Statutory Accounting Principles (E) Working Group
Meeting Agenda
March 24, 2025

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

1. Ref #2025-01: Sale Leaseback Clarification
2. Ref #2025-02: ASU 2024-04, Induced Conversions of Convertible Debt Instruments
3. Ref #2025-03: IMR Definition
4. Ref #2025-04: Capital Structure Code
5. Ref #2025-05: Reinsurer Affiliated Assets
6. Ref #2025-06: AVR Line: Unrated Multi-Class Securities
7. Ref #2025-07: Dividend General Interrogatory Update
8. Ref #2025-08: Medicare Part D Prescription Payment Plan Disclosures
9. Ref #2025-09: VM-22 Update Coordination
10. Ref #2025-10: *ASU 2023-07, Improvements to Reportable Segment Disclosures*
11. Ref #2025-11: ASU 2024-03 and ASU 2025-01, Reporting Comprehensive Income
12. Ref #2025-12EP: Editorial Revisions

Ref #	Title	Attachment #
2025-01 (Jake)	**Sales Lease Clarification**	**A – Form A**

<u>Summary:</u>
NAIC staff received a question related to a sales leaseback transaction that included a significant restriction on the cash received as part of the sale of the assets, and if such a transaction would meet the definition of a sale leaseback in accordance with *SSAP No. 22—Leases*. In the transaction, the company was able to sell the nonadmitted asset to an unaffiliated party, but as a part of the transaction, the cash the seller received was to be held in such a manner that the selling insurance company would not be able access the cash until the leaseback was fully paid off years in the future. This agenda item intends to provide guidance that sales leaseback accounting would not be applicable in situations in which the selling insurer is restricted from readily accessing the sales proceeds. In such instances the financing method would be required.

<u>Recommendation:</u>
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *SSAP No. 22—Leases*, as illustrated in the agenda item, to clarify that sale leasebacks with restrictions on access to the cash do not qualify for sale leaseback accounting and must be accounted for by the seller using the financing method.

Ref #	Title	Attachment #
2025-02 (Wil)	**ASU 2024-04, Induced Conversions of Convertible Debt Instruments**	**B – Form A**

Summary:
ASU 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20), Induced Conversions of Convertible Debt Instruments intends to improve the relevance and consistency in application of the induced conversion guidance in Subtopic 470-20 for entities that settle convertible debt instruments for which the conversion privileges were changed to induce conversion. Specifically, the ASU clarifies how to determine whether a settlement of convertible debt (particularly, cash convertible instruments) at terms that differ from the original conversion terms should be accounted for under the induced conversion or extinguishment guidance. Under the ASU, to account for a settlement of a convertible debt instrument as an induced conversion, an inducement offer is required to provide the debt holder with, at a minimum, the consideration (in form and amount) issuable under the conversion privileges provided in the terms of the instrument. Note that under U.S. GAAP a conversion is considered induced when a convertible debt instrument is converted pursuant to terms that reflect changes made by the issuer to the conversion privileges provided in the terms of the debt at issuance (including changes that involve the payment of consideration) for the purpose of inducing conversion.

ASU 2024-04 is focused on the accounting provisions for the issuer of debt and is not addressing holders of the debt instruments that receive consideration for induced conversions. Current guidance in *SSAP No. 15—Debt* requires recognition of an expense for the fair value of the additional consideration issued to induce conversion, which is consistent with the measurement guidance of current U.S. GAAP. NAIC staff noted that the majority of the guidance adopted by the ASU relates to paragraphs which had been previously rejected for statutory accounting purposes, however some of the language which pertains to the recognition of accepted inducement offers and the types of property which can be received from a convertible debt instruments have been recommended for adoption. Additionally, this agenda item revises statutory guidance to clarify that the additional consideration provided by the inducement offer shall be recognized when the offer is accepted by the debt holder. Although this may defer slightly the recognition of the expense from what was in SSAP No. 15 (from when the inducement was issued to when the inducement was accepted), NAIC staff does not believe there is a regulatory reason to differ from U.S. GAAP on this guidance. These debt issuances are not expected to be prevalent within the insurance industry, and the timing of recognition is not expected to vary significantly.

Recommendation:
NAIC staff recommends the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to SSAP No. 15 to adopt with modification *ASU 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20), Induced Conversions of Convertible Debt Instruments* for statutory accounting as this update provides clarifications on induced conversions and when the inducement shall be recognized as expense by the issuer. The draft revisions are illustrated in the agenda item.

Ref #	Title	Attachment #
2025-03 (Julie)	**IMR Definition**	**C – Form A**

Summary:
This agenda item has been prepared to present the proposed Interest Maintenance Reserve (IMR) definition suggested by the ACLI to the Working Group for inclusion in *SSAP No. 7—Asset Valuation and Interest Maintenance Reserve*. As this discussion is focused on the specific IMR definition, it has been captured in a separate agenda item. Agenda item 2023-14 will continue to be referred to as the broad agenda item for overall revisions to SSAP No. 7 and the removal of accounting-related guidance from the Annual Statement Instructions.

The IMR Ad Hoc Group was formed in October 2023 after the adoption of the limited-time *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve* and the direction from the Working Group towards a long-term project addressing IMR and Asset Valuation Reserve (AVR). This ad hoc group, which is comprised of accounting and actuarial regulators and interested parties, has met regularly since inception to consider several topics and issues involving IMR.

As part of the discussion, the ACLI proposed a definition/purpose of IMR as follows:

> IMR is a valuation adjustment to maintain consistency between insurance liabilities (the assumptions for which are often unchanged from origin), and the assets needed to support them (where the assumptions can essentially be revisited any time there are fixed income realizations).
>
> IMR defers and amortizes the recognition of non-economic gains or losses where investment activity, whether through fixed income investment sales or fixed income derivative hedging transactions, essentially unlock unrealized gains/losses for either assets or liabilities. IMR is not intended to defer economic gains and losses related to asset sales compelled by liquidity pressures that fund significant cash outflows (e.g., such as excess withdrawals and collateral calls).
>
> Specifically, the IMR valuation adjustment more appropriately reflects the impact to statutory surplus from fluctuations in interest rates and therefore provides a more accurate representation of solvency under the NAIC's statutory framework which often includes amortized cost valuation of fixed income investments and liability valuations with fixed assumptions in accordance with the Accounting Practices and Procedures and Valuation Manual.

<u>*Recommendation:*</u>
NAIC staff recommend that the Working Group move this item to the active listing as a new SAP concept and expose the proposed ACLI IMR definition along with a secondary option to reflect an NAIC staff proposed IMR definition. The discussion supporting the proposed NAIC staff modifications is included in the agenda item. NAIC staff support this agenda item as a new SAP concept as the adopted definition will be included in the expanded SSAP No. 7, as part of the intent to include all accounted-related concepts for IMR in the SSAP and not the annual statement instructions.

As shown in the agenda item, NAIC staff's proposed edits to the ACLI proposed definition include the following:

1. Removal of reference to derivative hedging transactions. Whether gains/losses from non-accounting effective hedging derivatives shall be deferred as assets/liabilities (either in IMR or through a separate accounting reporting mechanism) is being addressed in a separate agenda item.

2. Clarification that IMR shall not defer gains/losses compelled by liquidity pressures that fund cash outflows. Revised language removes reference to "economic" and "noneconomic" "related to asset sales" and the "significant" threshold. The terms economic and noneconomic have been removed as the use of these terms may not be understood by users / preparers that have not been actively involved in the IMR discussion. The plain language of realized gains and losses is consistent with existing guidance and is clearer. The term significant has been removed as materiality thresholds are still being discussed. The revisions also add "realized" to be clear that the gains/losses have been generated from disposed investments.

3. Deletion of the statement that the IMR valuation adjustment more appropriately reflects statutory surplus. NAIC staff recommends not incorporating this statement until/unless the Working Group makes a long-term conclusion on the admittance treatment of net negative IMR. The inclusion of this statement in the ACLI proposed definition implies that all net negative IMR should be admitted as the most accurate representation of statutory surplus, and that is still pending discussion.

NAIC Proposed IMR Definition (proposed changes from ACLI definition shown as tracked):

IMR is a valuation adjustment to maintain consistency between insurance liabilities (the assumptions for which are often unchanged from origin), and the assets needed to support them (where the assumptions can essentially be revisited any time there are fixed income realizations).

IMR defers and amortizes the recognition of ~~non economic~~ realized gains or losses where investment activity~~, whether through fixed income investment sales or fixed income derivative hedging transactions,~~ essentially unlock unrealized gains/losses for either assets or liabilities. IMR is not intended to defer realized ~~economic~~ gains and losses ~~related to asset sales~~ compelled by liquidity pressures that fund ~~significant~~ cash outflows (e.g., such as excess withdrawals and collateral calls).

~~Specifically, the IMR valuation adjustment more appropriately reflects the impact to statutory surplus from fluctuations in interest rates and therefore provides a more accurate representation of solvency under the NAIC's statutory framework which often includes amortized cost valuation of fixed income investments and liability valuations with fixed assumptions in accordance with the Accounting Practices and Procedures and Valuation Manual.~~

Ref #	Title	Attachment #
2025-04 (Julie)	**Capital Structure Code**	**D – Form A**

Summary:
This agenda item has been prepared to propose possible deletion of the "capital structure code" reporting column in *Schedule D-1-1: Long-Term Bonds – Issuer Credit Obligations* (D-1-1) and *Schedule D-1-2: Asset-Backed Securities* (D-1-2). This proposal would reflect a reporting change, and not a statutory accounting change, but it is being presented to the Statutory Accounting Principles (E) Working Group to ensure appropriate outreach to regulators on the proposed deletion. **This agenda item specifically requests information from regulators on the use of these reporting codes and if there is a preference to retain the codes and instead expand, clarify and/or limit application to specific reporting lines to improve consistency and usefulness.**

Since the inclusion of the codes, there have been many questions on how to allocate investments to the established codes and whether there is consistent allocation of codes across companies to similar investments. It has also been noted that the reporting codes are required for all investments on Schedule D-1-1 and Schedule D-1-2, and there are questions on whether the codes are still applicable to all reporting lines, or even necessary, with the expanded reporting added from the principles-based bond project.

Per the SVO, the capital structure codes along with the security identifier ISIN were originally added in 2015, sponsored by the Valuation of Securities (E) Task Force, and included in a Blanks (E) Working Group proposal along with a number of other edits. The rationale for the capital structure code inclusion was to derive a "Capital Structure Code Regulator Report." This report does not appear to have been generated by any group, the codes from Schedule D are not used in SVO assessments, and the Schedule D company-reported information may be misleading. The SVO has noted that although capital structure is an assessment element for investments they review, they do not use the company-reported Schedule D information but rather use information from outside data feeds, legal agreements and financial statements submitted with the filing.

Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing and expose, for a shortened comment deadline ending May 2, this agenda item with the proposal to possibly delete the "capital structure code" reporting column in *Schedule D-1-1: Long-Term Bonds – Issuer Credit Obligations* (D-1-1)

and *Schedule D-1-2: Asset-Backed Securities* (D-1-2) for year-end 2025. This agenda item specifically requests information from regulators on the use of these reporting codes and if there is a preference to retain the codes and instead expand, clarify and/or limit application to specific reporting lines to improve consistency and usefulness. Although NAIC staff does not desire to remove any investment information being utilized by regulators, this agenda item is consistent with the intent of the Blanks (E) Working Group charge to review and eliminate data elements to ensure reporting meets the needs of regulators. By removing unnecessary or unused data elements, industry can focus on other elements more beneficial to the needs of regulators.

If there is a desire to instead expand / clarify and/or limit application to specific reporting lines, feedback is welcome on guidance to improve consistency in reporting and/or identify if there are certain reporting lines on Schedule D-1-1 or Schedule D-1-2 for which the code should be applicable. The broad reporting lines effective in 2025 for D-1-1 and D-1-2 are illustrated within the Form A. (Categories are often divided between affiliated and unaffiliated.)

Ref #	Title	Attachment #
2025-05 (Julie)	**Reinsurer Affiliated Assets**	**E – Form A F – Referral**

Summary:

This agenda item has been prepared to consider improved financial statement reporting for reinsurer affiliated assets in response to the January 7, 2025, referral from the Financial Analysis (E) Working Group (FAWG). With this referral, the Statutory Accounting Principles (E) Working Group is requested to consider enhanced reporting or disclosures to identify whether investments held under modified coinsurance (modco) or funds withheld (FWH) arrangements are related or affiliated to the reinsurer. (A summary of the key components of the referral is shown in the Form A).

Although there has been discussion on getting full investment detail on held modco/FWH assets, at this time, the proposal resulting from agenda item 2024-07 is to only capture aggregate detail that corresponds to the AVR reporting (so that it can be traceable to the RBC formula). There is a second proposal under agenda item 2024-20 to explicitly identify held modco/FWH assets as restricted. The proposal resulting from agenda item 2024-20 is to capture information on these assets by broad investment category (e.g., investment schedule).

In order to proceed timely with the January 7, FAWG request, this agenda item recommends expanding the restricted asset disclosure to identify the amount of modco/FWH assets for which the asset is a related party or affiliated investment to the reinsurer. It is proposed that the existing related party investment codes be utilized to ensure consistent application in identifying whether the investment is a related party investment.

In addition to a disclosure in response to the FAWG referral, this item also proposes to require the full restricted asset disclosure in all annual and quarterly financial statements. This is a change from the existing guidance where the disclosure is included in the interim financials if there have been significant changes from the annual statement. Informal comments have indicated notable swings in restricted assets are not being considered "significant" and the disclosure is not being updated in the interim. With the disclosure expansion, and the desire to have current information on restricted assets, the revisions will require this disclosure in all quarterly financial statements.

Recommendation:

NAIC staff recommend that the Working Group receive the referral and expose this agenda item for comment, for a shortened comment deadline ending May 2, while concurrently sponsoring a blanks proposal to expand the restricted asset reporting to capture information, by investment schedule, of modco and FWH assets that are related to the reinsurer and to require the restricted asset disclosure in all quarterly and annual financial statements.

© 2025 National Association of Insurance Commissioners

To timely meet the need of state insurance regulators, as requested from the FAWG referral, it is recommended that this item be planned for data-capturing with a year-end 2025 effective date. This effective date will require adoption of the agenda item, and the corresponding blanks changes, no later than May 2025. If it is not possible to adopt with that timeline, then the SAPWG could still adopt a disclosure for year-end 2025, but it will be narrative only until year-end 2026.

Ref #	Title	Attachment #
2025-06 (Julie)	**AVR Line: Unrated Multi-Class Securities Acquired by Conversion**	**G – Agenda Item**

Summary:
NAIC staff received a question as to what should be captured in the AVR: Default Component – Basic Contribution, Reserve Objective and Maximum Reserve Calculation reporting line 8 "Unrated Multi-Class Securities Acquired by Conversion." This line is part of the AVR bond reporting lines in the schedule, following the bonds reported by NAIC designation. After review, NAIC staff does not believe this historical line should be retained in the AVR schedule as there should be no securities reported within this line under current statutory accounting concepts. NAIC staff notes that this guidance seems to date back to 1993, which is before the SVO incorporated the filing exempt concept for filings.

