to the definition of a CDHS in paragraph 7 of SSAP No. 108 as well as references in SSAP No. 108 that refer to VM-21 as the location of the definition of a CDHS.

Existing Authoritative Literature:

- ***SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees***

7. As identified in paragraph 2, eligibility for the special accounting provision within this standard is strictly limited to variable annuity contracts and other contracts involving certain guaranteed benefits similar to those offered with variable annuities that are reserved for in accordance with VM-21. This special accounting provision requires the reporting entity to engage in highly effective fair value hedges that follow a Clearly Defined Hedging Strategy, as defined in VM-21, meeting all required provisions of VM-21 allowing the reporting entity to reduce the amount of the Conditional Tail Expectation (CTE) Amount. In order to qualify as a Clearly Defined Hedging Strategy (which may be dynamic, static, or a combination thereof), the strategy must meet the principles outlined in VM-21, be in place (implemented) for at least three months[1], and shall at a minimum, identify:

    a. Specific risks being hedged[2],

    b. Hedge objectives,

    c. Risks not being hedged,

[1] As detailed in VM-21, before a new or revised hedging strategy can be used to reduce the amount of the Conditional Tail Expectation (CTE) otherwise calculated, the hedging strategy should be in place (effectively implemented) for at least three months. As detailed in VM-21, the reporting entity may meet the time requirement by having evaluated the effective implementation of the hedging strategy for at least three months without actually having executed the trades indicated by the hedging strategy (e.g., mock testing or by having effectively implemented the strategy with similar annuity products for at least three months.)

[2] The specific risk being hedged shall include a measure of the hedge coverage (e.g., percentage of interest rate sensitivity being hedged).

d. Financial instruments that will be used to hedge the risks,

e. Hedge trading rules, including permitted tolerances from hedging objectives,

f. Metric(s) used for measuring hedging effectiveness,

g. Criteria that will be used to measure effectiveness,

h. Frequency of measuring hedging effectiveness,

i. Conditions under which hedging will not take place, and

j. The individuals responsible for implementing the hedging strategy.

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

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing and expose revisions to SSAP No. 108 to update the definition of a clearly defined hedging strategy (CDHS) to reflect the revised guidance pursuant to VM-01. (Only references to the CDHS are being revised to VM-01. Other references to VM-21 are product specific to variable annuity contracts and shall be retained in SSAP No. 108.)

Proposed revisions to SSAP No. 108:

6.b.ii Certification by a financial officer of the company (CFO, treasurer, CIO, or designated person with authority over the actual trading of assets and derivatives) that the hedging strategy meets the definition of a Clearly Defined Hedging Strategy within ~~VM-21~~VM-01 and that the Clearly Defined Hedging Strategy is the hedging strategy being used by the company in its actual day-to-day risk mitigation efforts. This provision does not require reporting entities to use a hedging strategy in determining VM-21 reserves, nor does it require entities to use the special accounting provision within this standard. However, it does require reporting entities that use the special accounting provisions within this standard to certify that the hedging strategy within scope of this standard is a Clearly Defined Hedging Strategy and is reflected in the establishment of VM-21 reserves.

7. As identified in paragraph 2, eligibility for the special accounting provision within this standard is strictly limited to variable annuity contracts and other contracts involving certain guaranteed benefits similar to those offered with variable annuities that are reserved for in accordance with VM-21. This special accounting provision requires the reporting entity to engage in highly effective fair value hedges that follow a Clearly Defined Hedging Strategy, as defined in ~~VM-21~~VM-01, meeting all required provisions of VM-21 allowing the reporting entity to reduce the amount of the Conditional Tail Expectation (CTE) Amount. In order to qualify as a Clearly Defined Hedging Strategy (which may be dynamic, static, or a combination

thereof), the strategy must meet the principles outlined in VM-21, be in place (implemented) for at least three months[3], and shall at a minimum, identify:

a. The ~~S~~specific risks being hedged[4],

b. The hedging~~Hedge~~ objectives,

c. The material ~~R~~risks that are not ~~being~~ hedged,

d. The f~~F~~inancial instruments ~~that will be~~ used to hedge the risks,

e. The hedging strategy's ~~Hedge~~ trading rules, including permitted tolerances from hedging objectives,

f. The metrics, criteria, and frequency for measuring effectiveness, ~~Metric(s) used for measuring hedging effectiveness,~~

~~g. Criteria that will be used to measure effectiveness,~~

~~Frequency of measuring hedging effectiveness,~~

~~h.~~g. The ~~C~~conditions under which hedging will not take place, and for how long the lack of hedging can persist,

h. The group or area, including whether internal or external, ~~The individuals~~ responsible for implementing the hedging strategy,~~.~~

i. Areas where basis, gap, or assumption risk related to the hedging strategy have been identified, and

~~i.~~j. The circumstances under which hedging strategy will not be effective in hedging the risks.

23.a. Discussion of hedged item, including information on the guarantees sensitive to interest rate risk, along with information on the designated hedging instruments being used to hedge the risk. Discussion of the hedging instruments shall identify whether a hedging instrument is a single instrument or portfolio, as well as information on the hedging strategy (including whether there have been changes in strategy from the prior reporting period, along with detailed information on the changes), and assessment of hedging effectiveness and compliance with the "Clearly Defined Hedging Strategy" of ~~VM-21~~VM-01. Identification shall occur on whether the hedged item is intended to be fully hedged under the hedging strategy, or if the strategy is only focused on a portion of the liability characteristics or a portion of the interest rate sensitivity. Hedging strategies shall be identified as highly effective or not highly effective. If the strategy for a

[3] As detailed in VM-21, before a new or revised hedging strategy can be used to reduce the amount of the Conditional Tail Expectation (CTE) otherwise calculated, the hedging strategy should be in place (effectively implemented) for at least three months. As detailed in VM-21, the reporting entity may meet the time requirement by having evaluated the effective implementation of the hedging strategy for at least three months without actually having executed the trades indicated by the hedging strategy (e.g., mock testing or by having effectively implemented the strategy with similar annuity products for at least three months.)

[4] The specific risk being hedged shall include a measure of the hedge coverage (e.g., percentage of interest rate sensitivity being hedged).

particular hedging relationship excludes a specific component of the gain or loss, or related cash flows, from the assessment of hedge effectiveness, details on the excluded components shall be disclosed.

Staff Review Completed by: Julie Gann, NAIC Staff—May 2024

On August 13, 2024, the Statutory Accounting Principles (E) Working Group moved this item to the active listing as a SAP clarification, and exposed revisions to SSAP No. 108, as shown above, to update the definition of a clearly defined hedging strategy to mirror guidance previously adopted by the Life Actuarial (A) Task Force. This item was exposed until September 27, 2024, to allow for consideration at the 2024 Fall National Meeting.

On November 17, 2024, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions to SSAP No. 108, as shown above, to update the definition of a clearly defined hedging strategy to mirror guidance previously adopted in 2022 by the Life Actuarial (A) Task Force.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2024FallNM/Minutes and summary/SAPWG/Att One-E-24-17-SSAP No. 108-VM-01.docx

Ref #2024-18

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

Issue: *Clarification of Accounting Guidance for Recognition of Tax Credits*

Check (applicable entity):

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

Description of Issue:
On March 16, 2024, the Statutory Accounting Principles (E) Working Group adopted, as final, agenda item 2022-14 which exposed revisions to *SSAP No. 34—Investment Income Due and Accrued*, *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, *SSAP No. 93—Low-Income Housing Tax Credit Property Investments*, and *SSAP No. 94R—Transferable and Non-Transferable State Tax Credits* to expand and amend statutory guidance to include all tax credit investments regardless of structure and type of state or federal tax credit program, and all state and federal purchased tax credits.

After adoption of agenda item 2022-14, NAIC staff received questions from public accounting firms on the accounting guidance and example journal entries provided in the new guidance. It was noted that the SSAP No. 94R accounting guidance appeared inconsistent with the journal entry examples and the guidance in SSAP No. 93 for recognizing allocated tax credits was confusing when compared to the journal entry examples. Both interested parties and NAIC staff agreed that the journal entries reflect the proper accounting for both the recognition and utilization of tax credits, as such revisions have been drafted to revise the accounting guidance to match the journal entry examples more accurately.

It was also noted that a sentence in SSAP No. 48 was accidentally not updated as part of the New Market Tax Credit project. Updates to this sentence are proposed below.

Existing Authoritative Literature:
SSAP No. 93—Low-Income Housing Tax Credit Property Investments (Superseded 1/1/2025)
SSAP No. 94R—Transferable and Non-Transferable State Tax Credits (Superseded 1/1/2025)

SSAP No. 93—Investments in Tax Credit Structures (Effective 1/1/2025)
SSAP No. 94—State and Federal Tax Credits (Effective 1/1/2025)

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

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): None

Ref #2024-18

Staff Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *SSAP No. 93—Investments in Tax Credit Structures, SSAP No. 94—State and Federal Tax Credit*, and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, to be effective as of January 1, 2025.
Staff Review Completed by: William Oden – June 2024

Status:
On August 13, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 93—Investments in Tax Credit Structures*, *SSAP No. 94—State and Federal Tax Credit*, and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*.

Drafting Note: The SSAP guidance shown below includes the revisions adopted in agenda item 2022-14, which are effective 1/1/2025.

Proposed Revisions to SSAP No. 93:

14. Tax credits and other tax benefits, not to include amortization of the investment, shall be reflected as follows:

a. Tax credits shall be recognized in the period that they are allocated to the reporting entity for tax purposes:

i. ~~Federal tax credits that can be utilized in the year allocated shall be reported in the income statement as an offset to federal taxes in accordance with *SSAP No. 101—Income Taxes*. Federal tax credits that cannot be utilized in the year allocated and are carried forward to a future tax year shall be reported as a deferred tax asset (DTA) in accordance with SSAP No. 101.~~If utilized in the same year allocated, federal tax credits shall be recognized and reported as a reduction to federal income tax liabilities and federal income tax expense. If the allocated tax credits are not utilized in the year allocated, they shall be reported as a deferred tax asset (DTA) and change in DTA in accordance with *SSAP No. 101—Income Taxes*.

ii. ~~State tax credits that can be utilized in the year allocated shall be reported in the income statement as an offset to state premium tax or state income tax, whichever is applicable, in the tax-reporting year in which the credit is utilized. State tax credits that cannot be utilized in the year allocated and are carried forward to a future tax year shall be reported gross of any related state tax liabilities and reported in the category of other-than-invested assets (not to be reported net).~~If utilized in the same year allocated, state tax credits shall be recognized and reported as a reduction to the related state tax liability and state premium tax or state income tax, whichever is applicable. If the allocated tax credits are not utilized in the year allocated, they shall be reported gross of the related state tax liability in the category of other-than-invested assets (not to be reported net).

iii. ~~Use~~ Utilization of tax credits in settlement of tax liabilities ~~carried forward in a future period~~ shall be reflected ~~as an offset to~~net of the corresponding income or premium tax liability in the ~~tax~~ reporting ~~year~~ period in which the tax credit is utilized.

iv. Tax credits allocated from tax credit investments, as defined within this SSAP, and held by reporting entities meet the definition of assets as specified in SSAP No. 4 and are admitted assets to the extent that they comply with the requirements of this statement. The admissibility of tax credits is subject to SSAP No. 101.

b. Federal tax benefits other than tax credits (e.g., tax benefits from investment depreciation) shall be recognized in the year allocated pursuant to SSAP No. 101. When utilized, the federal tax benefits are recognized as a component of income tax expense.

c. State tax benefits other than tax credits shall be recognized in the year allocated gross of any related state tax liabilities pursuant to SSAP No. 101. When utilized, the state tax benefits are recognized as a component of taxes, licenses, and fees.