The Annual Statement instructions currently has the following description for these assets:

> Assets may be converted into securities backed by the underlying assets. Rated bond classes of these multi-class mortgage-backed/asset-backed securities should be assigned Asset Valuation Reserve (AVR) factors consistent with comparably rated bonds.
>
> A company may hold an "Unrated Multi-Class Security Acquired by Conversion" defined as a security acquired through the conversion of a portion of the company's assets, on or after January 1, 1993, into securities for which the company does not obtain a rating from an NAIC recognized rating agency and for which there is no recourse liability.
>
> In such cases, the rating agency that rates a portion of the newly created security would establish the credit quality of the entire asset pool being securitized. The maximum reserve for the unrated security is the lesser of: (a) 100% of the maximum reserve for the entire pool associated with the unrated security as rated by an SVO approved rating agency, or (b) the book/adjusted carrying value of the unrated security. The reserve objective is equal to the maximum reserve. The basic contribution is equal to 33% of the maximum reserve.
>
> This treatment does not occur when a reporting entity bears continuing actual or contingent liability arising from the securitization of any assets.
>
> Any company which enters into such a transaction must prepare and include with its filed annual statement a schedule prepared in accordance with the following general guidelines to support the calculation of the reserve amounts to be reported on Page 29, Line 8.

With the principles-based bond definition, only debt securities that qualify shall be reported as bonds. This includes reporting on Schedule D-1 as well as on the AVR schedule. (The AVR schedule cross-checks to the Schedule D-1 for bonds.) For all bond-qualifying securities, an NAIC designation pursuant to the *Purposes and Procedures Manual of the NAIC IAO* must be reported. In review of recent use of this AVR line, no reporting entities utilized this line in 2022 or 2023, but a reporting entity has recently contacted the NAIC indicating intent to report amounts in this line for 2024. Amounts reported in this line cause cross-check errors to the total amounts reported for bonds, and there are questions as to how the amounts are impacted with reserve factors, as all amounts are blocked on the schedule (no factors just XXX's in the schedule). If a reporting entity was to acquire securities previously held in

an ABS structure, those assets shall be captured under the applicable SSAP and reported accordingly to the statutory accounting guidance of that SSAP.

This agenda item proposes to remove this line from the AVR schedule. This agenda item will not result in a change to statutory accounting and will be exposed separately by the Blanks (E) Working Group.

Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions, for a shortened comment deadline ending May 2, to the Life/Fraternal Annual Statement Blank, AVR: Default Component – Basic Contribution, Reserve Objective and Maximum Reserve Calculation with a proposal to remove the reporting line 8 "Unrated Multi-Class Securities Acquired by Conversion." (This item is proposed to be effective for year-end 2025, but the blanks proposal is to rename the line "intentionally left blank" to prevent renumbering all lines in the AVR schedule.)

Ref #	Title	Attachment #
2025-07 (Jake)	**Dividend General Interrogatory Update**	**H – Form A**

Summary:

NAIC staff received a question related to how to disclose a dividend that was made using non-related party corporate bonds. It was noted that such property dividends are allowed under *SSAP No. 72—Surplus and Quasi-Reorganizations*, paragraph 13.i., but that the disclosure in the Life/Fraternal Annual Statement Blank, General Interrogatories, Part 2, GI #12 only includes lines for cash and stock dividends. NAIC staff noted that this disclosure was not included in any other annual statement blanks and was not clearly included as a required disclosure in SSAP No. 72, so it is the recommendation from NAIC staff that this this general interrogatory be removed from the Life/Fraternal Annual Statement Blank. This agenda item will not result in a change to statutory accounting and will be exposed separately by the Blanks (E) Working Group.

Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions, for a shortened comment deadline ending May 2, to the Life/Fraternal Annual Statement Blank, General Interrogatories, Part 2, #12 to remove the this disclosure as it is not consistent included across all annual statement blanks. This agenda item will not result in statutory accounting revisions but is proposed to be effective for year-end 2025.

Ref #	Title	Attachment #
2025-08 (Robin)	**Medicare Part D Prescription Payment Plan Disclosures**	**I – Form A**

Summary:

This agenda item was drafted to develop disclosures for the Medicare Part D Prescription Payment Plan (MPPP). The currently exposed accounting guidance for this program is in *INT 24-02: Medicare Part D Prescription Payment Plan*.

MPPP is effective January 1, 2025, and requires all Medicare prescription drug plans (Part D plan sponsors), including both standalone Medicare prescription drug plans and Medicare Advantage plans with prescription drug coverage, to offer its enrollees the option to pay their out-of-pocket prescription drug costs through monthly

payments to the Part D plan sponsor over the remainder of the plan year, as opposed to paying the full amount upfront to the pharmacy.

Part D plan enrollees who elect to participate in MPPP (MPPP participants) will pay $0 to the pharmacy for covered Part D drugs. Instead, the Part D plan sponsor is required to fully pay the pharmacy the total of an MPPP participant's applicable out-of-pocket amount and the Part D plan sponsor's portion of the payment in accordance with Part D prompt payment requirements. Subsequently, the Part D plan sponsor will bill the MPPP participant monthly for any cost-sharing incurred while enrolled in MPPP.

<u>Recommendation:</u>
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions, for a shortened comment deadline ending May 2, to *SSAP No. 84—Health Care and Government Insured Plan Receivables* to add the disclosures as illustrated in the agenda item under the heading "proposed SSAP No. 84 disclosures". The disclosures are proposed for initial data capture in the year end 2025 financial statement notes. This agenda item is proposed as a simultaneous exposure with the Blanks (E) Working Group (proposal 2025-04BWG) to allow for initial reporting at 2025 year-end. Key points in the recommended disclosures are amounts reported before and after nonadmission, aging, and information on write offs.

Although NAIC staff considered adding line(s) for the MPPP receivables to the health care receivables exhibits in the annual statement blank, at this time, NAIC staff recommend putting the information in the existing health care receivables notes. This placement can be evaluated later as more information on the materiality of the new for 2025 MPPP program becomes available. If needed, the Working Group could reconsider later if additional lines are recommended in the health care receivable exhibits.

Ref #	Title	Attachment #
2025-09 (Robin)	**VM-22 Update Coordination**	**J – Form A**

<u>Summary:</u>
This agenda item is part of the coordination process between the *Accounting Practices and Procedures Manual* with the *Valuation Manual*. It recommends minor consistency revisions to *SSAP No. 51—Life Contracts* to reflect updates to that the Life Actuarial (A) Task Force has made to the *Valuation Manual* in VM-22 PBR: Requirements for Principle-Based Reserves for Non-Variable Annuities (VM-22). The revisions are primarily to add minor references and to be clearer on different reserving methodologies given the different approaches between different sections of the *Valuation Manual.* These edits include adding "and" "/or" in a few places and a specific reference to "variable annuities."

<u>Recommendation:</u>
NAIC staff recommend that the Statutory Accounting Principles (E) Working Group move this agenda item to the active listing of the maintenance agenda, categorize as a SAP clarification, and expose revisions which add minor consistency revisions to *SSAP No. 51—Life Contracts* reflect updates to the *Valuation Manual* in *VM-22 PBR: Requirements for Principle-Based Reserves for Non-Variable Annuities*. The revisions are minor edits to clearly reflect new VM-22 principle-based reserve requirements between the different methods of reserving.

© 2025 National Association of Insurance Commissioners

Ref #	Title	Attachment #
2025-10 (Wil)	**ASU 2023-07, Improvements to Reportable Segment Disclosures**	**K – Form A**

Summary:
In November 2023 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (*ASU) 2023-07, Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures*, to improve the disclosures about a public entity's reportable segments and address requests from investors for additional, more detailed information about a reportable segment's expenses. The ASU, among other more minor changes, requires public companies to disclose significant segment expenses that are regularly provided to the chief operating decision maker (CODM) and are included within each reported measure of segment profit or loss (collectively referred to as the "significant expense principle"), and to disclose an amount for "other segment" items by reportable segment and a description of its composition.

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 2023-07, Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures* as not applicable to statutory accounting. This item is considered not applicable as the ASU amends U.S. GAAP guidance on segment reporting disclosures for public entities, which is not an applicable concept for statutory accounting purposes. Topic 280 was established from FAS 131, which has previously been determined to be not applicable to statutory accounting principles by the Working Group. In addition, the annual statement reporting process requires reporting by line of business, jurisdiction and instead of U.S. GAAP "segment" type information.

Ref #	Title	Attachment #
2025-11 (Wil)	**ASU 2024-03 and ASU 2025-01, Reporting Comprehensive Income**	**L – Form A**

Summary:
In November of 2024 the Financial Accounting Standards Board FASB issued *Accounting Standards Update (ASU) 2024-03, Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40), Disaggregation of Income Statement Expenses*, to improve the disclosures about a public business entity's expenses and address requests from investors for more detailed information about the types of expenses (including purchases of inventory, employee compensation, depreciation, amortization, and depletion) in commonly presented expense captions (such as cost of sales, selling, general, and administrative, and research and development). In January of 2025, FASB issued *ASU 2025-01, Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40), Clarifying the Effective Date of ASU 2024-03*, to clarify the intended effective date of ASU 2024-03.

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 2024-03, Disaggregation of Income Statement Expenses* and *ASU 2025-01, Clarifying the Effective Date of ASU 2024-03* as not applicable to statutory accounting. This item is proposed to be rejected as not applicable as the ASUs are specific to comprehensive income disclosures for public entities, which is not an applicable concept for statutory accounting purposes. Additionally, the annual statements already require a level of expense disaggregation in the Summary of Operations, along with a more detailed breakdown in the general expense exhibit.

© 2025 National Association of Insurance Commissioners

Ref #	Title	Attachment #
2025-12EP (Julie)	**Spring 2025 Editorial Revisions**	**M – Form A**

Summary:
The editorial revisions are recommended by interested parties to further clarify treatment of issue papers in level 5 of the statutory hierarchy and to update reference to SEC rules and interpretations as authoritative U.S. GAAP for SEC registrants. These edits are considered editorial as they are consistent with the revisions adopted Feb. 24 for the inclusion of issue papers in level 5 of the statutory hierarchy.

Recommendation:
NAIC staff recommend that the Statutory Accounting Principles (E) Working Group move this agenda item to the active listing of the maintenance agenda, categorize as a SAP clarification, and expose editorial revisions as illustrated within the agenda item.

B. Consideration of Items on the Active Maintenance Agenda

Ref #	Title	Attachment #
2023-14 (Julie)	**Hypothetical IMR Memo**	**N – Memo**

Summary:
This memo has been prepared to detail the discussions and conclusions of the IMR ad hoc group with regards to hypothetical IMR. Ultimately, as detailed within, it identifies the merits and rationale for hypothetical IMR but identifies that the IMR ad hoc group reached an informal consensus that the practical limitations of applying the concept outweigh any potential benefit of retaining the concept. The IMR ad hoc group has recommended that this memo be exposed to the full Working Group for comment. It is anticipated that this discussion and conclusion, and if supported, will be documented in the IMR issue paper and reflected in revisions incorporated under the broad IMR project captured under agenda item 2023-14.

Recommendation:
NAIC staff recommend that the Working Group expose the hypothetical IMR memo from the IMR ad hoc group for comment.

C. Any Other Matters

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

The IMR Ad Hoc group has continued to meet regularly since their first meeting in Oct. 2023. Since the 2024 Fall National Meeting, the discussions have focused on IMR from reinsurance transactions as well as the concept to prove reinvestment for sold fixed-income instruments where a realized gain/loss is taken to IMR. This discussion has also focused on the guidance for excess withdrawals, and there is a goal to potentially address both reinvestment and excess withdrawal assessments collectively. Industry is currently reviewing the possibility of providing more granular cash flow information for sales before maturity and dividing investment acquisitions from reinvestment activity from acquisitions with new premium. Consideration is also expected on yield assessments, supporting an improvement to asset yield when reinvestment occurs. Although the IMR ad hoc group has informally concluded on hypothetical IMR, further discussion on other reinsurance aspects is expected to continue.

It is noted that the effective date of *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve* is permitted as a short-term solution until Dec. 31, 2025, with an automatic nullification on Jan. 1, 2026. The Working Group will be reviewing this timeline and assessing the INT.

b. Receive Referral from Life Risk-Based Capital (E) Working Group (Julie – Attachment O)

On Feb. 21, 2025, the Life Risk-Based Capital (E) Working Group received, discussed, and exposed for public comment a proposal from the American Council of Life Insurers (ACLI) seeking to clarify the LR010 instruction that certain "SVO-designated non-bond debt securities" can obtain asset concentration factor treatment akin to bonds in LR002 (Proposal 2025-05-L).

The ACLI's Proposal 2025-05-L seeks to clarify LR010 instruction such that "SVO-designated non-bond debt securities" obtain asset concentration factor treatment akin to bonds in LR002 (Option 1). This option will put these investments' concentration RBC treatment the same pre- and post-principle-based bond definition adoption. (Note that the base C-1 charge treatment is slightly different after the adoption of the principle-based bond definition, moving from a 20 designation-category framework to NAIC 1-6 bond charges. Yet, this change is neither contended nor the subject of Proposal 2025-05-L.)

Alternatively, these investments can be assessed an asset concentration factor of 15% for "Other Schedule BA Assets." (Option 2) This option represents a hybrid approach where the base factors are NAIC-designation-driven, and asset concentration factor is flat at 15%.

Since the impetus of Proposal 2025-05-L is the adoption of the principle-based bond definition by the Statutory Accounting Principles (E) Working Group, the Working Group would appreciate consideration by SAPWG for possible comments to ensure accurate determination among Option 1, Option 2, or any other options.

Action: Working Group members are requested to provide input to NAIC SAPWG staff on their preference for option 1 or option 2 by April 11. ***Although the referral requested comments by March 23, with the timing of the National Meeting, the SAPWG has received an extension until 2 weeks after the National Meeting. This item is not planned for discussion at the LRBC Spring National Meeting.***

NAIC staff note that these items do not qualify as bonds under SSAP No. 26 and the SVO-Assigned designation focuses on credit quality and does not transform a non-bond debt security to qualify as a bond under statutory accounting.

c. Notice of planned Joint Meeting with LATF – April 10, 2025 (Robin)

SAPWG agenda items Ref #2024-05: Appendix A-791 and Ref #2024-06: Risk Transfer Analysis of Combination Reinsurance Contracts are planned for discussion on a joint call with the Life Actuarial (A) Task Force on April 10, 2025.

d. Notice of SAWPG Meeting (Robin)

The meeting to review comments on agenda items with a shortened comments deadline of May 2 most of which are related to Blanks proposal coordination is currently scheduled for May 22.

e. Review of U.S. GAAP Exposures (Jason – Attachment P)

The attachment details the items currently exposed by the FASB. Comments are not recommended at this time – NAIC staff recommend review of the final issued ASU under the SAP Maintenance Process as detailed in *Appendix F—Policy Statements.*

f. Notice of Electronic Version of AP&P Manual – (Julie)

The *NAIC Accounting Practices and Procedures Manual* (as well as other public NAIC publications) is a free download from the NAIC Resource Center beginning in 2025.

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

Julie Gann and Maggie Chang (NAIC) monitor IAIS discussions. The last virtual meeting was Feb. 18, 2025. Although there are AAWG actions to review issuances from international bodies, none of the items are relevant to the U.S. One potential item of interest is the project for ICS implementation and potential revisions to ICP 9: Supervisory Reporting and ICP 20: Public Disclosure**.** In response to this project and other IAIS developments, the "G" committee recently formed a new working group "The Aggregation Method Implementation Working Group." This new working group will "review group capital regulation of U.S. groups and their potential for comparable implementation of the Insurance Capital Standard (ICS) including (d) reporting and disclosure requirements."

This update simply intends to inform the SAPWG regulators and interested parties of these ongoing NAIC staff actions to monitor and participate in the IAIS AAWG. Any questions on discussions or if additional information is requested, please contact NAIC staff.

Comment Deadlines:

- **Comment Deadline for Items with a Shortened Comment Period - May 2, 2025**
    - Ref #2024-07: Reporting of Funds Withheld and Modco Assets
    - Ref #2025-04: Capital Structure Code
    - Ref #2025-05: Reinsurer Affiliated Assets
    - Ref #2025-06: AVR Line: Unrated Multi-Class Securities
    - Ref #2025-07: Dividend General Interrogatory Update
    - Ref #2025-08: Medicare Part D Prescription Payment Plan Disclosures

- **Comment Deadline for all other items – June 6, 2025**

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/03-24-25 Spring National Meeting/Meeting/0 - 03-2025 SAPWG Meeting Agenda.docx

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

Issue: Sale Leaseback Clarification

Check (applicable entity):

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

Description of Issue: NAIC staff received a question related to a potential sales leaseback transaction that included a significant restriction to the cash received as part of the sale of the assets, and if such a transaction would meet the definition of a sale leaseback in accordance with *SSAP No. 22—Leases*. In the transaction, the company was able to sell the nonadmitted asset to an unaffiliated party, but as a part of the transaction, the cash the seller received was to be held in such a manner that the selling insurance company would not be able access the cash until the leaseback was fully paid off years in the future. This agenda item intends to provide guidance that sales leaseback accounting would not be applicable in situations in which the selling insurer is restricted from readily accessing the sales proceeds. In such instances the financing method would be required.

Existing Authoritative Literature:

SSAP No. 22:

Sale-Leaseback Transactions

31. Sale-leaseback transactions involve the sale of property, plant or equipment by the owner and a lease of the property, plant or equipment back to the seller. Sale-leaseback accounting is a method of accounting in which the seller-lessee records the sale and removes all property, plant or equipment and related liabilities from its balance sheet. The definition of property, plant and equipment eligible for sale-leaseback treatment is in paragraph 3. As noted in paragraph 3, non-depreciable assets, including investments and premium receivables, do not meet the definition of property, plant or equipment, are not allowed to be included in lease transactions, and therefore, are not allowed to be included in sale-leaseback transactions. Assets that do not meet the definition of property, plant and equipment in paragraph 3 may only be used in sale-leaseback transactions as permitted practices with regulatory approval.

32. A sale of property, plant or equipment that is accompanied by a leaseback of all or any part of the property, plant or equipment for all or part of its *remaining* economic life shall be accounted for by the buyer-lessor and seller-lessee as a purchase and operating lease and a sale and an operating lease, respectively, unless the sale-leaseback includes sale of nonadmitted assets to a related party. If the transaction involves a sale of nonadmitted assets to a related party, the transaction shall be accounted for by the deposit method detailed in paragraph 37.

33. Sale-leaseback accounting shall be used by a seller-lessee only if a sale-leaseback transaction includes all of the following:

a. A normal leaseback is a lessee-lessor relationship that involves active use of the property by the seller-lessee in consideration for payment of rent, including contingent rentals that are based on future operations of the seller-lessee. The phrase active use of the property by the seller-lessee refers to use of the property during the lease term in the seller-lessee's trade or business, provided that subleasing of the leased property is minor.

b. Admitted assets, if the buyer-lessor is a related party, or either admitted or nonadmitted assets if the buyer-lessor is not a related party. For purposes of this paragraph, related parties include those

identified in SSAP No. 25 and entities created for the purpose of buying and leasing nonadmitted assets for the reporting entity and/or its affiliates.

34. Under sale-leaseback accounting, any profit on the sale shall be deferred and amortized in proportion to the related gross rental charged to expense over the lease term, with the exception of a sale of real estate settled entirely in cash.

35. A sale of real estate, settled entirely in cash, that is accompanied by a leaseback of all or any part of the property, plant or equipment for all or part of its remaining economic life shall be accounted for by the buyer-lessor and seller-lessee as a purchase and operating lease and a sale and an operating lease, respectively. The sale and gain shall be recognized directly to special surplus funds and subsequently amortized to unassigned funds (surplus) over the lease term.

Deposit Method and Financing Method

36. The deposit method is used when the transaction involves a sale-leaseback of nonadmitted assets to a related party. To the extent that leases between related parties are, in substance, arms-length transactions the guidance in this statement shall be applied. The determination of whether related party leases qualify as arms-length transactions is addressed in SSAP No. 25.

37. If a sale-leaseback transaction is accounted for by the deposit method, lease payments decrease and collections on the buyer-lessor's note, if any, increase the seller-lessee's deposit account. The sale-leaseback assets identified in paragraph 31 and any related debt continue to be included in the seller-lessee's balance sheet, and the seller-lessee continues to depreciate the sale-leaseback assets. A seller-lessee that is accounting for any transaction by the deposit method shall recognize a loss if at any time the net carrying amount of the sale-leaseback assets exceeds the sum of the balance in the deposit account, the fair value of the unrecorded note receivable and any debt assumed by the buyer.

38. If a sale-leaseback transaction is accounted for by the deposit method and then subsequently qualifies for sales recognition under paragraph 33, the transaction is accounted for using sale-leaseback accounting, and the gain or loss is recognized in accordance with the provisions of paragraph 34 of this statement. In addition, the leaseback is classified and accounted for in accordance with this statement as if the sale had been recognized at the inception of the lease. The change in the related lease accounts that would have been recorded from the inception of the lease had the transaction initially qualified for sale-leaseback accounting is included in computing the gain or loss recognized in accordance with paragraph 34 of this statement.

39. A sale-leaseback transaction that does not qualify for sale-leaseback accounting nor the deposit method shall be accounted for by the financing method. Under this method the seller-lessee shall not derecognize the transferred asset and shall account for any amounts received as a financial liability and the buyer-lessor shall not recognize the transferred asset and shall account for the amounts paid as a receivable.

40. If a sale-leaseback transaction is reported as under the financing method, lease payments, exclusive of an interest portion, decrease and collections on the buyer-lessor's note increase the seller-lessee's liability account with a portion of the lease payments being recognized under the interest method. The seller-lessee reports the sales proceeds as a liability, continues to report the sale-leaseback assets identified in paragraph 31 as an asset and continues to depreciate the sale-leaseback assets.

41. If a sale-leaseback transaction accounted for under the financing method subsequently qualifies under paragraph 33, the transaction is then recorded using sale-leaseback accounting, and the cumulative change in the related balance sheet accounts is included in the computation of the gain recognized in accordance with the provisions of paragraph 34 of this statement. In addition, the leaseback is classified and accounted for as an operating lease as if the sale had been recognized at the inception of the lease. The change in the related lease accounts from the inception of the lease to the date the sale is recognized is included in the gain recognized in accordance with paragraph 34 of this statement.

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): The larger agenda item 2016-02 worked on the FASB project that brought U.S. GAAP accounting to be more similar to the methodology used under IFRS, but this treatment was rejected for statutory accounting and the operating lease treatment was retained.

Staff Review Completed by:
Jake Stultz, NAIC Staff – February 2025

Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *SSAP No. 22—Leases*, as illustrated below, to clarify that sale leasebacks with restrictions on access to the cash do not qualify for sale leaseback accounting and must be accounted for by the seller using the financing method.

33. Sale-leaseback accounting shall be used by a seller-lessee only if a sale-leaseback transaction includes all of the following:

a. A normal leaseback is a lessee-lessor relationship that involves active use of the property by the seller-lessee in consideration for payment of rent, including contingent rentals that are based on future operations of the seller-lessee. The phrase active use of the property by the seller-lessee refers to use of the property during the lease term in the seller-lessee's trade or business, provided that subleasing of the leased property is minor.

b. Admitted assets, if the buyer-lessor is a related party, or either admitted or nonadmitted assets if the buyer-lessor is not a related party. For purposes of this paragraph, related parties include those identified in SSAP No. 25 and entities created for the purpose of buying and leasing nonadmitted assets for the reporting entity and/or its affiliates.

c. A sale where the cash received by the seller has access restrictions does not meet the definition of a sale for sale leaseback accounting and shall be recorded as a financing arrangement as described in paragraph 39.

39. A sale-leaseback transaction that does not qualify for sale-leaseback accounting nor the deposit method shall be accounted for by the financing method. Under this method the seller-lessee shall not derecognize the transferred asset and shall account for any amounts received as a financial liability and the buyer-lessor shall not recognize the transferred asset and shall account for the amounts paid as a receivable. A sale-leaseback transaction where the cash received as part of the sale is subject to access restrictions would not qualify for sales-leaseback accounting and shall be accounted for by the financing method.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/03-24-25 Spring National Meeting/Meeting/A - 25-01 - Lease Clarification.docx

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

Issue: ASU 2024-04, Induced Conversions of Convertible Debt Instruments

Check (applicable entity):

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

Description of Issue: *ASU 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20), Induced Conversions of Convertible Debt Instruments* intends to improve the relevance and consistency in application of the induced conversion guidance in Subtopic 470-20 for entities that settle convertible debt instruments for which the conversion privileges were changed to induce conversion. Specifically, the ASU clarifies how to determine whether a settlement of convertible debt (particularly, cash convertible instruments) at terms that differ from the original conversion terms should be accounted for under the induced conversion or extinguishment guidance. Under the ASU, to account for a settlement of a convertible debt instrument as an induced conversion, an inducement offer is required to provide the debt holder with, at a minimum, the consideration (in form and amount) issuable under the conversion privileges provided in the terms of the instrument. Note that under U.S. GAAP a conversion is considered induced when a convertible debt instrument is converted pursuant to terms that reflect changes made by the issuer to the conversion privileges provided in the terms of the debt at issuance (including changes that involve the payment of consideration) for the purpose of inducing conversion.

ASU 2024-04 is focused on the accounting provisions for the issuer of debt and is not addressing holders of the debt instruments that receive consideration for induced conversions. Current guidance in SSAP No. 15—Debt requires recognition of an expense for the fair value of the additional consideration issued to induce conversion, which is consistent with the measurement guidance of current U.S. GAAP. NAIC staff noted that the majority of the guidance adopted by the ASU relates to paragraphs which had been previously rejected for statutory accounting purposes, however some of the language which pertains to the recognition of accepted inducement offers and the types of property which can be received from a convertible debt instruments have been recommended for adoption. Additionally, this agenda item revises statutory guidance to clarify that the additional consideration provided by the inducement offer shall be recognized when the offer is accepted by the debt holder. Although this may defer slightly the recognition of the expense from what was in SSAP No. 15 (from when the inducement was issued to when the inducement was accepted), NAIC staff does not believe there is a regulatory reason to differ from U.S. GAAP on this guidance. These debt issuances are not expected to be prevalent within the insurance industry, and the timing of recognition is not expected to vary significantly.

Existing Authoritative Literature:

1. Distinguishing Liabilities from Equity / Derivatives and Hedging:

SSAP No. 5—Liabilities, Contingencies and Impairments of Assets defines a liability with characteristics of both a liabilities and equity:

> **Financial Instruments with Characteristics of both Liabilities and Equity**
>
> 28. Issued, free-standing financial instruments with characteristics of both liability and equity shall be reported as a liability to the extent the instruments embodies an unconditional obligation of the issuer. (Pursuant to SSAP No. 86, embedded features in derivative contracts shall not be separated from the host contract for separate recognition.) Free-standing financial instruments that meet any of the criteria below meet the definition of a liability:

a. A mandatorily redeemable financial instrument shall be classified as a liability unless the redemption is required to occur only upon the liquidation or termination of the issuing reporting entity.

b. A financial instrument, other than an outstanding share, that at inception both 1) embodies an obligation to repurchase the issuer's equity shares or is indexed to such an obligation and 2) requires or may require the issuer to settle the obligation by transferring assets.

c. Obligations that permit the holder to require the issuer to transfer assets.

d. A financial instrument is a liability if the issuer must settle the obligation by issuing a variable number of its equity shares and the obligation's monetary value is based solely or predominantly on: 1) a fixed monetary amount, 2) variation in something other than the fair value of the issuer's equity shares, or 3) variations inversely related to changes in the fair value of the issuer's equity shares.

e. Instruments in which the counterparty (holder) is not exposed to the risks and benefits that are similar to those of a holder of an outstanding share of the entity's equity shall be classified as a liability.

29. If a free-standing financial instrument will be redeemed only upon the occurrence of a conditional event, redemption of that instrument is conditional and, therefore, the instrument does not meet the definition of mandatorily redeemable financial instrument. However, that financial instrument shall be assessed each reporting period to determine whether circumstances have changed such that the instrument meets the definition of a mandatorily redeemable instrument (that is, the event is no longer conditional). If the event has occurred, the condition is resolved, or the event has become certain to occur, the financial instrument shall be reclassified as a liability.

30. The classification of a free-standing financial instrument as a liability or equity shall only apply to the instrument issuer. Holders or purchasers of such instruments shall refer to the appropriate investment statement for valuation and reporting.

SSAP No. 15—Debt and Holding Company Obligations provides guidance on convertible debt with an induced conversion:

Debt

8. Convertible debt securities that are convertible into common stock of the issuer or an affiliated company at a specified price at the option of the holder and which are sold at a price not significantly in excess of the face amount shall be accounted for solely as debt at the time of issuance. An expense shall be recognized, equal to the fair value of additional securities granted or other consideration issued to induce conversion subsequent to the issuance of convertible debt securities. This guidance applies regardless of who initiates the offer, the debt holder or the debtor, and whether the offer applies to all debt holders.

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):
In March of 2020, the Working Group addressed a similar issue with agenda item 2019-43, which rejected *ASU 2017-11, Earning Per Share, Distinguishing Liabilities from Equity, Derivatives & Hedging* and adopted guidance into SSAP No. 5 and SSAP No. 72 for when certain freestanding instruments shall be recognized as liabilities and not as equity.