Proposed Revisions to SSAP No. 94R:

9. Tax credits shall be recognized in the period that they are purchased or allocated to the reporting entity for tax purposes:

a. ~~Federal tax credits that can be utilized in the year allocated or purchased shall be reported in the income statement as an offset to federal taxes in accordance with *SSAP No. 101—Income Taxes*.~~ Federal tax credits ~~that cannot be utilized in the year allocated or purchased and are carried forward to a future tax year shall~~are to be recognized and reported as a deferred tax asset (DTA) in accordance with *SSAP No. 101—Income Taxes*~~SSAP No. 101~~.

b. ~~State tax credits that can be utilized in the year allocated or purchased shall be reported in the income statement as an offset to state premium tax or state income tax, whichever is applicable, in the tax-reporting year in which the credit is utilized.~~ State tax credits ~~that cannot be utilized in the year allocated or purchased and are carried forward to a future tax year shall~~ are to be recognized reported gross of any related state tax liabilities ~~and reported~~ in the category of other-than-invested-assets (not to be reported net).

10. ~~Use~~ Utilization of ~~carried forward~~ tax credits in settlement tax liabilities ~~in a future period~~ shall be reflected ~~as an offset to~~ net of the corresponding income or premium tax liability in the ~~tax~~ reporting ~~year~~ period in which the tax credit is utilized.

Proposed Revisions to SSAP No. 48:

1. This statement establishes statutory accounting principles for investments in any joint ventures, partnerships, and limited liability companies, including investments in certified capital companies (CAPCO) per *INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)*, whether or not it is considered to be controlled by or affiliated with the reporting entity. Single real estate property investments that are wholly-owned by an LLC that is directly and wholly-owned by the reporting entity, and that meet the criteria established in *SSAP No. 40R—Real Estate Investments*, are excluded from this statement. This statement does not address the accounting for investments in joint ventures, partnerships, and limited liability companies that invest in tax credit programs and are in the scope of *SSAP No. 93—Investments in Tax Credit Structures*. However, investments in joint ventures, partnerships, and limited liability companies which allocate tax credits but ~~certain state Low-Income Housing Tax Credit Property Investments that~~ do not fall within the scope of SSAP No. 93 are covered by the requirements of this statement.

On November 17, 2024, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions to *SSAP No. 93—Investments in Tax Credit Structures*, *SSAP No. 94—State and Federal Tax Credit*, and *SSAP No.*

48—Joint Ventures, Partnerships and Limited Liability Companies as shown above, as clarifying edits to the previously-adopted tax credit guidance.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2024FallNM/Minutes and summary/SAPWG/Att One-F-24-18-Clarifications to NMTC Project.docx

Ref #2024-19

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

Issue: *ASU 2024-02, Codification Improvements—Amendments to Remove References to the Concepts Statements*

Check (applicable entity):

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

Description of Issue:
FASB issued *ASU 2024-02, Codification Improvements—Amendments to Remove References to the Concepts Statements*, which removes references to FASB Concept Statements from the Codification. The main rationale for this amendment is to simplify the Codification by removing Concepts Statements in the guidance and draw a clear distinction between authoritative and nonauthoritative literature. The Board was concerned that references to Concept Statements would result in users incorrectly inferring that the referenced Concept Statements were authoritative.

The FASB Concept Statements are referenced in the *Accounting Policies and Procedures Manual* within the Statutory Hierarchy which notes that FASB Concept Statements as either Level 4 or 5. However, the revisions in ASU 2024-02 are not relevant to this and other references to FASB Concept Statements in the AP&P Manual.

Existing Authoritative Literature:
None

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

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): None

Staff Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2024-02, Codification Improvements—Amendments to Remove References to the Concepts Statements* as not applicable to statutory accounting. This guidance is not considered relevant to the existing statutory accounting references to FASB Concept statements.

Staff Review Completed by: William Oden – May 2024

Status:
On August 13, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2024-02, Codification Improvements—Amendments to Remove References to the Concepts Statements* as not applicable to statutory accounting.

Ref #2024-19

On November 17, 2024, the Statutory Accounting Principles (E) Working Group adopted revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2024-02, Codification Improvements—Amendments to Remove References to the Concepts Statements* as not applicable to statutory accounting.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2024FallNM/Minutes and summary/SAPWG/Att One-G-24-19-ASU 2024-02-Codification Improvements.docx

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 24-01: Principles-Based Bond Definition Implementation Questions and Answers

INT 24-01 Dates Discussed

August 13, 2024, October 4, 2024, November 17, 2024

INT 24-01 References

Current:
SSAP No. 21—Other Admitted Assets
SSAP No. 26—Bonds

INT 24-014 Issue

1. The principles-based bond definition was adopted in August 2023 with an effective date of January 1, 2025. In response to questions presented, question-and-answer implementation guidance was developed to assist with consistent assessment and application under the principles-based bond definition.

INT 24-01 Discussion

2. The Working Group reached consensus that Exhibit A provides question-and-answer guidance consistent with the intent of the principles-based bond definition, including application of debt securities that qualify for bonds under SSAP No. 26 and guidance for debt securities that do not qualify as bonds under SSAP No. 21.

INT 24-01 Status

3. This interpretation, and the question-and-answer guidance in Exhibit A is effective January 1, 2025. Consideration of further components may occur if future questions are received on the application of the principles-based bond guidance.

4. No further discussion is planned.

Exhibit A – Principles-Based Bond Definition Implementation Questions and Answers

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Exhibit A – Principles-Based Bond Definition Implementation Questions and Answers

1. Q – When assessing whether a security has substantive credit enhancement, how should future cash flows be considered? Should future expected cash flows be incorporated into the overcollateralization disclosure? [SSAP No. 26, paragraph 6.a. and 10.a.]

1.1 A – There are two components to this question: 1) how to consider future cash flows in assessing substantive credit enhancement; and 2) how to disclose the overcollateralization percentage. For the first component, the purpose of the substantive credit enhancement concept is to determine whether the creditor is in a different economic position than owning the underlying collateral directly. This includes evaluating all forms of economic value that the creditor has recourse to, including "hard," saleable assets, contractual or expected future cash flows, operating entity guarantees or other sources, and determining whether there is another party that absorbs substantive losses in economic value before the creditor experiences any losses. Note however, **if** a reporting entity performs a quantitative assessment to support its conclusion, it should not double-count economic value. For example, in a lease-backed ABS, if the reporting entity incorporates future lease payments into its analysis, it should also consider the future, depreciated value of the "hard assets" rather than the current saleable value.

1.2 The second component of the question is how to complete the overcollateralization percentage disclosure on Schedule D, which is required for Non-Financial ABS that do not meet the practical expedient criteria and Financial ABS that are not self-liquidating. It was noted that including a quantification of all forms of economic value discussed in 1.1, which may include not only "hard," saleable assets but also future cash flows or operating entity guarantees, would be cumbersome to complete for each applicable investment, both at origination and an ongoing basis. It would also make the disclosure difficult to interpret, as it would not be apparent whether the overcollateralization is in the form of assets that could be liquidated upon default, or future cash flows which may be less readily able to be liquidated. Based on the discussion, it was determined that it would be most expedient, as well as most useful to annual statement users, for the overcollateralization percentage to only include "hard," saleable assets. For example, if a structure involved the leasing of railcars, and the structure had railcars and the associated lease cashflows pledged to the ABS Issuer as collateral, only the value of those railcars to the outstanding debt would be included in the disclosure. (This calculation is based on the value of the railcars, and not their future leasing potential.) Overcollateralization determined by the discounting of future cash flows is not permitted to be included in the disclosure.

1.3 Reporting entities shall report 'zero' when there is no "hard asset" overcollateralization in a structure on Schedule D. The column should not be left blank. A zero response is not standalone evidence that a structure does not qualify for bond reporting. A debt security can qualify for bond reporting without "hard asset" overcollateralization.

2. Q – Are securities issued by foreign governments or foreign government agencies considered Issuer Credit Obligations? [SSAP No. 26, paragraph 7.a.]

2.1 A – The examples of issuer credit obligations (ICO) in paragraph 7 are not all inclusive. Governmental entities are operating entities based on their substance, which does not change based on country. Securities issued as obligations of foreign governments or foreign government agencies are expected to be considered ICOs, unless the substance is more aligned with ABS. Schedule D-1-1 includes a reporting line for "Non-U.S. Sovereign Jurisdiction Securities." Foreign securities that reflect ABS, similar to US agency backed RMBS for example, are also expected to be considered ABS. Such ABS are anticipated to be reported on D-1-2 on the most appropriate reporting line that does not reflect a guarantee by the U.S. government.

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3. Q – Are "Municipals" always Issuer Credit Obligations? [SSAP No. 26, paragraph 7.c. and 11]

3.1 A – The question received inquired on the classification of "municipals" noting the various structures and designs, and the explicit reporting lines on Schedule D-1-1 for general obligation and special revenue municipal structures. The answer to this question is that the naming convention of investment structures does not determine whether the investment qualifies for reporting as a bond or whether the investment is an issuer credit obligation (ICO) or asset-backed security (ABS). The first step in determining if an investment qualifies as a bond is whether it reflects a creditor-relationship in substance. The second step is determining whether the structure is an ICO or ABS, and that determination focuses on the primary source of cash flows that provides payment of interest and principal to the debtholder. Municipal securities are subject to the same assessment as other structures as to whether the cash flows are generated by the operations of an operating entity (the municipality) or whether the cash flows are generated from collateral outside of the operations of the municipality in determining whether the security shall be classified as ICO or ABS. However, this distinction is not always clear for several types of common municipal securities which warrants some additional interpretive guidance to promote consistency and streamline implementation efforts. The following summarizes preliminary assessments based on common designs of these structures. These assessments are contingent on the actual substance of the investment and shall not be inferred based on naming convention if the investment being reviewed does not conform to the traditional design.

a. General Obligation Municipal Bonds – These bonds are backed by the full faith and credit of the government issuer (municipality), which is an operating entity with the power to tax residents to pay bondholders. These securities, as general obligations of an operating entity (the municipality), would qualify as ICOs as explicitly stated in paragraph 7.c. of SSAP No. 26, and shall be reported in the "Municipal Bonds – General Obligation" reporting line.

b. Special Revenue Municipal Bonds – These bonds are not backed by the government's general taxing power but by revenues from a specific municipality-owned project or source, such as highway tolls, water and sewer, electric utility, lease fees or usage charges. Payment of interest and principal depends on the adequacy of the revenues derived from the project. Although the operating asset and/or its associated cash flows are often walled off in a bankruptcy remote SPV in order to facilitate more efficient financing of such projects, the primary purpose is still to raise debt capital to fund a component of a municipality's operations. Both paragraph 7.c. and 11 of SSAP No. 26 explicitly contemplate securities of this type qualifying as ICO, and shall be reported in the "Municipal Bonds – Special Revenue" reporting line.

c. Tax Revenue Bonds – These bonds are backed from certain dedicated tax revenues overseen by the municipality, such as sales taxes, gasoline or tobacco taxes, hotel or tourist taxes, special tax assessments or incremental property taxes. Payment of interest and principal depends on the adequacy of tax revenue. Although the obligation is secured only by a single revenue source, rather than the full faith and credit of the municipality, it is still backed by the municipality's taxing authority and is ultimately used to facilitate the raising of financing to be used in funding the needs and responsibilities of the municipality. Tax

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revenue bonds are determined to have the substance of an ICO and should be reported in the "Municipal Bonds – Special Revenue" reporting line.

d. Housing Bonds – These securities may be issued by a state or local government housing authority to facilitate construction or rehabilitation of multi-family apartments for low to moderate income residents. The bonds are secured by a pledge of rental or lease revenues and/or mortgage payments. These bonds generally only have recourse to the assets or mortgages pledged. These securities are not backed by the operations of the municipality, the financing is not being used to fund any operations of the municipality and the primary source of repayment are non-municipal collateral assets. Based on these observations, their substance appears to more closely reflect that of an ABS and shall be assessed for bond qualification under the ABS requirements. If qualifying as ABS, these structures shall be reported on Schedule D-1-2, likely as a non-guaranteed, non-agency, mortgage-backed security.

e. Conduit Bonds – These debt securities are issued by a government entity as a conduit for the benefit of a business or non-governmental enterprise, such as a manufacturing company, developer, college, hospital or non-profit organization. Revenues pledged by the business or enterprise are used to pay interest and principal on the investments. The government issuer is not responsible for making payments on the bonds if the business or enterprise defaults. These debt securities will need to be assessed to determine whether the structure qualifies as an ICO or ABS. If the structure is backed by the creditworthiness of a single operating entity (such as a college), then the structure is expected to be an ICO. If qualifying as an ICO, the specific reporting line used should be the one that most closely reflects the nature of the investment. If historical reporting and/or market conventions would consider the ICO investment to be a municipal security, then it would be reasonable for the investment to be reported as a special-revenue municipal bond. However, this reporting is contingent on the ICO classification. If the structure represents an ABS (such as a conduit bond secured by housing assets or mortgages pledged), it should not be reported as a municipal on Schedule D-1-1 simply due to historical reporting or market convention as a municipal bond.

4. Q – Should common types of "Sports Deals" be classified as ICO or ABS? [SSAP No. 26, paragraphs 7-8]

4.1 A – There are two main types of leaguewide sports financing vehicles, with the key difference being whether or not noteholders have recourse to the individual sports teams.

4.2 <u>Leaguewide Deals **with** Recourse to Teams</u> - The League sets up an SPV or Trust that serves to aggregate debt issued by multiple teams within the League. The SPV (Trust) issues a Note, representing the aggregation of each underlying team's debt obligation. Through the SPV, Noteholders have recourse back to each individual team for its respective debt on a several (but not joint) basis. The Notes are also secured by Franchise rights for each team that participates in the financing and all revenues from current and future League media contracts and typically other ancillary revenue streams (e.g. online/streaming revenues, royalty fees from sports gear sold to fans, etc.). No cross-collateralization among teams or their respective revenue streams, but Noteholders have some protection from the League (which exercises

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considerable control over individual teams) and a pledge of team ownership rights as collateral. Should any individual team default, the League could (and in all practicality, would) step in to orchestrate a sale of the team, otherwise Noteholders could take ownership of the team.

4.3 The question raised was whether this type of deal would fall under the ICO or ABS criteria. Each team represents an operating entity, and each are individual obligors for their pro rata portion of the financing. Though the direct issuer is an SPV, it is being used to facilitate the efficient raising of debt capital by the individual teams/operating entities, as opposed to redistributing or transforming the underlying risk. In addition, the league itself is an operating entity, and though it is not a direct obligor on the financing, it has a significant role in the facilitation of the financing, its actions can significantly impact the paying ability of the individual teams and it has levers it can and would pull to ensure debtholders receive payment. Through discussion of this example, it was determined that the substance was more aligned with that of an ICO than an ABS. Under one perspective, the league could be viewed as a single-operating entity with all of its affiliated teams being part of that operating entity. This would allow the debt to be considered a "single operating entity backed obligation" under paragraph 7.g. of SSAP No. 26. Under another perspective, debtholders effectively hold debt obligations of each of the individual teams. If each team were to individually issue their debt to the noteholders, rather than through a coordinated offering, the noteholders would be in no different economic situation and each individual security would qualify as an ICO. As a result, this investment is effectively a series of "single operating entity backed obligations" under paragraph 7.g. Based on these observations, it was determined that this type of deal is an ICO in substance.

4.4 <u>Leaguewide Deals **without** Recourse to Teams</u> - Each participating team sells its share of all current and future contracted media revenues (and other ancillary revenues) to a newly created, bankruptcy remote subsidiary of the team in a true sale. The subsidiary then pledges the purchased assets to an SPV/Trust set up by the League. The SPV/Trust then issues Notes to investors. The structure has many features associated with ABS securities, including a bankruptcy-remote legal opinion, a true sale legal opinion, debt service reserves, and a payment waterfall (with Noteholders receiving priority of payment). The Notes are secured by revenues generated from the media contracts and other ancillary revenues (e.g. online/streaming revenues, royalty fees from sports gear sold to fans, etc.).

4.5 Unlike the previous example, these securities do not have recourse to an operating entity. They have all of the characteristics of a securitization of a revenue stream. Therefore, they must be evaluated under the ABS criteria. Also, there is a performance obligation for the cash flows to become collectible, as the product must be provided in order for the revenue to be generated (i.e. games must be played). As a result, the collateral are deemed to be non-financial assets, requiring the security to be assessed under the non-financial ABS criteria.

5. Q – Do cashflows produced by non-financial assets backing an ABS have to actually be used to make interest and principal payments throughout the life of the debt security for an investment to qualify as a non-financial backed ABS under the meaningful cash flow test? [SSAP No. 26, paragraph 8]

5.1 A – The principles-based bond definition is clear that the collateral supporting non-financial ABS must have a means of producing meaningful cash flows through other than sale or refinancing. However, it does not specify whether those cash flows must actually be used to pay the principal and interest in all scenarios. For example, it is not uncommon for an ABS to allow cash flows to be paid to equity holders prior to the debt tranches being repaid, so long as no covenants or triggering events have been breached. The example given was a continuation of the leaguewide sports deal **without** recourse to the individual

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teams as discussed in Question #4 in which the ABS was backed by current and future contracted media revenues (non-financial assets). The notes were issued as non-amortizing bullet maturities (e.g., 100% balloon payments). Therefore, the base case expectation is that the bonds will be refinanced at maturity. However, after full analysis, it was identified that the non-financial assets backing the structure generated substantially more cash flows over the life of the debt security than what would be needed to provide all interest and principal payments and would produce enough cash flows to "turbo" amortize and pay 100% of principal and interest in a short time frame if refinancing were not to occur. Additionally, there exist covenants (e.g. upon a significant decrease in media revenue) which, if triggered, would cause all cash flows to be diverted away from the equity holders and used to "turbo" amortize the debt. The question is, does the fact that the base case expectation is that the cash flows will not be used to pay down the debt result in the ABS lacking meaningful cash flows? Based on these discussions, it was determined that this situation would not preclude a conclusion that meaningful cash flows exist. Despite the meaningful cash flows not being used to pay the debt in the base case, the creditor still has rights to them and would collect them prior to experiencing any loss upon default. Therefore, all such cash flows available to creditors may be included in the assessment of meaningful cash flows.

6. Q – How should CMBS Interest Only (IO) strips be assessed under the PBBD? [SSAP No. 26, paragraphs 8-10]

6.1 A – The question pertains to the classification of CMBS IO strips that are paid from the excess spread of a CMBS structure. Excess spread is the excess of the interest collected on the underlying commercial mortgages over the contractual interest to be paid on the issued securitized tranches. In these instances, the IO strip is "linked" to either a specific tranche (such as a specific B-rated or AAA-rated tranche), or the IO strip could be linked to a combination of the issued tranches (from the residual tranche through the top AAA tranche). The tranche or tranches to which an IO is linked refers to the notional amount of principal from which the IO interest is calculated. Regardless of which tranche an IO is linked to, it is paid pari-passu with AAA rated tranche. The calculation of the IO strip interest to be paid is the product of the remaining principal of the linked debt tranche and the contractual rate of the IO strip and the contractual rate is equal to the difference between the weighted average coupon of the underlying loans, and the weighted average coupon of the issued securitization tranches. The contractual rate of the IO strip is recalculated each period based on the loan and debt tranche balances that remain outstanding. For example, if weighted average coupon on the underlying loans is 9.2% and the weighted average coupon on the securitization tranches is 8%, the contractual rate on the CMBS IO is 1.2%. If the IO strip is linked to the BBB tranche and the BBB tranche has a principal value of $1,000, there would be a monthly coupon payment of $1.00 [(1.2% / 12 months) * 1,000]. The CMBS IO holder would receive their contractual interest pari-passu with the AAA tranche, meaning they would receive all contractual interest prior to any of the subordinated securitization tranches being entitled to receive interest. When losses or principal payments are applied to the linked securitization tranche, the notional amount on which the CMBS IO interest is calculated is reduced until fully paid or written off.

6.2 In assessing these structures under the bond definition, IO strips should be considered in the same manner as a debt security that reflect both principal and interest components. That is, for a CMBS security (a financial asset-backed security), the structure would be required to have substantive credit enhancement to qualify for bond classification. For these CMBS structures, even if the IO tranches may always be paid pari-passu with the AAA tranche, an assessment must still occur on whether there is substantive credit enhancement. If the IO tranche is linked to a debt tranche, or a combination of debt tranches, that have

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substantive credit enhancement, then the IO is also considered to have substantive credit enhancement resulting in an ABS bond classification. If the IO tranche is linked to a tranche that does not have substantive credit enhancement, or a combination of debt tranches that includes a tranche that does not have substantive credit enhancement (such as the residual tranche), the IO strip would also not be considered to have substantive credit enhancement and shall be classified as a non-bond debt security. This is because it would lack substantive credit enhancement to absorb losses before the notional balance from which the IO interest is calculated is reduced. As a result, principal losses on the underlying loans would result in an economic loss to the IO if there is no credit enhancement to absorb them.

7. Q – How should debt securities that reflect Single Asset Single Borrower (SASB) Commercial Mortgage Loan (CML) securitizations be assessed under the PBBD? [SSAP No. 26, paragraphs 8-10]

7.1 A – The question pertains to SASB commercial mortgage-backed security (CMBS) structures which involve securitizing a single mortgage loan collateralized by one property owned by a single borrower. Although structures can vary, SASBs are usually associated with high-value properties with many long-term tenants where the mortgage loan is too large for a single lender to hold. By securitizing the loan into rated, tradeable securities, it facilitates access to a broader lender base than would exist for commercial mortgage loans. SASB CMBS structures can issue multiple tranches with different priorities of payment, or they can issue one single tranche (i.e., uni-tranche) that simply passes through the cash flows of the underlying mortgage. In either scenario, the principal and interest payments on the underlying loan provide the cash flows to service the principal and interest on the issued debt securities. Usually, the principal and interest on the commercial mortgage loan and the issued securities are equal except for fees and expenses for servicing and structuring paid by the ABS Issuer.

7.2 Under the PBBD concepts, SASBs should be assessed as asset-backed securities (ABS), as the repayment of principal and interest is derived from the cash flows of the underlying collateral and not the general creditworthiness of an operating entity. SASB CMBS structures are not expected to qualify for reporting as issuer credit obligations reflecting a debt security fully supported by an underlying contractual obligation of a single operating entity pursuant to SSAP No. 26, paragraph 7.g. Although the ultimate cash flows for repayment are expected to be derived from the leasing of the property, the lease cash flows are typically not pledged and there are typically multiple lessees, thus not qualifying under paragraph 7.g. Under the ABS criteria, a SASB CMBS reflects a financial asset-backed structure (as a mortgage loan is a financial asset), therefore the debt security must qualify under the substantive credit enhancement concept to qualify for bond reporting. Determination of whether the debt issuance has substantive credit enhancement is contingent on the actual structure (multi-tranche or uni-tranche) and position of the security within the structure.

7.3. The senior tranches (those above the most junior tranche) in a multi-tranche SASB are expected to qualify under the substantive credit enhancement criteria, as the subordinated tranches will absorb losses first. Assuming the subordination is significant enough to be considered substantive, the subordination of the lowest tranche puts the reporting entity that holds a more senior tranche in a different economic position than if the mortgage loan was held directly.

7.4 The lowest tranche of a multi-tranche SASB, any tranche in which the subordinated tranches below it do not provide substantive credit enhancement, and uni-tranche SASBs are not expected to qualify for reporting as a bond as they do not meet the requirement for substantive credit enhancement. For these situations, the reporting entity is not in a different economic position than if they held the underlying mortgage loan directly. This is true regardless of the LTV or overcollateralization of the property compared

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to the underlying mortgage loan as the bond definition does not contemplate a broad look-through of the underlying collateral to indirect subordination. This is most clearly illustrated in Example 1 of Exhibit A of SSAP No. 26 which does not contemplate looking through the mortgage loan collateral to overcollateralization of the mortgage loans themselves through recourse to the underlying properties. While this is a legitimate source of overcollateralization, it represents overcollateralization of the mortgage loans in relation to the underlying properties, not overcollateralization of the debt securities in relation to the mortgage loans. The investor is in the same economic position as holding the mortgage loans directly. Therefore, these structures fail the substantive credit enhancement requirement and do not qualify for reporting as a bond.

7.5 SASB structures that do not qualify for reporting as a bond shall be captured as non-bond debt securities on Schedule BA within the reporting line specific for "Debt Securities That Lack Substantive Credit Enhancement." Life reporting entities can file these debt securities within the NAIC SVO to obtain an NAIC designation that can be used for RBC.