In March of 2021, the Working Group adopted agenda item 2020-41 which rejected *ASU 2020-06, Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* as the update primarily addressed various convertible debt valuation models, the concept of which is not employed by statutory accounting, as well as require bifurcating embedded derivative components, a concept specifically not permitted under statutory accounting.

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 the Working Group move this item to the active listing, categorized as nonsubstantive, and expose revisions to SSAP No. 15 to adopt with modification *ASU 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20), Induced Conversions of Convertible Debt Instruments* for statutory accounting as this update provides clarifications on induced conversions and when the inducement shall be recognized as expense by the issuer.

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

Revisions Proposed to SSAP No. 15—Debt and Holding Company Obligations:

8. Convertible debt ~~securities~~ instruments that are convertible into cash, other assets, or common stock (or a combination thereof) of the issuer or an affiliated company at a specified price at the option of the debt holder, and which are sold at a price not significantly in excess of the face amount, shall be accounted for solely as debt at the time of issuance. ~~An expense shall be recognized,~~ For convertible debt instruments subject to an inducement offer, the issuer shall measure and recognize an expense on the date the offer is accepted by the debt holder, equal to the fair value of the additional securities granted or other consideration issued pursuant to the conversion privileges provided in the terms of the existing debt instrument.~~to induce conversion subsequent to the issuance of convertible debt securities.~~ This guidance applies regardless of who initiates the inducement offer, the debt holder or the ~~debtor~~issuer, and whether the offer applies to all debt holders.

Relevant Literature

34. This statement adopts, with modification, *ASU 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20), Induced Conversions of Convertible Debt Instruments*. The ASU was modified to only adopt revisions applicable to statutory guidance which had been originally incorporated from FAS 84.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/03-24-25 Spring National Meeting/Meeting/B - 25-02 - ASU 2024-04, Induced Conversions of Convertible Debt Instruments.docx

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

Issue: IMR Definition

Check (applicable entity):

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

Description of Issue: This agenda item has been prepared to present the proposed IMR definition suggested by the ACLI to the Working Group for inclusion in *SSAP No. 7—Asset Valuation and Interest Maintenance Reserve*. As this discussion is focused on the specific IMR definition, it has been captured in a separate agenda item. Agenda item 2023-14 will continue to be referred to as the broad agenda item for overall revisions to SSAP No. 7 and the removal of accounting-related guidance from the Annual Statement Instructions.

The IMR Ad Hoc Group was formed in October 2023 after the adoption of the limited-time *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve* and the direction from the Working Group towards a long-term project addressing IMR and AVR. This ad hoc group, which is comprised of accounting and actuarial regulators and interested parties, has met regularly since inception to consider several topics and issues involving IMR.

As part of the discussion, the ACLI proposed a definition/purpose of IMR as follows:

> IMR is a valuation adjustment to maintain consistency between insurance liabilities (the assumptions for which are often unchanged from origin), and the assets needed to support them (where the assumptions can essentially be revisited any time there are fixed income realizations).
>
> IMR defers and amortizes the recognition of non-economic gains or losses where investment activity, whether through fixed income investment sales or fixed income derivative hedging transactions, essentially unlock unrealized gains/losses for either assets or liabilities. IMR is not intended to defer economic gains and losses related to asset sales compelled by liquidity pressures that fund significant cash outflows (e.g., such as excess withdrawals and collateral calls).
>
> Specifically, the IMR valuation adjustment more appropriately reflects the impact to statutory surplus from fluctuations in interest rates and therefore provides a more accurate representation of solvency under the NAIC's statutory framework which often includes amortized cost valuation of fixed income investments and liability valuations with fixed assumptions in accordance with the Accounting Practices and Procedures and Valuation Manual.

Although this definition was initially discussed at the IMR ad hoc group, it was noted that further discussion and revision may occur, and that the full Statutory Accounting Principles (E) Working Group would need to consider the proposed definition.

The ACLI proposed definition, which is shown below the Staff Recommendation, is significantly expanded beyond what is currently in SSAP No. 7, paragraph 2.

Existing Authoritative Literature:

SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve

© 2025 National Association of Insurance Commissioners

2. Life and accident and health insurance companies shall recognize liabilities for an AVR and an IMR. The AVR is intended to establish a reserve to offset potential credit-related investment losses on all invested asset categories excluding cash, policy loans, premium notes, collateral notes and income receivable. **The IMR defers recognition of the realized capital gains and losses resulting from changes in the general level of interest rates. These gains and losses shall be amortized into investment income over the expected remaining life of the investments sold. The IMR also applies to certain liability gains/losses related to changes in interest rates. These gains and losses shall be amortized into investment income over the expected remaining life of the liability released.**

There is no definition of IMR in the Annual Statement Instructions.

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

- Agenda Item 2023-14: *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* establishes a broad project to capture accounting guidance for AVR and IMR in SSAP No. 7. The IMR ad hoc group was created from this agenda item and has been meeting regularly since October 2023.

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

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

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

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

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

Staff Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing as a new SAP concept and expose the proposed ACLI IMR definition along with a secondary option to reflect an NAIC staff proposed IMR definition. The discussion supporting the proposed NAIC staff modifications is included in the agenda item. NAIC staff support this agenda item as a new SAP concept as the adopted definition will be included in the expanded SSAP No. 7, as part of the intent to include all accounted-related concepts for IMR in the SSAP and not the annual statement instructions.

ACLI Proposed IMR Definition:

IMR is a valuation adjustment to maintain consistency between insurance liabilities (the assumptions for which are often unchanged from origin), and the assets needed to support them (where the assumptions can essentially be revisited any time there are fixed income realizations).

IMR defers and amortizes the recognition of non-economic gains or losses where investment activity, whether through fixed income investment sales or fixed income derivative hedging transactions, essentially unlock unrealized gains/losses for either assets or liabilities. IMR is not intended to defer economic gains and losses related to asset sales compelled by liquidity pressures that fund significant cash outflows (e.g., such as excess withdrawals and collateral calls).

Specifically, the IMR valuation adjustment more appropriately reflects the impact to statutory surplus from fluctuations in interest rates and therefore provides a more accurate representation of solvency under the NAIC's statutory framework which often includes amortized cost valuation of fixed income investments and liability valuations with fixed assumptions in accordance with the Accounting Practices and Procedures and Valuation Manual.

NAIC Proposed IMR Definition (proposed changes from ACLI definition shown as tracked):

IMR is a valuation adjustment to maintain consistency between insurance liabilities (the assumptions for which are often unchanged from origin), and the assets needed to support them (where the assumptions can essentially be revisited any time there are fixed income realizations).

IMR defers and amortizes the recognition of ~~non-economic~~ realized gains or losses where investment activity~~, whether through fixed income investment sales or fixed income derivative hedging transactions,~~ essentially unlock unrealized gains/losses for either assets or liabilities. IMR is not intended to defer realized ~~economic~~ gains and losses ~~related to asset sales~~ compelled by liquidity pressures that fund ~~significant~~ cash outflows (e.g., such as excess withdrawals and collateral calls).

~~Specifically, the IMR valuation adjustment more appropriately reflects the impact to statutory surplus from fluctuations in interest rates and therefore provides a more accurate representation of solvency under the NAIC's statutory framework which often includes amortized cost valuation of fixed income investments and liability valuations with fixed assumptions in accordance with the Accounting Practices and Procedures and Valuation Manual.~~

NAIC discussion regarding the proposed modifications and overall definition:

1) The ACLI has specifically identified IMR as a "valuation adjustment" and not an asset or as a liability.

IMR is currently recognized as a liability when it has a net positive balance (realized gains exceed realized losses) and is recognized as an asset when it has a net negative balance (realized losses exceed realized gains.) Prior to the issuance of INT 23-01, net negative IMR was nonadmitted. The provisions of INT 23-01 permit admittance of negative IMR in accordance with established limits (10% of adjusted capital and surplus).

NAIC staff agrees that IMR (reflecting realized gains or losses) should not be considered assets or liabilities. Consistent with U.S. GAAP, negative IMR (realized losses) do not represent assets under *SSAP No. 4—Assets and Nonadmitted Assets*, as it does not reflect a present right to an economic benefit. Also consistent with U.S. GAAP, positive IMR (realized gains) do not represent liabilities under *SSAP No. 5—Liabilities, Contingencies and Impairment of Assets*, as it does not reflect a present obligation to transfer or provide an economic benefit to others.

The recognition of IMR stems from a reporting entity selling an investment at a gain or loss prior to the investment's scheduled maturity. Although the cash received from these transactions is recognized as an asset, the balance sheet impact of whether more (or less) proceeds were received from how the investment was reported (gain/loss) does not result in actual assets or liabilities for the insurance reporting entity.

(Note: The Working Group can decide to continue to report these gains/losses as assets and liabilities, but it should be clear that this would be a specific exception made by regulators as IMR does not meet the definition of an actual asset or liability pursuant to either U.S. GAAP or SAP.)

2) **The ACLI has identified the intent of IMR is to defer and amortize non-economic gains and losses from asset sales and fixed-income derivative hedging transactions and that IMR is not intended to defer economic gains and losses from asset sales compelled by liquidity pressures that fund significant cash outflows.**

Although there are various debates on the full original concept of IMR, it is generally agreed that a key intent was to prevent insurance companies from selling investments when they were in a gain position, caused by a decrease in interest rates (allowing a surplus benefit) when the funds received from the sale had to be reinvested at the lower interest rates as they would still be needed to satisfy future policyholder obligations. By recognizing realized gains as an IMR liability, and amortizing that gain overtime, reporting entities would not immediately benefit from actions to churn liabilities for gain potential from a decline in interest rates. This concept assumed that most reporting entities held assets for long periods to match the timeframes of expected policyholder obligations. However, from information received, insurance reporting entities should no longer be perceived to be "buy and hold" investors, but rather often are actively trading their investment portfolio.

Although NAIC staff does not disagree with the overall intent of IMR, **NAIC staff does not agree with the explicit inclusion in the definition of the source of gains/losses in determining whether an item should be considered economic or non-economic, or even the inclusion of those terms in the definition.** NAIC staff notes that there is still discussion pending on whether gains/losses from non-accounting effective hedges should be deferred (and if deferred, included in IMR or via a separate reporting mechanism). **As such, to prevent any incorrect assumptions on what is permitted to be in/out of IMR from the broad definition, NAIC staff recommends that the proposed ACLI definition be revised to eliminate the reference to economic/non-economic, the specific sources of non-economic and economic gains and losses as well as to eliminate potential interpretations that the definition imposes materiality thresholds as shown below:**

> IMR defers and amortizes the recognition of ~~non-economic~~ realized gains or losses where investment activity~~, whether through fixed income investment sales or fixed income derivative hedging transactions,~~ essentially unlock unrealized gains/losses for either assets or liabilities. IMR is not intended to defer realized ~~economic~~ gains and losses ~~related to asset sales~~ compelled by liquidity pressures that fund ~~significant~~ cash outflows (e.g., such as excess withdrawals and collateral calls).

NAIC staff notes that the sources of IMR (whether including non-accounting effective hedges) and the scope to which items should be excluded can be further prescribed in the accounting guidance for recognizing IMR, but that they should not be captured in the broad IMR definition.

Agenda item 2024-15: Asset Liability Management Derivatives is specifically addressing whether realized gains and losses from non-accounting effective hedges should be deferred from immediate recognition.

3) **The ACLI has proposed to include a statement that the IMR valuation adjustment appropriately reflects the impact to statutory surplus from fluctuations in interest rates and therefore provides a more accurate representation of solvency under the NAIC statutory framework under the amortized cost model.**

NAIC staff does not agree with the inclusion of this statement in the IMR definition and has recommended it be completely removed. This statement implies that all recognized IMR (whether negative or positive IMR) is a critical component of the financial statements for solvency assessment purposes. As previously discussed, neither negative IMR nor positive IMR reflects actual assets or liabilities and including these items in the financial statements as assets/liabilities may present an inaccurate presentation of 1) the assets available to pay claims, as well as 2) the actual obligations of the insurance reporting entity. Although the Working Group could decide to retain the current recognition of IMR, discussion on the extent to which negative IMR should be permitted as an admitted asset is a key aspect still pending discussion. NAIC staff cautions against including a broad statement in the IMR definition that implies that negative IMR (realized losses) should always be permitted to reflect an admitted asset in the statutory financial statements and that its inclusion provides an appropriate reflection of statutory surplus.

~~Specifically, the IMR valuation adjustment more appropriately reflects the impact to statutory surplus from fluctuations in interest rates and therefore provides a more accurate representation of solvency under the NAIC's statutory framework which often includes amortized cost valuation of fixed income investments and liability valuations with fixed assumptions in accordance with the Accounting Practices and Procedures and Valuation Manual.~~

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

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/03-24-25 Spring National Meeting/Meeting/C - 25-03 - IMR Definition.docx

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

Issue: Capital Structure Code

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 propose possible deletion of the "capital structure code" reporting column in *Schedule D-1-1: Long-Term Bonds – Issuer Credit Obligations* (D-1-1) and *Schedule D-1-2: Asset-Backed Securities* (D-1-2). This proposal would reflect a reporting change, and not a statutory accounting change, but it is being presented to the Statutory Accounting Principles (E) Working Group to ensure appropriate outreach to regulators on the proposed deletion. **This agenda item specifically requests information from regulators on the use of these reporting codes and if there is a preference to retain the codes and instead expand, clarify and/or limit application to specific reporting lines to improve consistency and usefulness.**

Since the inclusion of the codes, there have been many questions on how to allocate investments to the established codes and whether there is consistent allocation of codes across companies to similar investments. It has also been noted that the reporting codes are required for all investments on Schedule D-1-1 and Schedule D-1-2, and there are questions on whether the codes are still applicable to all reporting lines, or even necessary, with the expanded reporting added from the principles-based bond project.

Per the SVO, the capital structure codes along with the security identifier ISIN were originally added in 2015, sponsored by the Valuation of Securities (E) Task Force, and included in a Blanks (E) Working Group proposal along with a number of other edits. The rationale for the capital structure code inclusion was to derive a "Capital Structure Code Regulator Report." This report does not appear to have been generated by any group, the codes from Schedule D are not used in SVO assessments, and the Schedule D company-reported information may be misleading. The SVO has noted that although capital structure is an assessment element for investments they review, they do not use the company-reported Schedule D information but rather use information from outside data feeds, legal agreements and financial statements submitted with the filing.

As additional history, the original adoption of the capital structure code reporting component did not include any description or guidance for allocating investments to the different codes. In 2016, a subsequent blanks proposal was adopted to revise the code categories and include descriptions within the annual statement instructions with the intent to improve consistency in reporting. The original capital codes adopted in 2015 were identified as senior secured, senior unsecured, senior subordinated, junior subordinated and other. The 2016 revised codes currently reflected include senior secured, senior unsecured, subordinated and not applicable.