8. Q – Do synthetic or referenced pool structures within an ABS disqualify the ABS for reporting on Schedule D-1-2? [SSAP No. 26, paragraph 9]

8.1 A – The principles-based bond definition refers to ABS as being repaid with cash flows produced by collateral "owned" by the issuer. The term "owned" as used for this purpose is not necessarily intended to align with a legal view of ownership, but rather, all economic value to which the creditor has recourse. This may include rights to assets or payments derived through assignment, or other provisions. An example that has become common due to evolving banking regulations was discussed whereby a bank has a portfolio of auto loans but wants to transfer their credit risk without transferring or selling their loans. The bank creates a special purpose trust (or vehicle) to which the bank issues a "credit linked note" (effectively equivalent to a "credit risk transfer") which references the performance of the bank's portfolio of auto loans. The securities issued by the special purpose trust (e.g., debt tranche(s) and an equity tranche) are exposed to the reference pool of collateral and the payments received are linked to the credit and principal payment risk of the underlying borrowers captured in the reference pool. The specific underlying collateral, and whether it resides within the ABS, or if the ABS references a collateral item/pool that generates cash flows is not a determining factor as long as the ABS Issuer has contractual rights to the cash flows produced to repay the debt. An ABS Issuer that owns derivatives in the structures (such as a credit default swap or total return swap) that solely transfers the performance of the referenced pool into the ABS structure does not automatically disqualify ABS classification, but the assessment of derivatives within a structure must be closely considered. Structures with derivatives that influence payments based on variables unrelated to the ultimate collateral would not qualify as a creditor relationship in substance. Further, consideration should be given to *SSAP No. 86—Derivatives* in determining whether structures with derivatives are subject to specific guidance, such as that for structured notes.

9. Q – Can expected but non-contractual cash flows (e.g., from future leases) be considered in determining the meaningful cash flow practical expedient for non-financial ABS? [SSAP No. 26, paragraph 9.b.]

9.1 A – The example given was a single-family rental where the lease duration is shorter than the duration of the debt security, subjecting the investor to re-leasing risk. The insurer has a high degree of confidence based on its understanding of the market that the property will be able to be re-leased and that the leases (including consideration of unleased time) will produce sufficient cash flows to satisfy all of the interest and at least 50% of the original principal. The question is whether this example qualifies under the

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practical expedient. Paragraph 9.b. explicitly states that only contractual cash flows are to be considered in assessing qualification under the practical expedient. As such, evaluating qualification under the practical expedient should not include any future leases that are not yet in place and this example would therefore not qualify. However, this does not necessarily mean that the full analysis will require significantly more effort than using the practical expedient in this case. In fact, the analysis the insurer performed to determine that all of the interest and at least 50% of the principal would be satisfied through expected lease payments is likely sufficient to conclude that there are meaningful cashflows, even though the practical expedient is not met.

9.2 This question was brought forward because, although paragraph 9.b. is explicit that only contractual cash flows are included, a paragraph in a prior draft of the issuer paper addressing this topic omitted the word "contractual". This has since been corrected. This question highlights an important point. Issue papers intend to provide key context regarding the discussions leading to the development of new accounting standards. However, any unintended language that conflicts with statements in the SSAP should be disregarded.

9.3 As one more element of clarity coming from the discussions on this topic, the meaningful cash flow practical expedient is that less than 50% of the original principal relies on sale or refinancing risk. In some cases, this has been phrased in the inverse, that all interest and more than 50% of the original principal must be satisfied by the contractual cash flows at investment acquisition for the investment to qualify under the practical expedient. These two phrasings would be expected to have the same meaning, but for the avoidance of doubt, the standard should be interpreted that any outstanding amounts that rely on sale or refinancing at maturity, whether characterized as principal or accrued interest, must be less than 50% of the original principal in order to qualify under the practical expedient.

10. Q – How should hybrid securities be accounted and reported? [SSAP No. 26, paragraph 13]

10.1 A – SSAP No. 26 prior to the principles-based bond definition explicitly scoped in a class of assets referred to as "hybrid securities" which are defined as "securities whose proceeds are accorded some degree of equity treatment by one or more of the nationally recognized statistical rating organizations (NRSRO) and/or which are recognized as regulatory capital by the issuer's primary regulatory authority. Hybrid securities are designed with characteristics of debt and equity and are intended to provide protection to the issuer's senior note holders. Hybrid securities are sometimes referred to as capital securities." During the development of the principles-based bond definition, it was decided to remove the explicit scope-in and instead rely on the new principles to determine whether bond classification is appropriate. As these securities come in several forms, additional clarity on where to report such securities is warranted.

10.2 <u>Equity Securities</u>: Investments that represent shares, units, or an ownership interest in a company or other entity but do not reflect common stock that were previously considered hybrids under SSAP No. 26 are equity investments and shall be captured as preferred stock in scope of *SSAP No. 32—Preferred Stock*. Investments in debt securities are not permitted to be reported in scope of *SSAP No. 30—Unaffiliated Common Stock* or SSAP No. 32.

10.3 <u>Debt Securities</u>: Investments in debt securities previously considered hybrids under SSAP No. 26 (including those debt securities with cumulative interest features) **that qualify** under the principles-based bond definition shall be reported as bonds on Schedule D. An example may include certain debt securities which NRSROs allow to be treated as equity but for which all the principles-based bond definition requirements are present. To be clear, a set maturity date for a debt security is not a requirement for bond

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classification if the bond otherwise qualifies under the definition. (Perpetual bonds that qualify under the bond definition are permitted as bonds.)

10.4 Investments in debt securities treated as regulatory capital by the issuer's primary regulatory authority, and **that do not qualify** under the principles-based bond definition solely because interest can be cancelled in the event of financial stress in a non-resolution scenario without triggering an act of default are capital notes and shall be captured in *SSAP No. 41—Surplus Notes*. These capital notes are often issued by domestic or foreign banks, and the domestic or foreign bank regulator or the Issuer has the ability to cancel interest or dividends, without future interest accumulation or payment.

10.5 Debt securities other than capital notes (as defined in 10.4 above) that permit the issuing entity to cancel interest without future interest accumulation or payment and without triggering an act of default, or that incorporate other equity components that do not permit bond classification under the principles-based bond definition are non-bond debt securities and shall be captured in scope of *SSAP No. 21—Other Admitted Assets*.

10.6 Debt securities issued by regulated institutions where only the issuer's primary regulator may have regulatory power to cancel or convert to equity all or a portion of the debt and/or its related interest payments, solely **in a resolution scenario** were not previously considered hybrid securities and should continue to be reported as Schedule D bonds, as Issuer Credit Obligations under SSAP No. 26, so long as all principles-based bond definition requirements are met.

10.7 Exhibit A to this Q&A provides a summary of common types of securities and how they are to be treated under this Q&A.

11. Q – When do non-bond debt securities need to be assessed for admittance based on underlying collateral? [SSAP No. 21, paragraph 22]

11.1 A – All debt securities that do not qualify as bonds, regardless of the reason for which they do not qualify, shall be assessed as to the primary source of repayment. If the primary source of repayment is derived through underlying collateral, then the collateral must qualify as an admitted asset in order for the non-bond debt security to be admitted. For example, if the source of repayment is derived from mortgage loans, and the structure failed because it did not reflect a creditor relationship, have substantive credit enhancement or meaningful cash flows, the debt security is permitted to be admitted if the mortgage loans would have qualified as admitted assets if held directly. If the source of repayment is derived from railcar leases, and the structure failed because it did not reflect a creditor relationship, have substantive credit enhancement or meaningful cash flows, the debt security shall be nonadmitted as directly held railcars would not qualify as admitted assets.

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Appendix A – Summary of Securities for Application under Question 10

Bank Debt/Capital & Hybrid Securities Matrix	Bank Issuers					All Issuers	
				Additional Tier 1 Capital			
	Sr. Unsecured OpCo Debt	**Sr. Unsecured HoldCo Debt**	**Tier 2 Capital (Subordinated Debt)**	**Debt Form**	**Perpetual Preferred Form**	**Debt Issued for Partial Equity Treatment from NRSROs**	**Debt Issued for Partial Equity Treatment from NRSROs**
In scope of "hybrid securities" definition in Q&A?	No	**Yes***	**Yes***	**Yes***	**Yes***	**Yes**	**Yes**
Issuer Can Cancel Interest (or Dividend) Non-Cumulatively w/out Default**	No	No	No	**Yes**	**Yes**	**Yes**	**No**
Regulator Can Force Cancellation of Interest (or Dividends) Non-Cumulatively w/out Default	No	No***	No***	**Yes**	**Yes**	No	No
Regulator Can Force Write-down or Equity Conversion of Debt	No	**Yes**	**Yes**	**Yes**	**Yes**	No	No
Proposed Accounting Treatment	SSAP 26 Bond Schedule D, Part 1	SSAP 26 Bond Schedule D, Part 1	SSAP 26 Bond Schedule D, Part 1	SSAP 41 Capital Notes Section of Schedule BA	SSAP 32 Preferred Stock Schedule D, Part 2	SSAP 21 Non-Bond Section of Schedule BA	SSAP 26 Bond Schedule D, Part 1

*Bank regulators require a specific amount of debt that is subject to "bail-in" during a resolution. Additional Tier 1 Captial, Tier 2 Capital and Total Loss Absorbing Capacity (the latter of which includes Sr. Unsecured HoldCo Debt) are all subject to bail-in requirements and count towards various solvency ratio tests.

**Older verions of bank capital exist where the Issuer can defer interest on a cumulative basis without triggering a default. These securities would be treated as SSAP 26 Schedule D, Bonds, as would any security with cumulative interest features.

***Interest amount can be cancelled or reduced following a write-down of debt in resolution scenario only.

Fall National Meeting - Review of GAAP Exposures for Statutory Accounting:

Pursuant to a 2014 direction from the SAPWG chair, there is a desire for the Statutory Accounting Principles (E) Working Group to be more proactive in considering FASB exposures that may be significant to statutory accounting and reporting. Historically, the SAPWG has commented on limited, key FASB exposures – mostly pertaining to insurance contracts and financial instruments. To ensure consideration of all FASB exposures, staff prepared this memorandum to highlight the current exposures, comment deadlines, and to provide a high-level summary of the exposed item's potential impact to statutory accounting. It is anticipated that this information would assist the Working Group in determining whether a comment letter should be submitted to the FASB on the issues. Regardless of the Working Group's election to submit comments to the FASB on proposed accounting standards, under the NAIC Policy Statement on Statutory Accounting Principles Maintenance Agenda Process, issued US GAAP guidance noted in the hierarchy within Section V of the Preamble to the *Accounting Practices and Procedures Manual* must be considered by the Statutory Accounting Principles (E) Working Group.

FASB Exposures: Exposure Documents and Public Comment Documents (fasb.org)

Exposed FASB Guidance	Comment Deadline & Initial Staff Comments
Proposed Accounting Standards Update—*Derivatives and Hedging (Topic 815): Hedge Accounting Improvements*	November 25, 2024

The FASB is issuing this proposed Update to clarify certain aspects of the guidance on hedge accounting and to address several incremental hedge accounting issues arising from the global reference rate reform initiative.

In 2017, the FASB issued Accounting Standards Update No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, to better portray the economic results of an entity's risk management activities in its financial statements and to make certain targeted improvements to simplify the application of the hedge accounting guidance. After the issuance of Update 2017-12, stakeholders asked the Board to clarify certain aspects of the guidance in the amendments of that Update. In 2019, the Board issued a proposed Accounting Standards Update, Derivatives and Hedging (Topic 815): Codification Improvements to Hedge Accounting, to clarify certain areas of the guidance to better align with the objective articulated in Update 2017-12.

Stakeholders indicated that the amendments in the 2019 proposed Update would not sufficiently resolve certain issues and that additional clarity was needed. In addition, in response to the 2021 Invitation to Comment, Agenda Consultation, stakeholders expressed concerns that current guidance increases the prevalence of missed forecasted transactions for otherwise highly effective hedging relationships, thus resulting in less decision-useful information for investors. Stakeholders also identified several areas of hedge accounting guidance requiring further updates to address the effects of reference rate reform on hedge accounting.

Consistent with the original objective of Update 2017-12, the objective of this proposed Update is to more closely align hedge accounting with the economics of an entity's risk management activities. The amendments included in the five issues addressed in this proposed Update are intended to better reflect those strategies in financial reporting by enabling entities to achieve and maintain hedge accounting for a greater number of highly effective economic hedges. The proposed amendments would limit the occurrence of unintuitive de-designation events and missed forecasted transactions for those hedging relationships. The amendments in this proposed Update would apply to any entity that elects to apply hedge accounting in accordance with Topic 815.

Issue 1: Similar Risk Assessment for Cash Flow Hedges

The amendments in this proposed Update would expand the hedged risks permitted to be aggregated in a group of individual forecasted transactions in a cash flow hedge by changing the requirement to designate a group of individual forecasted transactions from having a shared risk exposure to having a similar risk exposure. Entities would be required to assess risk similarity both at hedge inception and on an ongoing basis. The proposed amendments also would clarify that a group of individual forecasted transactions would be considered to have a similar risk exposure if the derivative used as the hedging instrument is highly effective against each risk in the group. In addition, in some cases, entities would be permitted to perform an ongoing qualitative assessment of whether a group of individual forecasted transactions has a similar risk exposure on a hedge-by-hedge basis.

The amendments in this proposed Update would improve GAAP by expanding the hedged risks permitted to be aggregated in a group of individual forecasted transactions, thereby enabling entities to apply hedge accounting to broader portfolios of forecasted transactions. Entities would be able to apply hedge accounting in a more efficient, cost-effective manner while reducing the risk of missed forecasts for highly effective economic hedges. Furthermore, clarifying the application of the similar risk assessment would improve operability and help entities apply the guidance more consistently. Therefore, investors would have more relevant information about entities' risk management activities related to cash flow hedges of groups of forecasted transactions.

Issue 2: Hedging Forecasted Interest Payments on Choose-Your-Rate Debt Instruments

The amendments in this proposed Update would facilitate the application of the change in hedged risk guidance to cash flow hedges of forecasted interest payments on variable-rate debt instruments with contractual terms that permit the borrower to change the interest rate index and interest rate tenor (that is, reset frequency) upon which interest is accrued (commonly referred to as "choose-your-rate" debt instruments). The contractual terms of the debt agreement would determine the alternative interest rate indexes and interest rate tenors that an entity may select during the hedging relationship without needing to discontinue hedge accounting. In addition, the proposed amendments would permit entities to use simplified assumptions when assessing hedge effectiveness and the probability of forecasted transactions occurring. Entities would be prohibited from applying this simplified guidance by analogy to other circumstances.

The amendments in this proposed Update would improve GAAP by establishing an operable model to address a pervasive hedging strategy for which stakeholders highlighted that diversity in practice exists. Furthermore, the amendments would enable entities to reduce the risk of hedge de-designation events and missed forecasts, while broadening the application of hedge accounting. As a result, entities would be able to more consistently reflect risk management strategies in the financial information provided to investors.

Issue 3: Cash Flow Hedges of Nonfinancial Forecasted Transactions

The amendments in this proposed Update would expand hedge accounting for forecasted purchases and sales of nonfinancial assets. Entities would be permitted to designate variable price components of the forecasted purchase or sale of a nonfinancial asset that meet the clearly-and-closely-related criteria would permit hedge accounting for eligible components of forecasted spot-market transactions and subcomponents of explicitly referenced components in an agreement's pricing formula.

The amendments in this proposed Update would improve GAAP because the application of hedge accounting would not necessarily be limited by whether the nonfinancial purchase or sale transaction is executed in the spot or forward market. Furthermore, the proposed amendments also may enable entities to reduce the risk of missed forecasts for highly effective economic hedges, more closely aligning entities' risk management strategies with hedge accounting to better reflect those strategies in financial reporting. The amendments in this proposed Update also would clarify that entities may designate a variable price component in a contract that is accounted for as a derivative as the hedged risk if the associated forecasted purchase or sale of the nonfinancial asset qualifies to be a hedged forecasted transaction. That clarification would improve GAAP because it would resolve diversity in practice about whether hedge accounting may be applied in those situations and would allow hedge accounting to be applied to highly effective economic hedges.

Issue 4: Net Written Options as Hedging Instruments

The amendments in this proposed Update would permit compound derivatives composed of a written option and a non-option derivative (for example, an interest rate swap with a written cap or floor) to qualify for designation as a hedging instrument in a cash flow hedge by adjusting the eligibility criteria for when a net written option may be designated as a hedging instrument. The proposed amendments would permit an entity to assume that certain terms of the hedged forecasted transactions match those of the hedging instrument for purposes of applying the net written option test.

The amendments in this proposed Update would improve GAAP by making the net written option test more operable for hedging relationships involving a variable-rate loan with an interest rate floor hedged by an interest rate swap that contains a mirror-image interest rate floor. The proposed amendments would accomplish that by allowing simplifying assumptions to be made that would accommodate differences in the loan and swap markets that exist after the cessation of the London Interbank Offered Rate (LIBOR). Making those simplifying assumptions would allow entities to continue to apply hedge accounting for strategies involving compound derivatives composed of a written option and a non-option derivative after LIBOR cessation.

Issue 5: Foreign-Currency-Denominated Debt Instrument as Hedging Instrument and Hedged Item (Dual Hedge)

The amendments in this proposed Update would eliminate the recognition and presentation mismatch related to a dual hedge strategy (that is, a hedge for which a foreign-currency-denominated debt instrument is both designated as the hedging instrument in a net investment hedge and designated as the hedged item in a fair value hedge of interest rate risk). The proposed amendments would require that an entity exclude the debt instrument's fair value hedge basis adjustment from the net investment hedge effectiveness assessment. As a result, an entity would immediately recognize in earnings the gains and losses from the remeasurement of the debt instrument's fair value hedge basis adjustment at the spot exchange rate. Entities would be prohibited from applying this guidance by analogy to other circumstances.

The amendments in this proposed Update would improve GAAP by enabling entities that utilize dual hedging strategies to reflect the economic offset of changes attributable to both interest rate risk and foreign exchange risk. The effective date for the amendments in this proposed Update will be determined after the Board considers stakeholders' feedback on the proposed amendments. The amendments in this proposed Update would require that an entity apply the guidance on a prospective basis for existing hedging relationships as of the date of adoption. Early adoption would be permitted for all entities on any date on or after issuance of a final Update. Upon adoption of the amendments in this proposed Update, entities may either be required or permitted to modify critical terms of certain existing hedging relationships, without de-designating the hedge.

Staff Review and Commentary:

Comment deadline is November 25, 2024

NAIC staff recommend that ASU be reviewed under the SAP Maintenance Process as detailed in *Appendix F—Policy Statements.*

Exposed FASB Guidance	Comment Deadline & Initial Staff Comments
Proposed Accounting Standards Update—*Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Clarifications to Share-Based Consideration Payable to a Customer*	November 14, 2024

The Board is issuing this guidance to reduce diversity in practice and improve the decision usefulness and operability of the guidance for share-based consideration payable to a customer in conjunction with selling goods or services.

Some entities offer to provide consideration to a customer (or to other parties that purchase the entity's goods or services from the customer) to incentivize the customer (or its customers) to purchase goods and services. Although consideration payable to a customer often takes the form of cash or credit that can be applied against amounts owed to the entity, it also can take the form of equity instruments (or other types of share-based consideration) such as warrants. When share-based consideration is granted to a customer (a grantee), it often vests upon the grantee purchasing a specified volume or monetary amount of goods and services from the grantor.

The guidance in Topic 606, Revenue from Contracts with Customers, requires that an entity account for consideration payable to a customer as a reduction of the transaction price and, therefore, as a reduction of revenue unless the payment to the customer is in exchange for a distinct good or service.

The amendments in Accounting Standards Update No. 2019-08, Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer, require that a grantor apply the guidance in Topic 718, Compensation—Stock Compensation, to measure and classify share-based consideration payable to a customer (the "Topic 718 approach"). Those amendments also require that if share-based consideration payable to a customer contains vesting conditions, the grantor must determine whether the vesting conditions represent service conditions or performance conditions. That determination can affect when the grantor recognizes revenue because it is required to estimate the probable outcome of a performance condition (and, therefore, whether the share-based consideration is expected to vest or is expected to be forfeited). By contrast, for service conditions, instead of estimating forfeitures, a grantor can elect to account for forfeitures as they occur. When the grantor elects to account for forfeitures as they occur, revenue recognition may be delayed for awards that are not probable of vesting.

Stakeholders indicated that this delay in revenue recognition can diminish the decision usefulness of a grantor's revenue information. For example, revenue may be recognized upon the forfeiture of warrants that were not expected to vest. Therefore, revenue may be recognized several reporting periods after the grantor has satisfied the related performance obligation(s), even if in that time there has been no change in the likelihood that the award will vest. Stakeholders also noted that the current guidance for forfeitures can increase the differences in financial reporting outcomes between share-based consideration payable to a customer and other forms of consideration payable to a customer (including cash consideration).

Under current guidance, there is diversity in practice in determining whether certain conditions (for example, those based on customer purchases) are service conditions or performance conditions. Therefore, stakeholders asked that the Board clarify how to distinguish between service conditions and performance conditions. Stakeholders also asked the Board to more closely align how forfeitures of share-based consideration with service conditions and forfeitures of share-based consideration with performance conditions affect the measurement of the transaction price (which affects revenue recognition timing) to improve the operability of the guidance and the decision usefulness of the resulting financial reporting information.

The amendments in this proposed Update would affect all entities that issue share-based consideration to a customer that is within the scope of Topic 606.

Under current GAAP, the definitions of performance condition and service condition do not explicitly discuss purchases made by a customer or parties that purchase a grantor's goods or services from the grantor's customers. For share-based consideration payable to a customer (including share-based consideration payable to other parties that purchase the grantor's goods or services from the grantor's customers) with a service condition, current GAAP permits the grantor to elect to account for the effect of forfeitures as they occur, which may result in a delay in revenue recognition for awards that are not probable of vesting. In addition, current GAAP also does not explicitly state whether the guidance in Topic 606 on constraining estimates of variable consideration applies to share-based consideration payable to a customer that is measured and classified under the Topic 718 approach.

The amendments in this proposed Update would revise the Master Glossary definition of the term performance condition for share-based consideration payable to a customer. The revised definition would incorporate conditions (including vesting conditions) that are based on the volume, monetary amount, or timing of a customer's purchases of goods or services from the grantor. The revised definition also would incorporate performance targets based on the volume of purchases made by other parties that purchase the grantor's goods or services from the grantor's customers.

Although proportionally fewer customer awards would be expected to have service conditions, for those that do have service conditions, the amendments in this proposed Update would eliminate the policy election permitting a grantor to account for forfeitures as they occur. Therefore, when measuring share-based consideration payable to a customer that has a service condition, the grantor would be required to estimate the number of forfeitures expected to occur. Separate policy elections for forfeitures would remain available for share-based payment awards with service conditions granted to employees and non-employees in exchange for goods or services to be used or consumed in the grantor's own operations.

The amendments in this proposed Update would clarify that share-based consideration encompasses the same instruments as share-based payment arrangements but the grantee would not need to be a supplier of goods or services to the grantor.

Finally, the amendments in this proposed Update would clarify that, under the Topic 718 approach, a grantor should not apply the guidance in Topic 606 on constraining estimates of variable consideration to share-based consideration payable to a customer. Therefore, a grantor would be required to assess the probability that an award will vest using only the guidance in Topic 718.

Collectively, these changes would improve the decision usefulness of a grantor's financial statements, improve the operability of the guidance, and reduce diversity in practice for accounting for share-based consideration payable to a customer. Under the proposed amendments, revenue recognition would no longer be delayed when an entity grants awards that are not expected to vest. This is expected to result in estimates of the transaction price that better reflect the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer and, therefore, more decision-useful financial reporting.

The amendments in this proposed Update would permit a grantor to apply the new guidance on either a modified retrospective or a retrospective basis. When applying the amendments in this proposed Update on a modified retrospective basis, a grantor would be required to recognize a cumulative effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the beginning of the period of adoption and would not recast any financial statement information before the period of adoption. A grantor would apply the proposed amendments as of the date of initial application to all share-based consideration payable to a customer. When applying the amendments in this proposed Update on a retrospective basis, a grantor would be required to recast comparative periods and recognize a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the beginning of the earliest period presented.