From a review of the year-end 2023 Schedule D-1 filing, 90% of securities (1.38 million) were coded with either a 1 (senior secured – 30%) or a 2 (senior unsecured – 60%). The data also shows that 3% of securities (43K) were coded with a 0, 5, or left blank – all of which are not viable options pursuant to the current Annual Statement Instructions. Although most reporting lines had evidence of all codes being utilized (including investments within the broad category of "U.S. Government" receiving instances of 3's and 4's) the bulk of code 3 (subordinated debt) was within the 2023 Schedule D-1 reporting lines for industrial and miscellaneous for RMBS, CMBS and LBSS, hybrid securities, and affiliated bonds involving CMBS or LBSS. Code 4, which reflects a "not applicable" response, was also used in most of the reporting categories. Code 4 is intended to be used when the other three codes wouldn't apply, such as for the SVO-Identified Bond ETF investments captured on Schedule D.

Existing Authoritative Literature:

<u>2024 Annual Statement Instructions:</u>

Column 34 – Capital Structure Code
Please identify the capital structure of the security using the following codes consistent with the SVO Notching Guidelines in the Purposes and Procedures Manual of the NAIC Investment Analysis Office:

Capital structure is sometimes referred to as rank or payment priority and can be found in feeds from the sources listed in the Issue and Issuer column.

As a general rule, a security is senior unsecured debt unless legal terms of the security indicate another position in the capital structure. Securities are senior or subordinated and are secured or unsecured. Municipal bonds, Federal National Mortgage Association securities (FNMA or Fannie Mae) and Federal Home Loan Mortgage Corporation securities (FHLMC or Freddie Mac) generally are senior debt, though there are examples of subordinated debt issued by Fannie and Freddie. 1st Lien is a type of security interest and not capital structure but could be used to determine which capital structure designation the security should be reported under. The capital structure of "Other" should rarely be used. Capital structure includes securities subject to *SSAP No. 26R—Bonds* and *SSAP No. 43R—Loan-Backed and Structured Securities*.

1. Senior Secured Debt
   Senior secured is paid first in the event of a default and also has a priority above other senior debt with respect to pledged assets.

2. Senior Unsecured Debt
   Senior unsecured securities have priority ahead of subordinated debt for payment in the event of default.

3. Subordinated Debt
   Subordinated is secondary in its rights to receive its principal and interest payments from the borrower to the rights of the holders of senior debt (e.g., for loan-backed and structured securities, this would include mezzanine tranches). (Subordinated means noting or designating a debt obligation whose holder is placed in precedence below secured and general unsecured creditors e.g., another debtholder could block payments to that holder or prevent that holder of that subordinated debt from taking any action.)

4. Not Applicable
   Securities where the capital structure 1 through 3 above do not apply (e.g., Line 1619999999 Exchange Traded Funds – as Identified by the SVO).

<u>2025 Annual Statement Instructions</u>:
The adopted revisions to the 2025 Annual Statement Instructions for the principles-based bond definition retained the column, with virtually identical guidance, but the instructions are captured separately for both *Schedule D-1-1: Long-Term Bonds – Issuer Credit Obligations* (D-1-1) and *Schedule D-1-2: Asset-Backed Securities* (D-1-2) with different column references.

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

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

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

Staff Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing and expose, for a shortened comment deadline ending May 2, this agenda item with the proposal to possibly delete the "capital structure code" reporting column in *Schedule D-1-1: Long-Term Bonds – Issuer Credit Obligations* (D-1-1)

and *Schedule D-1-2: Asset-Backed Securities* (D-1-2) for year-end 2025. This agenda item specifically requests information from regulators on the use of these reporting codes and if there is a preference to retain the codes and instead expand, clarify and/or limit application to specific reporting lines to improve consistency and usefulness. Although NAIC staff does not desire to remove any investment information being utilized by regulators, this agenda item is consistent with the intent of the Blanks (E) Working Group charge to review and eliminate data elements to ensure reporting meets the needs of regulators. By removing unnecessary or unused data elements, industry can focus on other elements more beneficial to the needs of regulators.

If there is a desire to instead expand / clarify and/or limit application to specific reporting lines, feedback is welcome on guidance to improve consistency in reporting and/or identify if there are certain reporting lines on Schedule D-1-1 or Schedule D-1-2 for which the code should be applicable. The broad reporting lines effective in 2025 for D-1-1 and D-1-2 are illustrated below. (Categories are often divided between affiliated and unaffiliated.)

Schedule D-1-1: Issuer Credit Obligations
U.S. Government Obligations (Exempt from RBC)
Other U.S. Government Obligations (Not Exempt from RBC)
Non-U.S. Sovereign Jurisdiction Securities
Municipal Bonds – General Obligations (Direct & Guaranteed)
Municipal Bonds – Special Revenue
Project Finance Bonds Issued by Operating Entities
Corporate Bonds
Mandatory Convertible Bonds
Single Entity Backed Obligations
SVO-Identified Bond Exchange Traded Funds – Fair Value
SVO-Identified Bond Exchange Traded Funds – Systematic Value
Bonds Issued from SEC-Registered Business Development Corps,
Bank Loans – Issued
Bank Loans – Acquired
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans
Certificates of Deposit
Other Issuer Credit Obligations

Schedule D-1-2: Asset-Backed Securities
Financial Asset-Backed Securities – Self-Liquidating
Agency Residential Mortgage-Backed Securities – Guaranteed
Agency Commercial Mortgage-Backed Securities – Guaranteed
Agency Residential Mortgage-Backed Securities – Not/Partially Guaranteed
Agency Commercial Mortgage-Backed Securities – Not/Partially Guaranteed
Non-Agency Residential Mortgage-Backed Securities
Non-Agency Commercial Mortgage-Backed Securities
Non-Agency – CLOs/CBOs/CDOs (Unaffiliated)
Other Financial Asset-Backed Securities – Self-Liquidating
Financial Asset-Backed Securities – Not Self-Liquidating
Equity Backed Securities
Other Financial Asset-Backed Securities – Not Self-Liquidating
Non-Financial Asset-Backed Securities – Practical Expedient
Lease-Backed Securities – Practical Expedient

Other Non-Financial Asset-Backed Securities – Practical Expedient
Non-Financial Asset-Backed Securities – Full Analysis
Lease-Backed Securities – Full Analysis
Other Non-Financial Asset-Backed Securities – Full Analysis

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

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/03-24-25 Spring National Meeting/Meeting/D - 25-04 - Capital Structure Code.docx

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

Issue: Reinsurer Affiliated Assets

Check (applicable entity):

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

Description of Issue: This agenda item has been prepared to consider improved financial statement reporting for reinsurer affiliated assets in response to the January 7, 2025, referral from the Financial Analysis (E) Working Group (FAWG). The following reflects the key components from the referral:

> In recent years, there has been an increase in the number and significance of coinsurance with funds withheld and modified coinsurance reinsurance arrangements ceding blocks of life and annuity liabilities to offshore, third-party reinsurers that are unauthorized. These arrangements, and other similar structures, often involve the transfer of investment advisory responsibilities for the assets supporting the business to the reinsurer or one of its affiliates, although the assets remain on the books of the ceding insurer to collateralize the transaction and/or support of the liabilities.
>
> In a recent troubled company situation, the third-party investment advisor/reinsurer reallocated a significant portion of the assets into securities that were later discovered to be affiliated with and/or related to the investment advisor/reinsurer. However, this concentration was not readily apparent to the domestic regulator, as the securities were issued by various legal entities and the related party relationships were not identifiable in the ceding insurer's Supplemental Investment Risk Interrogatories. After the discovery of this concentration through an examination, the domestic regulators also identified significant concerns regarding the valuation of the securities.
>
> The accurate and complete reporting of potential investment concentrations, particularly of affiliated or related parties of an appointed investment advisor/reinsurer, is of critical importance to regulators in ongoing solvency monitoring. As coinsurance with funds withheld and modified coinsurance arrangements where investment advisory services are transferred to the reinsurer are becoming increasingly common and more complex, there is the potential for investment concentrations in assets affiliated with or related to the reinsurer to go unidentified through the existing statutory reporting framework. As such, FAWG recommends that the Statutory Accounting Principles (E) Working Group (SAPWG) consider whether enhanced reporting or disclosures could be developed in this area to identify such concentrations.

With this referral, the Statutory Accounting Principles (E) Working Group is requested to consider enhanced reporting or disclosures to identify whether investments held under modified coinsurance (modco) or funds withheld (FWH) arrangements are related or affiliated to the reinsurer.

Although there has been discussion on getting full investment detail on held modco/FWH assets, at this time, the proposal resulting from agenda item 2024-07 is to only capture aggregate detail that corresponds to the AVR reporting (so that it can be traceable to the RBC formula). There is a second proposal under agenda item 2024-20 to explicitly identify held modco/FWH assets as restricted. The proposal resulting from agenda item 2024-20 is to capture information on these assets by broad investment category (e.g., investment schedule).

In order to proceed timely with the January 7 FAWG request, this agenda item recommends expanding the restricted asset disclosure to identify the amount of modco/FWH assets for which the asset is a related party or affiliated

© 2025 National Association of Insurance Commissioners

investment to the reinsurer. It is proposed that the existing related party investment codes be utilized to ensure consistent application in identifying whether the investment is a related party investment.
Further, in response to informal comments received that the restricted asset disclosure is not updated for notable swings in the interim financials, this agenda item also proposes to capture the full restricted asset disclosure in all quarterly and annual financial statements.

Existing Authoritative Literature:

There is no current reporting or identification requirement for modco/FWH assets affiliated to the reinsurer.

This agenda item proposes to leverage the related party investment codes required for most of the investment schedules to identify the extent modco/FWH assets are affiliated to the reinsurer.

The following electronic column is required in all held investment schedules except for Schedule A – Real Estate.

Column 18 – Investments Involving Related Parties

Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.

Enter one of the following codes to identify the role of the related party in the investment.

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

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

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

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

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

6. The investment does not involve a related party.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None
Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

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

Staff Recommendation:
NAIC staff recommend that the Working Group receive the referral and expose this agenda item for comment, for a shortened comment deadline ending May 2, while concurrently sponsoring a blanks proposal to expand the restricted asset reporting to capture information, by investment schedule, of modco and FWH assets that are related to the reinsurer and to require the restricted asset disclosure in all quarterly and annual financial statements.

To timely meet the need of state insurance regulators, as requested from the FAWG referral, it is recommended that this item be planned for data-capturing with a year-end 2025 effective date. This effective date will require adoption of the agenda item, and the corresponding blanks changes, no later than May 2025. If it is not possible to adopt with that timeline, then the SAPWG could still adopt a disclosure for year-end 2025, but it will be narrative only until year-end 2026.

Proposed revisions to SSAP No. 1, footnote 2 to require quarterly disclosure of restricted assets:

23. Reporting entities shall disclose[2] the following information in the financial statements:

[2] Disclosure of restricted assets shall be included in ~~the~~ all annual and quarterly financial statements~~ and, pursuant to the Preamble, in the interim financial statements if significant changes have occurred since the annual statement. If significant changes have occurred, the entire disclosure shall be reported in the interim financial statements~~.

23.c The amount and nature of any assets received as collateral or assets that are held under modified coinsurance or funds withheld reinsurance agreements, reflected as assets within the reporting entity's financial statements, for which there is a recognized liability to return these collateral assets or for the dedicated use of those assets under the modco/funds withheld agreement, in the general and separate accounts in comparison to total assets and admitted assets. The disclosure shall identify whether the modco/FWH assets are related to the reinsurer.

(Note: The above paragraph reflects revisions being considered under 2024-20: Restricted Asset Disclosure Clarification. Only new language from this agenda item is shown as tracked changes.)

Proposed Expansion to the Restricted Asset Reporting: (This will be part of the Note 5L.)

The tracked changes shown illustrate the difference from the current direction for related party investments to the reporting entity (as reported in each investment schedule), to capture related party investments to the reinsurer in the modco/FWH arrangement.

Assets	Book/Adjusted Carrying Value (BACV)	Related Party Code					
	FWH Including Modco	1	2	3	4	5	6
a. Cash, Cash Equivalents and Short-Term Investments	$	$	$	$	$	$	
b. Schedule D, Part 1, Section 1							
c. Schedule D, Part 1, Section 2							

d. Schedule D, Part 2, Section 1							
e. Schedule D, Part 2, Section 2							
f. Schedule B							
g. Schedule A							
h. Schedule BA, Part 1							
i. Schedule DL, Part 1							
j. Other	$	$	$	$	$	$	
k. Total Assets (a+b+c+d+e+f+g+h+i+j)	$	$	$	$	$	$	
Percentage to Total FWH Assets							

The sum of amounts reported in columns 1-6 shall equal the BACV total by investment category.

Identify, by the following related party codes, the amount of assets held under funds withheld agreements (including modco) on the basis of whether the investment is related to the modco/FWH reinsurer:

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

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

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

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

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

6. The investment is not related / affiliated to the reinsurer. ~~does not involve a related party.~~

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

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/03-24-25 Spring National Meeting/Meeting/E - 25-05 - Reinsurer Affiliated Assets.docx

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Dale Bruggeman, Chair, Statutory Accounting Principles (E) Working Group

FROM: Greg Chew, Vice-Chair, Financial Analysis (E) Working Group

DATE: January 7, 2024

RE: Investment Concentrations in Life Reinsurance Transactions

---

The Financial Analysis (E) Working Group (FAWG) meets periodically to discuss, among other things, potentially troubled insurers and insurance groups. During these meetings, FAWG also discusses issues and industry trends, including identifying any that are potentially adverse or might warrant communication and coordination with other NAIC groups. As a result of the issues and trends discussed, FAWG would like to refer the following issue to the attention of your group.

In recent years, there has been an increase in the number and significance of coinsurance with funds withheld and modified coinsurance reinsurance arrangements ceding blocks of life and annuity liabilities to offshore, third-party reinsurers that are unauthorized. These arrangements, and other similar structures, often involve the transfer of investment advisory responsibilities for the assets supporting the business to the reinsurer or one of its affiliates, although the assets remain on the books of the ceding insurer to collateralize the transaction and/or support of the liabilities.

In a recent troubled company situation, the third-party investment advisor/reinsurer reallocated a significant portion of the assets into securities that were later discovered to be affiliated with and/or related to the investment advisor/reinsurer. However, this concentration was not readily apparent to the domestic regulator, as the securities were issued by various legal entities and the related party relationships were not identifiable in the ceding insurer's Supplemental Investment Risk Interrogatories. After the discovery of this concentration through an examination, the domestic regulators also identified significant concerns regarding the valuation of the securities.