The effective date and whether early application should be permitted will be determined after the Board considers stakeholders' feedback on this proposed Update.

Staff Review and Commentary:

Comment deadline is November 14, 2024

NAIC staff recommend that ASU be reviewed under the SAP Maintenance Process as detailed in *Appendix F—Policy Statements.*

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2024FallNM/Minutes and summary/SAPWG/Att One--GAAP Exposures.docx

Draft: 11/7/24

Blanks (E) Working Group
Virtual Meeting
November 6, 2024

The Blanks (E) Working Group of the Accounting Practices and Procedures (E) Task Force met Nov. 6, 2024. The following Working Group members participated: Debbie Doggett, Chair (MO); Steve Drutz, Vice Chair (WA); Kevin Richard (AK); Kim Hudson (CA); Wayne Shepherd (CT); N. Kevin Brown (DC); Adrienne Lupo (DE); Shalice Rivers (FL); Kevin Clark and Daniel Mathis (IA); Roy Eft (IN); Jason Tippett (MI); Tadd Wegner (NE); Tim Stroud (NJ); Dale Bruggeman (OH); Ryan Rowe (OK); Shawn Frederick (TX); Jake Garn (UT); Adrian Jaramillo (WI); and Mary Jo Lewis (WV).

1. Adopted its Aug. 7 Minutes

Doggett indicated that the materials for this meeting include minutes from the Working Group's Aug. 7 meeting, during which the Working Group took the following action: 1) adopted two blanks proposals; 2) received a Statutory Accounting Principles (E) Working Group memorandum; and 3) adopted its editorial listing.

Hudson made a motion, seconded by Drutz, to adopt the Working Group's Aug. 7 minutes (*see NAIC Proceedings – Summer 2024, Accounting Practices and Procedures (E) Task Force, Attachment Two*). The motion passed unanimously.

2. Exposed New Items

   A. Agenda Item 2024-13BWG

Bruggeman stated that this proposal is in accordance with the bond project and includes editorial revisions combined into one proposal rather than multiple editorial listings to be considered by the Blanks (E) Working Group over time. This proposal updates the annual investment schedules to include Investment Schedules General Instructions; Schedule D Verification; Schedule D, Part 1A; Schedule D, Parts 3 and 4; Schedule DL, Parts 1 and 2; and Schedule E, Parts 1 and 2. This proposal is up for initial exposure with an effective date of Dec. 31, 2025.

Hearing no objection, Doggett stated that the proposal would be considered exposed for a 90-day public comment period ending Feb. 6, 2025.

   B. Agenda Item 2024-14BWG

Bruggeman stated that this proposal is in accordance with the adopted Statutory Accounting Principles (E) Working Group revisions for debt securities issued by funds. In September, the Statutory Accounting Principles (E) Working Group adopted revisions to the bond definition reflected in *Statement of Statutory Accounting Principles* (*SSAP) No. 26—Bonds* to remove the guidance that only permits debt securities issued by Securities Exchange Commission (SEC)-registered funds and permits debt securities issued by funds representing operating entities. The adopted guidance is in SSAP No. 26, and this blanks proposal revises the reporting line and instructions to match the SSAP guidance. This reporting change cannot be in effect until annual 2025, but a memorandum to the Blanks (E) Working Group addresses this for initial application of the bond guidance, which is Jan. 1, 2025, until the revision can be formally reflected. This item is up for initial exposure with an effective date of Dec. 31, 2025.

Hearing no objection, Doggett stated that the proposal would be considered exposed for a 90-day public comment period ending Feb. 6, 2025.

C. Agenda Item 2024-15BWG

Drutz stated that this proposal goes along with the previous proposal 2024-10BWG adopted during the Working Group's May 23 meeting, which deleted the federal Affordable Care Act (ACA) disclosures related to the transitional reinsurance program and risk corridors programs from Note 24 because those programs are no longer in effect. The Statutory Accounting Principles (E) Working Group adopted edits to *SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act*, paragraph 62, in May. This proposal removes the ACA disclosure on the transitional reinsurance program and the risk corridors program from the Supplemental Health Care Exhibit (SHCE).

Hearing no objection, Doggett stated that the proposal would be considered exposed for a 90-day public comment period ending Feb. 6, 2025.

D. Agenda Item 2024-16BWG

Bruggeman stated that this proposal is in accordance with previously adopted revisions to remove mortgage loans and real estate from short-term and cash-equivalent reporting. It was identified that there was a lingering interrogatory for reporting these items as short-term investments. This proposal simply removes the remaining interrogatory from the quarterly filing.

Hearing no objection, Doggett stated that the proposal would be considered exposed for a 90-day public comment period ending Feb. 6, 2025.

E. Agenda Item 2024-17BWG

Teresa Cooper (NAIC) stated that this proposal relates to the Market Conduct Annual Statement (MCAS) Premium Exhibit for Year supplement that allows companies to indicate that they have MCAS reportable premium for each of the participating jurisdictions and the lines of business. This proposal is adding pet insurance as a MCAS line of business to the supplement.

Hearing no objection, Doggett stated that the proposal would be considered exposed for a 90-day public comment period ending Feb. 6, 2025.

F. Agenda Item 2024-18BWG

Drutz stated that this proposal adds a footnote to SHCE, Part 2, to report the amount of premium deficiency reserves that are included in different lines of Part 2. The reason behind making this change is to be able to crosscheck for Column 13 on SHCE, Part 2, to compare to the Accident and Health Policy Experience Exhibit. There is currently a note in the instructions indicating that the crosscheck may not tie if the company has premium deficiency reserves. There are quite a few companies that must provide an explanation for the crosscheck difference. With this added crosscheck, those companies should now pass the crosscheck and should not have to provide those explanations.

Hearing no objection, Doggett stated that the proposal would be considered exposed for a 90-day public comment period ending Feb. 6, 2025.

G. Agenda Item 2024-19BWG

Bruggeman stated that this proposal presents initial revisions to expand reporting of collateral loans on Schedule BA. This is consistent with the Statutory Accounting Principles (E) Working Group agenda item 2023-28. This is an open Statutory Accounting Principles (E) Working Group item. Therefore, this is a concurrent discussion, and review of comments are expected after the exposure period.

Hearing no objection, Doggett stated that the proposal would be considered exposed for a 90-day public comment period ending Feb. 6, 2025.

H. Agenda Item 2024-20BWG

Jenn Webb (National Organization of Life and Health Insurance Guaranty Associations—NOLHGA) stated that she is representing both NOLHGA and the National Conference of Insurance Guaranty Funds (NCIGF). The purpose of this proposal is to add an assessment contact on the electronic Jurat page to ensure that regulators, NOLHGA, NCIGF, and each state guarantee association has the most up-to-date contact information to send assessment invoices to the companies when needed. Many companies have staff responsible for processing the assessment invoices but are rotating positions or have turnover with more regularity. This can result in delayed receipt of invoices and, consequently, delayed receipt of assessment payments that the companies are required to pay. Often members of guarantee associations must reach out to their respective state insurance departments to help track down who to direct the invoice to. The hope is that adding a contact to the electronic Jurat page will alleviate this issue.

After consulting with state insurance regulators and NAIC staff, it is being requested that the guarantee contact name field be changed to "guarantee association assessment contact" to avoid confusion about the purpose of adding the contact.

Hearing no objection, Doggett stated that the proposal would be considered exposed for a 90-day public comment period ending Feb. 6, 2025.

3. Received a Memorandum from the Statutory Accounting Principles (E) Working Group

Bruggeman stated that this is the memorandum referenced previously with blanks proposal 2024-14BWG and the reporting line update for debt securities issued by funds that represent operating entities. Similar to the prior discussion, this memorandum identifies the upcoming revisions to the reporting line and the instructions for which securities shall be reported. This memorandum is provided to facilitate classification as of Jan. 1, 2025, with the effective date of the revised bond guidance, until the formal reporting line revisions can be reflected.

Bruggeman made a motion, seconded by Hudson, to receive the Statutory Accounting Principles (E) Working Group memorandum (Attachment Two-A). The motion passed unanimously.

4. Adopted the Editorial Listing

Drutz made a motion, seconded by Hudson, to adopt the editorial listing (Attachment Two-B). The motion passed unanimously.

5. Reviewed Its 2025 Proposed Charges

Doggett stated that the Working Group's 2025 proposed charges have been approved by the Financial Condition (E) Committee. She indicated that there were no changes from the previous year. Therefore, no action by the Working Group is needed.

6. Reviewed State Filing Checklists

Doggett stated that one of the Blanks (E) Working Group charges is to review the state filing checklists, which are included in the materials. These are sent to each state to confirm the state filing requirement and include their state-specific requirements. Hearing no opposition, NAIC staff will proceed with posting to the NAIC filings web page.

Having no further business, the Blanks (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E Committee/APPTF/2024 Fall NM/Minutes/BWG/11 06 2024 blanks.docx

To: Debbie Doggett, Chair of the Blanks (E) Working Group
Steve Drutz, Vice Chair of the Blanks (E) Working Group

From: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group
Kevin Clark, Vice Chair of the Statutory Accounting Principles (E) Working Group

Re: Debt Securities Issued by Funds Representing Operating Entities

Date: September 23, 2024

The purpose of this memo is to notify the Blanks (E) Working Group of Schedule D – Part 1, Section 1: Long-Term Bonds – Issuer Credit Obligations reporting line classification changes effective Jan. 1, 2025, as part of the bond project. The original adopted guidance included a reporting line subcategory for "Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITs" and with the SAPWG adoption of agenda item 2024-01 on Sept. 12, 2024, this subcategory should be revised to "Debt Securities Issued by Funds Representing Operating Entities." With this adopted change, SEC-registration is no longer a requirement for classification and instead, debt securities issued by funds shall be assessed based on the reason for issuance. The statutory accounting guidance is specific that debt securities issued for the primary purpose of raising debt capital are not permitted as issuer creditor obligations.

As the 2025 quarterly blanks and instructions have already been finalized, the Statutory Accounting Principles (E) Working Group requests that this memorandum be posted on the Blanks (E) Working Group website to detail the adopted guidance to ensure clarity in classifying debt securities under the adopted bond definition. The SAPWG will sponsor a blanks proposal to have the reporting subcategory and instructions updated for the 2025 Annual Statement filing.

The tracked changes below illustrate the revised concepts for application until the blanks proposal is adopted:

Investment Schedules General Instructions - Categories for Schedule D, Part 1

Issuer Credit Obligations – Investments that qualify for reporting on Schedule D, Part 1, Section 1 in scope of SSAP No. 26—Bonds:

Bonds Issued by Funds Representing Operating Entities~~From SEC-Registered Business Development Corps, Closed-End Funds & REITs~~

A fund representing an operating entity has the primary purpose of raising equity capital and generating returns to its equity investors. Marginal amounts of debt may be issued to fund operations or produce levered returns to equity holders. These debt issuances occur in accordance with the fund's primary equity-investor objective. Debt securities issued by closed-end funds and business development corps registered under the 1940 Act are permitted automatic qualification as issuer credit obligations as those funds are subject to strict limits or reporting components on the leverage (debt issuance) within the fund. Although some may consider collateralized fund obligations (CFOs) to be similar to closed-end funds, that assessment is not supported for classification as an issuer credit obligation. Instruments considered to reflect CFOs (and other like structures) are required to be assessed as asset-backed securities. ~~Bonds issued by SEC-registered business development corporates, closed-end funds or similar operating entities registered under the 1940 Act.~~

Schedule D – Part 1 – Section 1

Bonds Issued by Funds Representing Operating Entities ~~from SEC-Registered Business Development Corps, Closed End Funds & REITS~~ (Unaffiliated) 0169999999

Bonds Issued by Funds Representing Operating Entities ~~from SEC-Registered Business Development Corps, Closed End Funds & REITS~~ (Affiliated) 0179999999

All adopted guidance for the principles-based bond project is publicly available on the SAPWG website. The revisions from this change are reflected within the Sept. 12, 2024 revised *SSAP No. 26—Bonds* and the revised *Issue Paper 169—Principles Based Bond Definition*: https://content.naic.org/committees/e/statutory-accounting-principles-wg#

Please contact NAIC staff Julie Gann (jgann@naic.org), Jake Stultz (jstultz@naic.org); Robin Marcotte (rmarcotte@naic.org), Wil Oden (woden@naic.org); or Jason Farr (jfarr@naic.org) if you have any questions.

Cc: Mary Caswell, Jill Youtsey, Julie Gann, Robin Marcotte, Jake Stultz, Wil Oden, Jason Farr

Blanks (E) Working Group
Editorial Revisions to the Blanks and Instructions
(presented at the November 6, 2024, Meeting)

Statement Type:
H = Health; **L/F** = Life/Fraternal Combined; **P/C** = Property/Casualty; **SA** = Separate Accounts; **T** = Title

Effective	Table Name	Description	Statement Type	Filing Type
2025	Schedule D, Part 1B	**CHANGE TO INSTRUCTION** Update reference from Bonds to Issuer Credit Obligations, add lines for Asset-Backed Securities, and update the line numbers for preferred stocks to be consistent with the changes to the Blank in the Bond Project. Line 1 – NAIC 1 ~~Bonds~~Issuer Credit Obligations (ICO) Include: ~~Bonds~~ ICOs with an NAIC designation of 1, or a CRP equivalent. Line 2 – NAIC 2 Issuer Credit Obligations (ICO)~~Bonds~~ Include: ~~Bonds~~ ICOs with an NAIC designation of 2, or a CRP equivalent. Line 3 – NAIC 3 Issuer Credit Obligations (ICO)~~Bonds~~ Include: ~~Bonds~~ ICOs with an NAIC designation of 3, or a CRP equivalent. Line 4 – NAIC 4 Issuer Credit Obligations (ICO)~~Bonds~~ Include: ~~Bonds~~ ICOs with an NAIC designation of 4, or a CRP equivalent. Line 5 – NAIC 5 Issuer Credit Obligations (ICO)~~Bonds~~ Include: ~~Bonds~~ ICOs with an NAIC designation of 5, or a CRP equivalent. Line 6 – NAIC 6 Issuer Credit Obligations (ICO)~~Bonds~~ Include: ~~Bonds~~ ICOs with an NAIC designation of 6, or a CRP equivalent. Line 7 – Total Issuer Credit Obligations (ICO)~~Bonds~~ Total of Line 1 to Line 6. Line 8 – NAIC 1 Asset-Backed Securities (ABS) Include: ABS securities with an NAIC designation of 1, or a CRP equivalent. Line 9 – NAIC 2 Asset-Backed Securities (ABS) Include: ABS securities with an NAIC designation of 2, or a CRP equivalent.	H, L/F, P/C, T	Quarterly

Effective	Table Name	Description	Statement Type	Filing Type
		Line 10 – NAIC 3 Asset-Backed Securities (ABS) Include: ABS securities with an NAIC designation of 3, or a CRP equivalent. Line 11 – NAIC 4 Asset-Backed Securities (ABS) Include: ABS securities with an NAIC designation of 4, or a CRP equivalent. Line 12 – NAIC 5 Asset-Backed Securities (ABS) Include: ABS securities with an NAIC designation of 5, or a CRP equivalent. Line 13 – NAIC 6 Asset-Backed Securities (ABS) Include: ABS securities with an NAIC designation of 6, or a CRP equivalent. Line 14 – Total Asset-Backed Securities (ABS) Total of Line 8 to Line 13. Line ~~8~~15 – NAIC 1 Preferred Stock Include: Preferred stock with an NAIC designation of 1 or a CRP equivalent. Line 16~~9~~ – NAIC 2 Preferred Stock Include: Preferred stock with an NAIC designation of 2 or a CRP equivalent. Line 17~~10~~ – NAIC 3 Preferred Stock Include: Preferred stock with an NAIC designation of 3 or a CRP equivalent. Line 18~~1~~ – NAIC 4 Preferred Stock Include: Preferred stock with an NAIC designation of 4 or a CRP equivalent. Line 19~~2~~ – NAIC 5 Preferred Stock Include: Preferred stock with an NAIC designation of 5 or a CRP equivalent. Line 20~~13~~ – NAIC 6 Preferred Stock Include: Preferred stock with an NAIC designation of 6 or a CRP equivalent. Line 21~~14~~ – Total Preferred Stock Total of Line ~~8~~ 15 to Line ~~13~~20. Line 22~~15~~ – Total ~~Bonds~~ Issuer Credit Obligations, Asset-Backed Securities & Preferred Stock Line 7 plus Line 14 plus Line 21.		

Effective	Table Name	Description	Statement Type	Filing Type
2025	Schedule D, Part 1B	**CHANGE TO INSTRUCTION** Update the 2025 quarterly D1B instructions to tie to prior year line references (pre-bond project line numbers). Also add 1st quarter reporting note for Column 8 for bond project transition of the prior year number. Column 1 – Book/Adjusted Carrying Value Beginning of Current Quarter a. 1st Quarter taken directly from prior year annual statement Schedule D, Part 1A, Section 1, Line ~~52~~12.1 to Line ~~52~~12.6, Column 7 for all bonds. ****Detail Eliminated to conserve space**** Column 8 – Book/Adjusted Carrying Value at December 31 Prior Year Taken directly from prior year annual statement Schedule D, Part 1A, Section 1, Line ~~12~~12.1 to Line ~~12~~12.6, Column 7 for all bonds. ***1st Quarter 2025 Reporting Note:*** *For 1st quarter reporting, the amounts in Column 8 should equal the amounts in Column 1.*	H, L/F, P/C, T	Quarterly
2026	Schedule D, Part 1B	**CHANGE TO INSTRUCTION** Update the 2026 quarterly D1B instructions to tie to prior year line references (bond project line numbers). Remove 1st quarter 2025 reporting note. Column 1 – Book/Adjusted Carrying Value Beginning of Current Quarter a. 1st Quarter taken directly from prior year annual statement Schedule D, Part 1A~~, Section 1~~, Line ~~12~~52.1 to Line ~~12~~52.6, Column 7 for all bonds. **** Detail Eliminated to conserve space**** Column 8 – Book/Adjusted Carrying Value at December 31 Prior Year Taken directly from prior year annual statement Schedule D, Part 1A~~, Section 1~~, Line ~~12~~52.1 to Line ~~12~~52.6, Column 7 for all bonds. ~~***1st Quarter 2025 Reporting Note:*** *For 1st quarter reporting, the amounts in Column 8 should equal the amounts in Column 1.*~~	H, L/F, P/C, T	Quarterly

Effective	Table Name	Description	Statement Type	Filing Type
2025	Schedule D, Part 1B	**CHANGE TO BLANK** Remove the footnote reference for the ABS section because ABS is not reported on Schedule DA, Part 1 or Schedule E, Part 2 ASSET-BACKED SECURITIES (ABS) 8. NAIC 1 ~~(a)~~ 9. NAIC 2 ~~(a)~~ 10. NAIC 3 ~~(a)~~ 11. NAIC 4 ~~(a)~~ 12. NAIC 5 ~~(a)~~ 13. NAIC 6 ~~(a)~~ 14. Total ABS	H, L/F, P/C, T	Quarterly
2025	Schedule DB, Part A, Section 1	**CHANGE TO INSTRUCTION** Update the Schedule D, Part 1 reference for the Schedule/Exhibit Identifier to show both sections of Schedule D, Part 1. Column 3 – Schedule/Exhibit Identifier Identify the Schedule or Exhibit of the hedged item(s), such as Schedule A; B; BA; D Part 1, Section 1; D Part 1 Section 2; D Part 2, Section 1; or D, Part 2, Section 2, if appropriate; otherwise, “N/A.” Use clear abbreviations for schedules, such as D 1-1 (Schedule D, Part 1, Section 1), D 1-2 (Schedule D, Part 1, Section 2), D 2-1 (Schedule D, Part 2, Section 1), D 2-2 (Schedule D, Part 2, Section 2), etc.	H, L/F, P/C, T, SA	Quarterly
2025	Schedule DB, Part B, Section 1	**CHANGE TO INSTRUCTION** Update the Schedule D, Part 1 reference for the Schedule/Exhibit Identifier to show both sections of Schedule D, Part 1. Column 6 – Schedule/Exhibit Identifier Identify the Schedule or Exhibit of the hedged item(s), such as Schedule A; B; BA; D, Part 1, Section 1; D Part 1 Section 2; D, Part 2, Section 1, or D, Part 2, Section 2 if appropriate otherwise, “N/A.”	H, L/F, P/C, T, SA	Quarterly

Effective	Table Name	Description	Statement Type	Filing Type
		Use clear abbreviations for schedules, such as D 1-1 (Schedule D, Part 1, Section 1), D1-2 (Schedule D, Part 1, Section 2), D 2-1 (Schedule D, Part 2, Section 1), D 2-2 (Schedule D, Part 2, Section 2), etc.		
2025	Schedule DB, Part A, Section 1 and Section 2	**CHANGE TO INSTRUCTION** Update the Schedule D, Part 1 reference for the Schedule/Exhibit Identifier to show both sections of Schedule D, Part 1. Column 3 – Schedule/Exhibit Identifier Identify the Schedule or Exhibit of the hedged item(s), such as Schedule A; B; BA; D Part 1, Section 1; D Part 1 Section 2; D Part 2, Section 1; or D, Part 2, Section 2, if appropriate; otherwise, "N/A." Use clear abbreviations for schedules, such as D 1-1 (Schedule D, Part 1, Section 1), D 1-2 (Schedule D, Part 1, Section 2), D 2-1 (Schedule D, Part 2, Section 1), D 2-2 (Schedule D, Part 2, Section 2), etc.	H, L/F, P/C, T, SA	Annual
2025	Schedule DB, Part B, Section 1 and Section 2	**CHANGE TO INSTRUCTION** Update the Schedule D, Part 1 reference for the Schedule/Exhibit Identifier to show both sections of Schedule D, Part 1. Column 6 – Schedule/Exhibit Identifier Identify the Schedule or Exhibit of the hedged item(s), such as Schedule A; B; BA; D, Part 1, Section 1; D Part 1 Section 2; D, Part 2, Section 1, or D, Part 2, Section 2 if appropriate otherwise, "N/A." Use clear abbreviations for schedules, such as D 1-1 (Schedule D, Part 1, Section 1), D 1-2 (Schedule D, Part 1, Section 2), D 2-1 (Schedule D, Part 2, Section 1), D 2-2 (Schedule D, Part 2, Section 2), etc.	H, L/F, P/C, T, SA	Annual
2025	Schedule BA, Part 2; Schedule D, Part 3; Schedule D, Part 4	**CHANGE TO INSTRUCTION** Remove the "S" and "SYE" administrative symbols from the investment schedule instructions per the updates made by the Valuation of Securities Task Force (VOSTF). NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol *- Column 6 – Schedule BA, Part 2*	H, L/F, P/C, T, SA	Quarterly

Effective	Table Name	Description	Statement Type	Filing Type
		- *Column 9 – Schedule D, Part 3* - *Column 21 – Schedule D, Part 4* SVO Administrative Symbol: Following are valid SVO Administrative Symbols for bonds and preferred stock. Refer to the P&P Manual for the application of these symbols. ~~S Additional or other non-payment risk~~ ~~SYE Additional or other non-payment risk - Year-end carry over~~		
2025	Schedule BA, Part 1; Schedule D, Part 1, Section 1 & 2; Schedule D, Part 2, Section 1;	**CHANGE TO INSTRUCTION** Remove the "S" and "SYE" administrative symbols from the investment schedule instructions per the updates made by the Valuation of Securities Task Force (VOSTF). NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol **-** *Column 7 – Schedule BA, Part 1* - *Column 4 – Schedule D, Part 1, Section 1 & 2* - *Column 19 – Schedule D, Part 2, Section 1* SVO Administrative Symbol: Following are valid SVO Administrative Symbols for bonds and preferred stock. Refer to the P&P Manual for the application of these symbols. ~~S Additional or other non-payment risk~~ ~~SYE Additional or other non-payment risk - Year-end carry over~~	H, L/F, P/C, T, SA	Annual
2025	Schedule E, Part 1	**CHANGE TO INSTRUCTION** Remove LEI column to be consistent with adopted BWG proposals 2023-06BWG and 2023-07BWG. ~~**** Column 10 will be electronic only. ****~~ ~~Column 10 Legal Entity Identifier (LEI)~~ ~~Provide the 20-character Legal Entity Identifier (LEI) for any depository as assigned by a designated Local Operating Unit. If no LEI number has been assigned, leave blank.~~	H, L/F, P/C, T, SA	Quarterly

<table>
<tr><th>Effective</th><th>Table Name</th><th>Description</th><th>Statement Type</th><th>Filing Type</th></tr>
<tr><td>2025</td><td>Schedule DL, Part 1 & 2</td><td>CHANGE TO INSTRUCTION

Add the common stock investment characteristic codes to Schedule DL instructions.