The accurate and complete reporting of potential investment concentrations, particularly of affiliated or related parties of an appointed investment advisor/reinsurer, is of critical importance to regulators in ongoing solvency monitoring. As coinsurance with funds withheld and modified coinsurance arrangements where investment advisory services are transferred to the reinsurer are becoming increasingly common and more complex, there is the potential for investment concentrations in assets affiliated with or related to the reinsurer to go unidentified through the existing statutory reporting framework. As such, FAWG recommends that the Statutory Accounting Principles (E) Working Group (SAPWG) consider whether enhanced reporting or disclosures could be developed in this area to identify such concentrations.

Thank you for your consideration of this referral. If there are any questions regarding the issues discussed, please contact me or NAIC staff (Bruce Jenson at *bjenson@naic.org*) for clarification.

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

Issue: AVR Line: Unrated Multi-Class Securities Acquired by Conversion

Check (applicable entity):

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

Description of Issue: NAIC staff received a question as to what should be captured in the AVR: Default Component – Basic Contribution, Reserve Objective and Maximum Reserve Calculation reporting line 8 "Unrated Multi-Class Securities Acquired by Conversion." This line is part of the AVR bond reporting lines in the schedule, following the bonds reported by NAIC designation. After review, NAIC staff does not believe this historical line should be retained in the AVR schedule as there should be no securities reported within this line under current statutory accounting concepts. NAIC staff notes that this guidance seems to date back to 1993, which is before the SVO incorporated the filing exempt concept for filings.

With the principles-based bond definition, only debt securities that qualify shall be reported as bonds. This includes reporting on Schedule D-1 as well as on the AVR schedule. (The AVR schedule cross-checks to the Schedule D-1 for bonds.) For all bond-qualifying securities, an NAIC designation pursuant to the *Purposes and Procedures Manual of the NAIC IAO* must be reported. In review of recent use of this AVR line, no reporting entities utilized this line in 2022 or 2023, but a reporting entity has recently contacted the NAIC indicating intent to report amounts in this line for 2024. Amounts reported in this line causes cross-check errors to the total amounts reported for bonds, and there are questions as to how the amounts are impacted with reserve factors, as all amounts are blocked on the schedule (no factors just XXX's in the schedule). If a reporting entity was to acquire securities previously held in an ABS structure, those assets shall be captured under the applicable SSAP and reported accordingly to the statutory accounting guidance of that SSAP.

This agenda item proposes to remove this line from the AVR schedule. This agenda item will not result in a change to statutory accounting and will be exposed separately by the Blanks (E) Working Group.

Existing Authoritative Literature:

2024 Annual Statement Instructions:

Line 8 Total Unrated Mortgage-Backed/Asset-Backed Securities Acquired by Conversion

"Unrated Mortgage-Backed/Asset-Backed Securities Acquired by Conversion" are securities acquired through the conversion of a portion of the company's assets, on or after January 1, 1993, into securities for which the company does not obtain a rating from an NAIC recognized rating agency and for which there is no recourse liability.

For instructions for completing this line, refer to "Basic Contribution, Reserve Objective and Maximum Reserve Calculation for Unrated Mortgage-Backed/Asset-Backed Securities Acquired by Conversion."

BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS FOR UNRATED MULTI-CLASS SECURITIES ACQUIRED BY CONVERSION

Assets may be converted into securities backed by the underlying assets. Rated bond classes of these multi-class mortgage-backed/asset-backed securities should be assigned Asset Valuation Reserve (AVR) factors consistent with comparably rated bonds.

A company may hold an "Unrated Multi-Class Security Acquired by Conversion" defined as a security acquired through the conversion of a portion of the company's assets, on or after January 1, 1993, into securities for which the company does not obtain a rating from an NAIC recognized rating agency and for which there is no recourse liability.

In such cases, the rating agency that rates a portion of the newly created security would establish the credit quality of the entire asset pool being securitized. The maximum reserve for the unrated security is the lesser of: (a) 100% of the maximum reserve for the entire pool associated with the unrated security as rated by an SVO approved rating agency, or (b) the book/adjusted carrying value of the unrated security. The reserve objective is equal to the maximum reserve. The basic contribution is equal to 33% of the maximum reserve.

This treatment does not occur when a reporting entity bears continuing actual or contingent liability arising from the securitization of any assets.

Any company which enters into such a transaction must prepare and include with its filed annual statement a schedule prepared in accordance with the following general guidelines to support the calculation of the reserve amounts to be reported on Page 29, Line 8.

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

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

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

Staff Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions, for a shortened comment deadline ending May 2, to the Life/Fraternal Annual Statement Blank, AVR: Default Component – Basic Contribution, Reserve Objective and Maximum Reserve Calculation with a proposal to remove the reporting line 8 "Unrated Multi-Class Securities Acquired by Conversion." (This item is proposed to be effective for year-end 2025, but the blanks proposal is to rename the line "intentionally left blank" to prevent renumbering all lines in the AVR schedule.)

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

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/03-24-25 Spring National Meeting/Meeting/G - 25-06 - AVR - Unrated Multi-Class Securities.docx

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

Issue: Dividend General Interrogatory Update

Check (applicable entity):

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

Description of Issue: NAIC staff received a question related to how to disclose a dividend that was made using non-related party corporate bonds. It was noted that such property dividends are allowed under *SSAP No. 72—Surplus and Quasi-Reorganizations*, paragraph 13.i., but that the disclosure in the Life/Fraternal Annual Statement Blank, General Interrogatories, Part 2, GI #12 only includes lines for cash and stock dividends. NAIC staff noted that this disclosure was not included in any other annual statement blanks and was not clearly included as a required disclosure in SSAP No. 72, so it is the recommendation from NAIC staff that this this general interrogatory be removed from the Life/Fraternal Annual Statement Blank. This agenda item will not result in a change to statutory accounting and will be exposed separately by the Blanks (E) Working Group.

Existing Authoritative Literature:

SSAP No. 72—Surplus and Quasi-Reorganizations

13.i. Dividends to Stockholders

Dividends declared are charged directly to unassigned funds (surplus) on the declaration date and are carried as a liability until paid. The amount of the dividend is the cash paid if it is a cash dividend, the fair value of the assets distributed if it is property dividend, or the par value of the company's stock if it is a stock dividend. A stock dividend is recorded as a transfer from unassigned funds (surplus) to capital stock. Stock dividends have no effect on total capital and surplus while other forms of dividends reduce surplus. Forgiveness by a reporting entity of any debt, surplus note or other obligation of its parent or other stockholders shall be accounted for as a dividend. Dividends paid to related parties are subject to the requirements of SSAP No. 25;

Disclosures

22. The financial statements shall disclose the following:

a. The number of shares of each class of capital stock authorized, issued and outstanding as of the balance sheet date and the par value or stated value of each class;

b. The dividend rate, liquidation value and redemption schedule (including prices and dates) of any preferred stock issues;

c. Dividend restrictions, if any, and an indication if the dividends are cumulative;

d. The dates and amounts of dividends, or distributions paid. Note for each payment whether the dividend or distribution was ordinary or extraordinary.

---------- *Drafting Note: The rest of the paragraph is omitted for brevity*---------------

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 recommend that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose the recommendation to update the Life/Fraternal General Interrogatories, Part 2, #12 to remove this disclosure as it is not consistently included across all annual statement blanks. This agenda item will not result in changes to statutory accounting.

Staff Review Completed by: Jake Stultz, NAIC Staff – February 2025

Proposed revisions to Life/Fraternal General Interrogatories, Part 2:

~~12. Total dividends paid stockholders since organization of the reporting entity:~~
~~12.11 Cash $________~~
~~12.12 Stock $________~~

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/03-24-25 Spring National Meeting/Meeting/H - 25-07 - Dividend GI Update.docx

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

Issue: Medicare Part D Prescription Payment Plan Disclosures

Check (applicable entity):

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

Description of Issue:
This agenda item is to develop disclosures for the Medicare Part D Prescription Payment Plan (MPPP). The currently exposed accounting guidance for this program is in *INT 24-02: Medicare Part D Prescription Payment Plan***.**

MPPP is effective January 1, 2025, and requires all Medicare prescription drug plans (Part D plan sponsors), including both standalone Medicare prescription drug plans and Medicare Advantage plans with prescription drug coverage, to offer its enrollees the option to pay their out-of-pocket prescription drug costs through monthly payments to the Part D plan sponsor over the remainder of the plan year, as opposed to paying the full amount upfront to the pharmacy.

Part D plan enrollees who elect to participate in MPPP (MPPP participants) will pay $0 to the pharmacy for covered Part D drugs. Instead, the Part D plan sponsor is required to fully pay the pharmacy the total of an MPPP participant's applicable out-of-pocket amount and the Part D plan sponsor's portion of the payment in accordance with Part D prompt payment requirements. Subsequently, the Part D plan sponsor will bill the MPPP participant monthly for any cost-sharing incurred while enrolled in MPPP.

INT 24-02 provides the following key points:

- Installment receivables from MPPP participants which are less than 90 days overdue are admitted assets.
- Installment receivables from MPPP participants, which are more than 90 days overdue, are nonadmitted assets.
- The installment receivables from MPPP participants are reported in the Health care receivables reporting line (24) on the asset page as other health care receivables.
- Installments that are collected in full, will not impact Medicare Part D prescription claims.
- Only installment receivables which are impaired and written off as uncollectible are reported as incurred Medicare Part D prescription drug claims.

Existing Authoritative Literature:

In November 17-2024, agenda item 2024-24: Medicare Part D – Prescription Payment Program exposed for comment the currently outstanding revisions to:

- *INT 24-02: Medicare Part D Prescription Payment Plan* along with minor edits to
- *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*,

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): When INT 24-

© 2025 National Association of Insurance Commissioners

02 was initially exposed November 17, 2024, the Statutory Accounting Principles (E) Working Group directed NAIC staff to develop disclosures for future discussion.

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

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

Staff Review Completed by: Robin Marcotte, NAIC Staff

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. 84—Health Care and Government Insured Plan Receivables* to add the disclosures illustrated under the heading proposed SSAP No. 84 disclosures. The disclosures are proposed for initial data capture in the year end 2025 financial statement notes. This agenda item is proposed as a simultaneous exposure with the Blanks (E) Working Group (proposal 2025-04BWG) to allow for initial reporting at 2025-year end. Key points in the recommended disclosures are amounts reported before and after nonadmission, aging, and information on write offs.

Although NAIC staff considered adding line(s) for the MPPP receivables to the health care receivables exhibits in the annual statement blank, at this time, NAIC staff recommend putting the information in the existing health care receivables notes. This placement can be evaluated later as more information on the materiality of the new for 2025 MPPP program becomes available. If needed, the Working Group could re-consider later if additional lines are recommended in the health care receivable exhibits.

Proposed SSAP No. 84 Disclosures.

25. The financial statements shall disclose the following regarding the Medicare Part D Prescription Payment Plan receivables[(INT 24-02)].

a. Amounts of included in other health care receivable which are recoverable from participants in Medicare Part D Prescription Payment Plan for the current reporting period and the prior year.

b. Aging of other health care receivables which are due from participants in Medicare Part D Prescription Payment Plan including the following categories: 1-30 days, 31-60 days, 61-90 days, over 90 days; nonadmitted and admitted.

c. Information on the amount of write-offs of Medicare Prescription Payment Plan installments due from participants in the current and prior year.

Below is an illustration of the Proposed data capture in Note 28 – Health Care Receivables which will be exposed at the Blanks (E) Working Group in agenda item 2025-04BWG:

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

C. Medicare Prescription Payment Plan Receivables

© 2025 National Association of Insurance Commissioners

(1) Amounts of included in other health care receivable which are recoverable from participants in Medicare Part D Prescription Payment Plan for the current reporting period $__________ and the prior year $__________.

(2) Aging of other health care receivables which are due from participant in Medicare Part D Prescription Payment Plan.

1 Name of plan	2 Current Period Gross*	3 1 - 30 Days	4 31 - 60 Days	5 61 - 90 Days	6 Over 90 Days	7 Nonadmitted	8 Admitted	9 Prior Year admitted
.... Medicare Prescription Payment Plan	....	....	....	....	....	....	....	....
	....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....	....
.... Total	....	....	....	....	....	....	....	....

*represents the Assets Page Column 1, included within Line 24 before nonadmission.

(3) Incurred claims expense includes write-offs of impaired Medicare Prescription Payment Plan receivables of $__________ for [current year] and $__________ for [prior year].

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/03-24-25 Spring National Meeting/Meeting/I - 25-08 - MPPP disclosures.docx

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

Issue: VM-22 Update Coordination

Check (applicable entity):

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

Description of Issue:
This agenda item is part of the coordination process between the *Accounting Practices and Procedures Manual* with the *Valuation Manual*. It recommends minor consistency revisions to *SSAP No. 51—Life Contracts* to reflect updates to that the Life Actuarial (A) Task Force has made to the *Valuation Manual* in VM-22 PBR: Requirements for Principle-Based Reserves for Non-Variable Annuities (VM-22). The revisions are primarily to add minor references and to be clearer on different reserving methodologies given the different approaches between different sections of the *Valuation Manual.* These edits include adding "and" "/or" in a few places and a specific reference to "variable annuities."

Existing Authoritative Literature:
SSAP No. 51—Life Contracts contains high level accounting guidance on life insurance which also includes references to other model laws and the actuarial guidelines etc.

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 Review Completed by: Robin Marcotte– NAIC Staff

Staff Recommendation:
NAIC staff recommend that the Statutory Accounting Principles (E) Working Group move this agenda item to the active listing of the maintenance agenda, categorize as a SAP clarification, and expose revisions which add minor consistency revisions to *SSAP No. 51—Life Contracts* reflect updates to the *Valuation Manual* in *VM-22 PBR: Requirements for Principle-Based Reserves for Non-Variable Annuities*. The revisions are minor edits to clearly reflect new VM-22 principle-based reserve requirements between the different methods of reserving.

SSAP No. 51—Life Contracts revisions proposed for exposure to reflect new VM-22 PBR requirements.

- Paragraph 15: **Change Needed - "deterministic and/or stochastic reserve methodologies" would be clearer given the different VM-20, VM-21, and VM-22 approaches.**

Policy Reserves

15. Statutory policy reserves shall be established for all unmatured contractual obligations of the reporting entity arising out of the provisions of the insurance contract. Where separate benefits are included

in a contract, a reserve for each benefit shall be established as required in Appendix A-820. These statutory policy reserves have historically been calculated as the excess of the present value of future benefits to be paid to or on behalf of policyholders less the present value of future net premiums. For policies issued on or after the operative date of the *Valuation Manual*, these formulaic calculations will be supplemented for some policies with more advanced deterministic and/or stochastic reserve methodologies to better reflect company experience, possible economic conditions and inherent policy risks. Statutory policy reserves meet the definition of liabilities as defined in *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets*. The actuarial methodologies referred to in paragraph 16 meet the criteria required for reasonable estimates in SSAP No. 5.