Column 9 – Investment Characteristics

If an investment has one or more of the following characteristics, then list the appropriate number(s) separated by commas. If none of the characteristics apply, then leave the column blank.

1. Investment terms permit interest to be received in a form other than cash.
2. Investment terms permit payment of interest to be deferred without being considered past due.
3. Interest due and accrued has been written off as uncollectible and/or nonadmitted.
4. Investment has a current year or prior year recognized other -than-temporary impairment.
5. Investment is an interest-only strip.
6. Investment is a principal-only strip.
7. Investment reflects a To-Be-Announced (TBA) security that will qualify as an issuer credit obligation or asset-backed security at the time the reporting entity takes possession of the issued security.
<u>8. Foreign (non-SEC registered) open-end registered investment funds.</u>
<u>9. Foreign mutual fund and is not under the exclusive control of the company.</u></td><td>H, L/F, P/C, T, SA</td><td>Annual / Quarterly</td></tr>
<tr><td>2025</td><td>Instructions (All Statements/All Parts)</td><td>CHANGE TO INSTRUCTION

Remove the Revised or “R” on all SSAP references throughout all statements instructions. SAPWG Reference 2024-14EP

Only one example is being shown for reference. All references in instructions will be updated.

Line 2 – Stocks</td><td>H, L/F, P/C, T</td><td>Annual / Quarterly</td></tr>
</table>

Effective	Table Name	Description	Statement Type	Filing Type
		The amount reported in Column 3 for common stocks and preferred stocks is the value in accordance with guidance set forth in *SSAP No. 30~~R~~—Unaffiliated Common Stock; SSAP No. 32~~R~~—Preferred Stock* and *SSAP No. 97—Investments in Subsidiary, Controlled, and Affiliated Entities*.		
2025	Life Insurance (State Page)	**CHANGE TO INSTRUCTION** Update the header to Columns 13 through 22 to match the change from the May 2023 editorial list update to the Blank. **Death Benefits, ~~and~~ Matured Endowments Incurred and Annuity Benefits** This section is only applicable to life and annuity contracts (Lines 1 through 33).	H, L/F	Annual
2025	Notes to Financial Statements	**CHANGE TO INSTRUCTION** Add a formula in parenthesis for line 4 to be consistent with other total lines throughout the Notes. (5) Allocated gains/losses to IMR from derivatives a. General Account 1. Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Prior Period 2. Fair Value Derivative Gains & Losses Realized to IMR – Added in Current Period 3. Fair Value Derivative Gains & Losses Amortized Over Current Period 4. Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Current Period Total (1+2-3) b. Separate Account - Insulated 1. Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Prior Period 2. Fair Value Derivative Gains & Losses Realized to IMR – Added in Current Period	L/F, SA	Annual

Effective	Table Name	Description	Statement Type	Filing Type
		3. Fair Value Derivative Gains & Losses Amortized Over Current Period 4. Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Current Period Total (1+2-3) c. Separate Account – Non-Insulated 1. Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Prior Period 2. Fair Value Derivative Gains & Losses Realized to IMR – Added in Current Period 3. Fair Value Derivative Gains & Losses Amortized Over Current Period 4. Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Current Period Total (1+2-3)		
2025	Notes to Financial Statement	**CHANGE TO INSTRUCTION** Update the data capture list (1st page of Notes to Financials) for Note 21 to include the new part of Note 21E as part of the New Market Tax Credit updates. Note # — Parts to be presented in whole dollars in the same format and level of detail in the specific manner shown in the illustration. 21 — 21E(1), 21E(2), 21E(~~4~~5), 21F(2) through 21F(4), 21G(2), 21G(3), 21H and 21I	H, L/F, P/C, T	Annual
2025	Asset Valuation Reserve, Default Component	**CHANGE TO BLANK** Remove Line 60 because this total line is no longer needed since the Schedule DA Mortgages line was removed per adopted proposal 2024-02BWG. ~~**60 Total Mortgage Loans on Real Estate (Lines 58 + 59)**~~	L/F, SA	Annual
2025	Asset Valuation Reserve, Default Component	**CHANGE TO INSTRUCTION** Remove Line 60 because this total line is no longer needed since the Line 58 Schedule DA Mortgages line was removed per adopted proposal 2024-02BWG. Line 58 – Total Schedule B Mortgage Loans on Real Estate	L/F, SA	Annual

Effective	Table Name	Description	Statement Type	Filing Type
		Column 1 should agree with Page 2, Line 3.1 + 3.2, Column 3 plus Schedule DL, Part 1, Column 6, Line 9309999999. Column 6 must be reported on the Asset Valuation Reserve Page, Line 7, Column 2. Column 8 must be reported on the Asset Valuation Reserve Page, Line 10, Column 2. Column 10 must be reported on the Asset Valuation Reserve Page, Line 9, Column 2. ~~Line 60 Total Mortgage Loans on Real Estate~~ ~~Column 6 must be reported on the Asset Valuation Reserve Page, Line 7, Column 2.~~ ~~Column 8 must be reported on the Asset Valuation Reserve Page, Line 10, Column 2.~~ ~~Column 10 must be reported on the Asset Valuation Reserve Page, Line 9, Column 2.~~		
2025	Asset Valuation Reserve, Default Component	**CHANGE TO INSTRUCTION** Update references to Line 60 in the AVR instructions to reference Line 58. Line 7 – Basic Contribution (includes separate accounts assets, if applicable) ******Detail Eliminated to Conserve Space****** Column 2: Report the total mortgage loans from Page 31, Line ~~60~~58, Column 6 (General Account) and Page 16, Line ~~60~~58, Col. 6 (Separate Accounts), if applicable; and the total for replication (synthetic asset) transactions contained on Page 35, Line 0299999, Column 7 (General Account) and Page 20, Line 0299999, Column 7 (Separate Accounts). Line 9 – Maximum Reserve (includes separate accounts assets, if applicable)	L/F, SA	Annual

Effective	Table Name	Description	Statement Type	Filing Type
		******Detail Eliminated to Conserve Space****** Column 2: Report the total mortgage loans from Page 31, Line ~~60~~58, Column 10 (General Account) and Page 16, Line ~~60~~58, Col. 10 (Separate Accounts), if applicable and the total for replication (synthetic asset) transactions contained on Page 35, Line 0299999, Column 9 (General Account) and Page 20, Line 0299999, Column 9 (Separate Accounts). Line 10 – Reserve Objective (includes separate accounts assets, if applicable) ******Detail Eliminated to Conserve Space****** Column 2: Report the total mortgage loans from Page 31, Line ~~60~~58, Column 8 (General Account) and Page 16, Line ~~60~~58, Col. 8 (Separate Accounts), if applicable and the total for replication (synthetic asset) transactions contained on Page 35, Line 0299999, Column 8 (General Account) and Page 20, Line 0299999, Column 8 (Separate Accounts).		
2024	Notes to Financial Statements	**CHANGE TO INSTRUCTION** Update the Data Capture table on the first page of Notes to Financial Statements to include Note 21J. This was inadvertently left out. **21 21E(1), 21E(4), 21F(2) through 21F(4), 21G(2), 21G(3), 21H ~~and~~, 21I and 21J**	L/F	Annual
2024	Notes to Financial Statements	**CHANGE TO INSTRUCTION** Remove the language that this is only for Life/Fraternal companies only in Note 21J. This clarification is not needed because this note is only in the Life/Fraternal instructions J. Reporting entities admitting net negative (disallowed) IMR are required to complete the following disclosures in the quarterly and annual financial statements. ~~*(Note 5S only applies to Life/Fraternal companies).*~~	L/F	Annual

<table>
<tr><th>Effective</th><th>Table Name</th><th>Description</th><th>Statement Type</th><th>Filing Type</th></tr>
<tr><td>2025</td><td>Notes to Financial Statements</td><td>CHANGE TO INSTRUCTION

Update the Column heading for 21E(2) to Jurisdiction to match 21E(1). 21E(2) was added with adopted proposal 2024-11BWG.

(2)Total unused tax credits by jurisdiction, disaggregated by transferable/certificated and non-transferable;

<table><tr><th>~~State Abbreviation~~Jurisdiction*</th><th>Transferable / Certificated</th><th>Nontransferable</th><th>Total</th></tr></table></td><td>H, L/F, P/C, T</td><td>Annual</td></tr>
<tr><td>2025</td><td>Schedule DA, Verification Between Years</td><td>CHANGE TO BLANK

Remove the footnote. With the adoption of the clarifying language in proposal 2024-02BWG, this footnote is no longer needed.

<table><tr><th>1
Total</th><th>2
Bonds</th><th>3
Other Short-term Investment Assets ~~(a)~~</th></tr></table>
~~(a) Indicate the category of such assets, for example, joint ventures, transportation equipment:~~</td><td>H, L/F, P/C, T, SA</td><td>Annual</td></tr>
</table>

Blanks (E) Working Group
Editorial Revisions to the Blanks and Instructions
(presented at the November 6, 2024, Meeting)

Statement Type:
H = Health; **L/F** = Life/Fraternal Combined; **P/C** = Property/Casualty; **SA** = Separate Accounts; **T** = Title

Effective	Table Name	Description	Statement Type	Filing Type
2025	Schedule D, Part 1B	**CHANGE TO INSTRUCTION** Update the 2025 quarterly D1B instructions to tie to prior year line references (pre-bond project line numbers). Also add 1st quarter reporting note for Column 8 for bond project transition of the prior year number. Add additional clarifying language. Column 1 – Book/Adjusted Carrying Value Beginning of Current Quarter a. 1st Quarter taken from company records for Lines 1-14; Line 7 (Total ICO) plus Line 14 (Total ABS) should equal ~~directly from~~ prior year annual statement Schedule D, Part 1A, Section 1, Line 12.7~~52.1 to Line 52.6~~, Column 7 for all bonds. ****Detail Eliminated to conserve space**** Column 8 – Book/Adjusted Carrying Value at December 31 Prior Year Taken directly from ~~prior year annual statement Schedule D, Part 1A, Section 1, Line 12.1 to Line 12.6, Column 7 for all bonds~~company records for Lines 1-14. ***1st Quarter 2025 Reporting Note:*** *For 1st quarter reporting, the amounts in Column 8 should equal the amounts in Column 1.*	H, L/F, P/C, T	Quarterly
2026	Schedule D, Part 1B	**CHANGE TO INSTRUCTION** Update the 2026 quarterly D1B instructions to tie to prior year line references (bond project line numbers). Remove 1st quarter 2025 reporting note and clarifying language. Column 1 – Book/Adjusted Carrying Value Beginning of Current Quarter a. 1st Quarter taken ~~from company records for Lines 1-14; Line 7 (Total ICO) plus Line 14 (Total ABS) should equal~~ directly from prior year annual statement Schedule D, Part 1A~~, Section 1~~, Line ~~12~~52.1 to Line ~~12~~52.6, Column 7 for all bonds.	H, L/F, P/C, T	Quarterly

Effective	Table Name	Description	Statement Type	Filing Type
		**** Detail Eliminated to conserve space**** Column 8 – Book/Adjusted Carrying Value at December 31 Prior Year Taken directly from ~~company records for Lines 1-14~~prior year annual statement Schedule D, Part 1A, Section 1, Line 52.1 to Line 52.6, Column 7 for all ICO and ABS. ~~***1st Quarter 2025 Reporting Note:** For 1st quarter reporting, the amounts in Column 8 should equal the amounts in Column 1.*~~		