- Paragraph 22: **Change Needed – distinguish between different PBR exclusion tests for different products by adding word "and" and the word "or".**

22. For life and annuity policies issued on or after the operative date of the *Valuation Manual*, reserves shall use the requirements of the *Valuation Manual*. As required by Appendix A-820, reserves are required to be determined using the methodologies and processes described in the *Valuation Manual*. For policies unable to meet the *Valuation Manual* criteria for exemption from deterministic and/or stochastic reserves, the *Valuation Manual* supplements formulaic life insurance policy reserve methodologies with more advanced deterministic and/or stochastic reserve methodologies to produce reserves that better reflect company experience, possible economic conditions and inherent policy risks.

- Paragraph 40: **Change Needed – distinguish between different versions of CARVM now on PBR.**

40. The *Valuation Manual* is effective prospectively for policies written on or after the operative date; however, as the variable annuity CARVM methodology was already principles-based, some changes to the CARVM methodology in VM-21 (on variable annuities) and to the related AG 43 may result in retroactive application to the reserving for existing contracts. Therefore, upon the initial prospective adoption of principle-based reserving, the change in valuation basis reflected as an adjustment to surplus for most entities will be zero. After initial adoption of the *Valuation Manual*, changes in valuation basis will need to be evaluated to determine the amount of any surplus adjustments.

© 2025 National Association of Insurance Commissioners

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

Issue: *ASU 2023-07, Improvements to Reportable Segment Disclosures*

Check (applicable entity):

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

Description of Issue:
In November 2023 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (*ASU) 2023-07, Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures*, to improve the disclosures about a public entity's reportable segments and address requests from investors for additional, more detailed information about a reportable segment's expenses. The ASU, among other more minor changes, requires public companies to disclose significant segment expenses that are regularly provided to the chief operating decision maker (CODM) and are included within each reported measure of segment profit or loss (collectively referred to as the "significant expense principle"), and to disclose an amount for "other segment" items by reportable segment and a description of its composition.

Existing Authoritative Literature:
Historically, guidance applicable only to public entities from ASUs has typically been rejected as statutory accounting does have separate guidance for public vs. private reporting entities. All ASUs are reviewed for statutory accounting purposes to determine if the guidance should be considered for statutory accounting.

Additionally, statutory accounting has its own specified expense categories which differ from the segment reporting categories utilized by U.S. GAAP.

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):
Prior to FASB codification, segment reporting requirements were in U.S. GAAP *FAS 131: Disclosures about Segments of an Enterprise and Related Information,* which upon establishment of the Account Standards Codification (ASC) was carried over to create Topic 280, Segment Reporting. In June 2007, agenda item 2007-02 rejected FAS 131 in Appendix D as not applicable for statutory accounting purposes.

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 2023-07, Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures* as not applicable to statutory accounting. This item is considered not applicable as the ASU amends U.S. GAAP guidance on segment reporting disclosures for public entities, which is not an applicable concept for statutory accounting purposes. Topic 280 was established from FAS 131, which has previously been determined to be not applicable to statutory accounting principles by the Working Group. In addition, the annual statement reporting process requires reporting by line of business, jurisdiction and instead of U.S. GAAP "segment" type information.

Staff Review Completed by: William Oden – February 2025

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/03-24-25 Spring National Meeting/Meeting/K - 25-10 - ASU 2023-07, Improvements to Reportable Segment Disclosures.docx

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

Issue: ASU 2024-03 and ASU 2025-01, Reporting Comprehensive Income

Check (applicable entity):

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

Description of Issue:
In November of 2024 the Financial Accounting Standards Board FASB issued Accounting Standards Update (*ASU) 2024-03, Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40), Disaggregation of Income Statement Expenses*, to improve the disclosures about a public business entity's expenses and address requests from investors for more detailed information about the types of expenses (including purchases of inventory, employee compensation, depreciation, amortization, and depletion) in commonly presented expense captions (such as cost of sales, selling, general, and administrative, and research and development). In January of 2025, FASB issued *ASU 2025-01, Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40), Clarifying the Effective Date of ASU 2024-03*, to clarify the intended effective date of ASU 2024-03.

Existing Authoritative Literature:
Historically, guidance applicable only to public entities from ASUs has typically been rejected as statutory accounting does have separate guidance for public vs. private reporting entities. All ASUs are reviewed for statutory accounting purposes to determine if the guidance should be considered for statutory accounting.

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 2024-03, Disaggregation of Income Statement Expenses* and *ASU 2025-01, Clarifying the Effective Date of ASU 2024-03* as not applicable to statutory accounting. This item is proposed to be rejected as not applicable as the ASUs are specific to comprehensive income disclosures for public entities, which is not an applicable concept for statutory accounting purposes. Additionally, the annual statements already require a level of expense disaggregation in the Summary of Operations, along with a more detailed breakdown in the general expense exhibit.

Staff Review Completed by: William Oden – January 2025

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/03-24-25 Spring National Meeting/Meeting/L - 25-11 - ASU 2024-03 and 2025-01, Disaggregation of Income Statement Expenses.docx

NAIC Accounting Practices and Procedures Manual
Editorial and Maintenance Update
March 24, 2025

Maintenance updates provide revisions to the *Accounting Practices and Procedures Manual* (Manual) such as editorial corrections, reference changes and formatting.

SSAP/Appendix	Description/Revision
Preamble	Incorporate and revise footnotes to Preamble paragraphs 42-43 for the statutory hierarchy to further clarify treatment of issue papers in Level 5 and reference SEC rules and interpretations as sources of authoritative U.S. GAAP for SEC registrants.

Staff Recommendation:
NAIC staff recommend that the Statutory Accounting Principles (E) Working Group move this agenda item to the active listing, categorize as a SAP Clarification, and expose editorial revisions as illustrated within.

Preamble – Footnotes to Paragraphs 42 & 43

V. Statutory Hierarchy

42. The following Hierarchy is not intended to preempt state legislative and regulatory authority.

Level 1

- SSAPs, including U.S. GAAP reference material to the extent adopted by the NAIC from the FASB Accounting Standards Codification[1] (FASB Codification or GAAP guidance)

Level 2

- Consensus positions of the Emerging Accounting Issues (E) Working Group as adopted by the NAIC (INTs adopted before 2016)
- Interpretations of existing SSAPs as adopted by the Statutory Accounting Principles (E) Working Group (INTs adopted in 2016 or beyond)

Level 3

- NAIC Annual Statement Instructions
- Purposes and Procedures Manual of the NAIC Investment Analysis Office

[1] Effective September 15, 2009, the *FASB Accounting Standards Codification*tm (FASB Codification) is the source of authoritative U.S. generally accepted accounting principles (U.S. GAAP). Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. As of that date, the FASB Codification superseded all then-existing non-SEC accounting and reporting standards. All other nongrandfathered, non-SEC accounting literature not included in the FASB Codification is nonauthoritative. As of September 15, 2009, AICPA Statements of Position are no longer reviewed as part of the statutory maintenance process as they are no longer considered authoritative GAAP literature. If the AICPA were to address an issue that affects the FASB Codification, an accounting standard update (ASU) would be issued and reviewed for applicability to statutory accounting.

Level 4

- Statutory Accounting Principles Preamble and Statement of Concepts[2]

Level 5

- Statutory Accounting Issue Papers[3]

- Sources of nonauthoritative GAAP accounting guidance and literature, including: (a) practices that are widely recognized and prevalent either generally or in the industry, (b) FASB Concept Statements, (c) AICPA guidance not included in FASB Codification, (d) International Financial Reporting Standards, (e) Pronouncements of professional associations or regulatory agencies, (f) Technical Information Service Inquiries and Replies included in the AICPA Technical Practice Aids, and (g) Accounting textbooks, handbooks and articles

43. If the accounting treatment of a transaction or event is not specified by the SSAPs, preparers, regulators and auditors of statutory financial statements should consider whether the accounting treatment is specified by another source of established statutory accounting principles. If an established statutory accounting principle from one or more sources in Level 2 or 3 is relevant to the circumstances, the preparer, regulator or auditor should apply such principle. If there is a conflict between statutory accounting principles from one or more sources in Level 2 or 3, the preparer, regulator or auditor should follow the treatment specified by the source in the higher level—that is, follow Level 2 treatment over Level 3[FN]. Revisions to guidance in accordance with additions or revisions to the NAIC statutory hierarchy should be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

New FN: With the inclusion of issue papers in Level 5, issue papers shall only be used and applied as authoritative guidance if they do not conflict with other sources of statutory guidance. Please also note that guidance or portions of guidance in issues papers may have been superseded by more current guidance in SSAPs.

[2] The Statutory Accounting Principles Statement of Concepts incorporates by reference FASB Concepts Statements Five and Eight to the extent they do not conflict with the concepts outlined in the statement. However, for purposes of applying this hierarchy the FASB Concepts Statements shall be included in Level 5 and only those concepts unique to statutory accounting as stated in the statement are included in Level 4.

3 With inclusion of Level 5, issue papers shall only be used and applied as authoritative guidance if they do not conflict with other sources of statutory guidance.

© 2025 National Association of Insurance Commissioners

To: Members of the Statutory Accounting Principles (E) Working Group

From: IMR Ad Hoc Group

Re: Recommendation for Removal of Hypothetical IMR

Date: SAPWG Draft – 3-6-2025

Background

Accounting guidance for IMR in reinsurance transactions has existed since the inception of IMR as a statutory accounting concept in the early 1990s and is contained in the Annual Statement Instructions for Life, Accident and Health/Fraternal insurers. These instructions identify three potential types of IMR to be accounted for in a reinsurance transaction: Existing IMR, Newly-Created IMR, and Hypothetical IMR. Relevant excerpts of the instructions are included below (notes and ***emphasis*** added):

> The amount of the gain (loss) that is interest-related and its IMR amortization should be determined using the following three step procedure for the portion of the block sold, transferred or reinsured.
>
> 1. Identify the IMR balance and future amortization arising from the past (Existing) and present (Newly-Created) dispositions of the assets associated with the block of liabilities.
>
> 2. Identify the IMR balance and future amortization that would result if the remaining assets associated with the block of liabilities were to be sold. (Hypothetical)
>
> 3. Define the interest-related gain (loss), net of taxes, to be the negative of the sum of the IMR balances determined in steps 1 and 2. The future amortization of the gain (loss) is the negative of the sum of the amortization determined in steps 1 and 2.
>
> The associated assets are the assets allocable to the reinsured block of business for the purposes of investment income allocation. If the ceding company has not been tracking the investment income of the block, it should retrospectively identify the assets using procedures consistent with its usual investment income allocation procedures. ***The associated assets are not necessarily the same as the assets transferred as part of the transaction.***

The instructions then walk through an example illustrating the components, in which a portion of the block of assets allocable to the block are **not** transferred, but a ceding of IMR is to be recorded as if it had:

> Assets with a book/adjusted carrying value of $20 million and a market value of $21 million from the original block of assets allocable to the line of business remain in the company's portfolio after the transaction is completed. If these assets were to be sold at the time of the reinsurance transaction, they would generate a before-tax capital gain of $1 million and an after-tax capital gain of $.66 million that would be amortized through the IMR as follows:

© 2025 National Association of Insurance Commissioners

IMR Amortization of the Hypothetical Sale of the Remaining Assets Allocable to the Block	
Year	Amortization ($ millions)
1993	0.101
1994	0.191
1995	0.155
1996	0.116
1997	0.072
1998	0.025
TOTAL	0.660

Note that if these assets are actually sold at some point subsequent to the reinsurance transaction, the sale price would be different from the hypothetical price to the extent that interest rates had changed subsequent to the reinsurance transaction.

[…..]

In order to calculate the IMR amortization associated with the reinsurance of the liability, it is first necessary to determine the IMR amortization from past, present and ***hypothetical asset sales*** of assets allocable to the block of business.

IMR Amortization					
	Asset ($ million)				Liability ($ million)
Year	Past (Included in P28 C1)	Present (Included in P28 C2)	Future	Total	Total (Included in P28 C3)
1993	.383	.261	.101	0.745	-0.745
1994	.310	.570	.191	1.071	-1.071
1995	.231	.618	.155	1.004	-1.004
1996	.144	.677	.116	0.937	-0.937
1997	.050	.743	.072	0.865	-0.865
1998		.808	.025	0.833	-0.833
1999		.772		0.772	-0.772
2000		.630		0.630	-0.630
2001		.469		0.469	-0.469
2002		.291		0.291	-0.291
2003		.101		0.101	-0.101
TOTAL	1.118	5.940	0.660	7.718	-7.718

The IMR amortization associated with the liability is displayed in the last column of the above table and it is simply the complement of the IMR amortization associated with the past, present and ***hypothetical future assets sales***. The liability amortization should be entered in Column 3 of the IMR Amortization Worksheet of the Annual Statement of the ceding company. By definition the size of the interest-rate related gain is the total transferred to the IMR, -$7.718 million, which should be included on Line 3 of the IMR worksheet of the ceding company as well as on the Aggregate Write-ins for Deductions on the Summary of Operations and Analysis of Operations by Lines of Business.

While the instructions do not discuss the rationale for the concept of hypothetical IMR, the intent clearly was for there to be a process to determine allocable assets for the block and to recognize the cession of the IMR that would have been generated had those assets been sold at the time of the transaction, even though the IMR being ceded does not yet exist on the balance sheet.

© 2025 National Association of Insurance Commissioners

Recommendation of the IMR Ad Hoc Group

Through the early discussions of the IMR Ad Hoc Group, several observations became clear:

- The concept of Hypothetical IMR was not well understood by insurers, regulators, or NAIC Staff.
- Even very knowledgeable statutory accounting and reinsurance experts either did not know that the concept existed or could not articulate its purpose or how it would arise.
- As a result, Hypothetical IMR is rarely being recognized in practice.

After these observations were recognized, the IMR Ad Hoc Group undertook a significant effort to substantiate the purpose of Hypothetical IMR in order to determine its necessity, document the rationale for it and if the concept is decided to be retained, improve the instructions for how it is determined in order to promote more uniform adoption. The successful outcome of this effort is documented in the remainder of this paper.

Recommendation: Although the IMR Ad Hoc Group was able to establish that Hypothetical IMR has valid theoretical purpose, it is the recommendation of the Group that the establishment of Hypothetical IMR not be retained as a practice.

Analysis

Illustration

In order to establish the theoretical basis for Hypothetical IMR, the IMR Ad Hoc Group created an example to illustrate how the allocation of assets used as consideration in a reinsurance transaction can result in different impacts to surplus without the establishment of Hypothetical IMR. The spreadsheet example is attached in Appendix A. Excerpts are included here to illustrate the concept.

First, an assumption was made for purposes of the illustration that a cedant and reinsurer would negotiate an agreed market value of net consideration necessary for each party to enter into the transaction. The parties would be agnostic to which assets are used as consideration or breakdown of what is deemed to represent premium or ceding commission[1]. To illustrate the concept, the extreme example of a 100% coinsurance transaction of all of a cedant's policyholder obligations was used. In one case, the bonds supporting the liabilities are transferred as consideration for the reinsurance, in the other case, cash that the cedant has on hand is used as consideration. As the market value of the bonds differs from book value, an adjustment to the ceding commission is assumed to result in the same market value of consideration.

---

[1] As will be noted later, it is unlikely that the parties would be fully agnostic to a degree that equivalent fair value of consideration can be assumed, which is a key assumption that the justification of Hypothetical IMR is contingent upon.

Data Input - Sensitivity on Certain Data		
	Editable	
Ceded Reserves		
Existing IMR	(5)	(Asset)/Liability
Reserves (Liability)	100	
Net Ceded Reserves	**95**	*
Ceded Premium - Fund with Bonds		
Bonds -B/S Amort Cost	95	* 4% BY
Bonds - Market Value	90	5% MY
Ceding Commission - If Bonds	15	
Total Consideration	**105**	
Ceded Premium - Fund with Cash		
Cash	95	* 5% MY/BY Once Invested
Ceding Commission - If Cash	10	
Total Consideration	**105**	
** Ceded premium defined with BV Assets = Ceded Reserves.*		
Therefore they should not be editable.		

Next, the balance sheet result of each version of the transaction was illustrated. Without recording a Hypothetical IMR adjustment, the results are as follows:

Company A - Ceding Company							
	Paying Bonds				**Paying Cash**		
Cash	95	(15)	80	Cash	95	(105)	(10)
Bond	95	(95)	-	Bond	95	-	95
Total Assets	190		80	Total Assets	190		85
Reserves	100	(100)	-	Reserves	100	(100)	-
Hypothetical IMR	-	-	-	Hypothetical IMR	-		-
IMR	(5)	5	-	IMR	(5)	5	-
Surplus	95	(15)	80	Surplus	95	(10)	85
Liab & Surplus	190		80	Liab & Surplus	190		85

Company B - Assuming Company							
	Receiving Bonds				**Receiving Cash**		
Cash	-	15	15	Cash	-	105	105
Bonds	-	90	90	Bonds	-	-	-
Total Assets	-		105	Total Assets	-		105
Reserves	-	100	100	Reserves	-	100	100
Hypothetical IMR	-	-	-	Hypothetical IMR	-		-
IMR	-	(10)	(10)	IMR	-	(5)	(5)
Surplus	-	15	15	Surplus	-	10	10
Liab & Surplus	-		105	Liab & Surplus	-		105

Note - IMR and Deferred Gains are net of FIT (21%), not shown for simplification purposes.

As can be seen in this example, both the ceding company and the assuming company have different ending surplus results from the transaction, despite the transactions being economically equivalent.

The same transaction was then illustrated, by making an adjustment for Hypothetical IMR:

Company A - Ceding Company							
	Paying Bonds				Paying Cash		
Cash	95	(15)	80	Cash	95	(105)	(10)
Bond	95	(95)	-	Bond	95	-	95
Total Assets	190		80	Total Assets	190		85
Reserves	100	(100)	-	Reserves	100	(100)	-
Hypothetical IMR	-	-	-	Hypothetical IMR	-	5	5
IMR	(5)	5	-	IMR	(5)	5	-
Surplus	95	(15)	80	Surplus	95	(15)	80
Liab & Surplus	190		80	Liab & Surplus	190		85

Company B - Assuming Company							
	Receiving Bonds				Receiving Cash		
Cash	-	15	15	Cash	-	105	105
Bonds	-	90	90	Bonds	-	-	-
Total Assets	-		105	Total Assets	-		105
Reserves	-	100	100	Reserves	-	100	100
Hypothetical IMR	-	-	-	Hypothetical IMR	-	(5)	(5)
IMR	-	(10)	(10)	IMR	-	(5)	(5)
Surplus	-	15	15	Surplus	-	15	15
Liab & Surplus	-		105	Liab & Surplus	-		105

Note - IMR and Deferred Gains are net of FIT (21%), not shown for simplification purposes.

As can be seen in the revised example, Hypothetical IMR is recorded at both the ceding company and the assuming company, which is equal to the built-in unrealized loss on the bonds that had previously supported the block but no longer do since cash was substituted as consideration to the reinsurer. By recording this adjustment, the surplus outcomes of the transactions are equivalent without regard to which assets are used as consideration. Note that, which cash vs bonds was used in the example for simplicity of illustration, the same concept would hold true even if bonds were used as consideration, but different bonds than had previously backed the liabilities.

Qualitative Discussion

Next, the IMR Ad Hoc Group set out to define Hypothetical IMR to explain in qualitative terms the dynamics illustrated in the above example. Below is the definition and key points of justification for Hypothetical IMR as a theoretical concept:

> Hypothetical IMR is a theoretical accounting mechanism used in the context of reinsurance transactions to maintain the alignment between insurance liabilities and the supporting assets when the actual (or a portion of the) fixed income assets backing the reserves are not transferred as part of the reinsurance consideration. This mechanism reflects the "built-in IMR" that would have been ceded had the bonds supporting the reserves been transferred. It ensures that the accounting effect

of the transaction is neutral to the assets allocated, by recognizing the IMR that would have been generated if the actual bonds had been transferred and then amortizing this IMR over time.

Key Points in Justifying Hypothetical IMR

- The rationale for holding fixed income assets at amortized cost is their alignment with the reserve basis.
- The essence of IMR is to recognize the connection between assets and reserves, both maintained on an amortized cost basis.
- When the connection between assets and reserves is broken (i.e., the allocated assets are not transferred with the liabilities), this continuity of measurement can be disrupted and result in non-economic accounting impacts.
- Of particular concern are situations where there is an ability to game this disconnect to achieve a favorable accounting result that is not in line with the economics of the transaction. For example, negotiating reinsurance transactions to pay cash (at market value) instead of transferring bonds at market value, which could otherwise distort the economic reality of the transaction.
- Hypothetical IMR is an accounting mechanism to prevent any non-economic accounting impact that is theoretically possible.

After establishing the theoretical basis for the concept of Hypothetical IMR, the IMR Ad Hoc Group set out to identify the practical considerations that may prevent Hypothetical IMR from achieving its theoretical purpose.

- One of the key assumptions that the ability to accurately calculate a Hypothetical IMR depends on is that reinsurer and cedant will always negotiate the same market value of assets to be used as net reinsurance consideration (premium and ceding commission), without regard to which assets make up that consideration. Under this assumption, any difference in the market value of supporting assets selected would be made up through a dollar-for-dollar adjustment to the ceding commission.
    - In practice, it is unlikely that such a clean and explicit trade-off exists.
    - Reinsurance pricing is affected by many variables. These include but are not limited to expense allowances, investment guidelines, solvency minimums, pricing methodology for underlying products, and asset-liability matching.
    - Reinsurers and cedants negotiate balancing all relevant variables in such a way that changing any particular variable likely does not impact pricing on a dollar-for-dollar basis.
    - Therefore, calculating a Hypothetical IMR likely implies a level of precision in reinsurance pricing that does not exist in fact.
- In order to calculate a Hypothetical IMR, you must first determine what assets are supporting the block being reinsured.

© 2025 National Association of Insurance Commissioners

- Assets are rarely tracked at a level that would allow for specific identification.

- Instead, allocation methodologies would need to be used to identify the supporting assets, a process that in itself introduces company judgement.

- Therefore, calculating a Hypothetical IMR likely implies a level of precision in asset tracking that does not exist in fact.

- Hypothetical IMR as a concept is counterintuitive and difficult to understand which has likely contributed to its limited use to date. It effectively results in the ceding of IMR that has yet to be established. It also can result in there being a lingering Hypothetical IMR balance that continues to exist and be amortized even after all liabilities it relates to have been transferred to a reinsurer.

- Hypothetical IMR can also have the effect of creating a circular reference whereby the need for the cedant and reinsurer to establish it impacts the pricing, which in turn impacts the amount of Hypothetical IMR needing to be established, in turn further impacting the pricing.

- The ability to intentionally manipulate the accounting results related to asset allocation is likely limited.

    - For 3rd party reinsurance transactions, the reinsurer must agree to the assets it will receive and is unlikely to be motivated by a cedant's desire to optimize accounting results.

    - There may be greater ability to manipulate results in affiliated transactions.

    - It is unlikely that asset allocation could be manipulated to such a magnitude that it materially misstates the financial condition of an insurer. In the rare circumstance that it was, mechanisms like asset adequacy testing and other financial analysis tools would likely identify such instances.

Conclusion

After weighing the theoretical basis and justification for the concept of Hypothetical IMR, the IMR Ad Hoc Group reached an informal consensus that the practical limitations discussed above outweighed any potential benefits that retaining the concept would provide. The findings of this work are memorialized here for consideration of the Statutory Accounting Principles (E) Working Group.

© 2025 National Association of Insurance Commissioners

Appendix A

[Insert Cleaned Up Example]

© 2025 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

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

FROM: Philip Barlow, Chair, Life Risk-Based Capital (E) Working Group
Ben Slutsker, Vice Chair, Life Risk-Based Capital (E) Working Group

DATE: February 21, 2025

RE: Proposal 2025-05-L—Asset Concentration L010 Referral

On Feb. 21, 2025, the Life Risk-Based Capital (E) Working Group received, discussed, and exposed for public comment a proposal from the American Council of Life Insurers (ACLI) seeking to clarify the LR010 instruction that certain "SVO-designated non-bond debt securities" (as defined below) can obtain asset concentration factor treatment akin to bonds in LR002 (Proposal 2025-05-L).

Background

With effect from 2025 statutory filings, the following Schedule BA investments (collectively "SVO-designated non-bond debt securities") are added to asset valuation reserve (AVR) equity lines 22 through 28, thereby being afforded a base charge of C-1 bond factors (NAIC 1-6) on Life Risk-Based Capital (RBC) LR008. However, the current LR010 asset concentration instruction does not provide explicit guidance for these investments.

Schedule BA	Description
Line 0199999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Reflect a Creditor Relationship in Substance - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Unaffiliated
Line 0299999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Reflect a Creditor Relationship in Substance - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Affiliated

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509 p | 202 471 3990
Kansas City 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600
New York One New York Plaza, Suite 4210, New York, NY 10004 p | 212 398 9000
www.naic.org

© 2025 National Association of Insurance Commissioners

Line 0599999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Lack Substantive Credit Enhancement-NAIC Designation Assigned by the Securities Valuation Office (SVO) - Unaffiliated
Line 0699999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Lack Substantive Credit Enhancement - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Affiliated
Line 0999999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Qualify as Bonds Solely Due to a Lack of Meaningful Cash Flows - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Unaffiliated
Line 1099999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Qualify as Bonds Solely Due to a Lack of Meaningful Cash Flows - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Affiliated

Note that similar investments that are NOT designated by the SVO are afforded a 30% base charge and treated as "Other Schedule BA Assets" (15%) for asset concentration factor purposes and, thus, is outside of the scope of this proposal.

As seen in the proposal (Attachment A), ACLI's Proposal 2025-05-L seeks to clarify LR010 instruction such that "SVO-designated non-bond debt securities" obtain asset concentration factor treatment akin to bonds in LR002 (**Option 1**). This option will put these investments' concentration RBC treatment the same pre- and post-principle-based bond definition adoption. (Note that the base C-1 charge treatment is slightly different after the adoption of the principle-based bond definition, moving from a 20 designation-category framework to NAIC 1-6 bond charges. Yet, this change is neither contended nor the subject of Proposal 2025-05-L.)

Alternatively, these investments can be assessed an asset concentration factor of 15% for "Other Schedule BA Assets." (**Option 2**) This option represents a hybrid approach where the base factors are NAIC-designation-driven, and asset concentration factor is flat at 15%.

Since the impetus of Proposal 2025-05-L is the adoption of the principle-based bond definition by the Statutory Accounting Principles (E) Working Group (SAPWG), the Working Group would appreciate consideration by SAPWG for possible comments to ensure accurate determination among Option 1, Option 2, or any other options.

If you have any questions, please contact NAIC staff support Maggie Chang at mchang@naic.org.

Cc: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden, Maggie Chang, Eva Yeung, Kazeem Okosun, Derek Noe

Attachment A: Proposal 2025-05-L

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☒ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE: 2/13/2025

CONTACT PERSON: Colin Masterson
TELEPHONE: 202-624-2463
EMAIL ADDRESS: ColinMasterson@acli.com
ON BEHALF OF: American Council of Life Insurers
NAME: Colin Masterson
TITLE: SR. Policy Analyst
AFFILIATION: American Council of Life Insurers
ADDRESS: ____________

FOR NAIC USE ONLY

Agenda Item # 2025-05-L
Year 2025

DISPOSITION

ADOPTED:
☐ TASK FORCE (TF) ____
☐ WORKING GROUP (WG) ____
☐ SUBGROUP (SG) ____
EXPOSED:
☐ TASK FORCE (TF) ____
☐ WORKING GROUP (WG) ____
☐ SUBGROUP (SG) ____
REJECTED:
☐ TF ☐ WG ☐ SG ____
OTHER:
☐ DEFERRED TO ____
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) ____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☐ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☒ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER ____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

As a result of the NAIC Principles-Based Bond Project, some assets are moving from Schedule D to Schedule BA. Though there are other implications, ACLI members have identified what seems to be an ambiguous Schedule BA fixed income asset concentration charge. Asset concentration (LR010) generally intends to double the risk-based capital pretax factor of the ten largest asset exposures, excluding lower risk categories. There is a maximum overall (basic formula plus asset concentration) pretax factor of 45%.

An Overview of RBC treatment of fixed income assets can be found below:

RBC Treatment of Fixed Income Assets		
Annual Statement	Schedule D	Schedule BA
C-1 RBC Section	LR002	LR008
C-1 Structure	20-classes	6-classes
C-1 Reflects Bond Size Factor Adjustment	Yes	No
Asset Concentration Structure	20-classes	Ambiguous

However, we have noticed that LR010 excludes specific blanks for Schedule BA fixed income assets. Under current instructions, potential options for Schedule BA fixed income assets on LR010 include a 20-class Bond Section or Other Schedule BA Assets.

©2025 National Association of Insurance Commissioners

For example, please find below an illustration of a rated 2.A fixed-income asset moving from Schedule D to Schedule BA:

Asset Concentration Treatment	(a) Basic Formula Sch. BA (6-class)	(b) Asset Concentration LR010	(c = a + b) Overall C-1	(c / a) Overall C-1 / Basic Formula
20-class Bond Section	1.26%	1.261%	2.521%	200%
Other Schedule BA Assets	1.26%	15%	16.26%	1290%

As potential remediations to address these ambiguities, ACLI is proposing changes to LR010 instructions as illustrated.

Additional Staff Comments:

Staff Note: With effect from 2025 Annual Statement filings, the following schedule BA investments (collectively "SVO-designated non-bond debt securities") are added to AVR Equity line 22 through 28, thereby being afforded a base charge of C-1 **Bond factors** (NAIC 1-6) on RBC LR008, which is ultimately categorized as **C-1o** risk component.
However, the current LR010 asset concentration instruction does not provide explicit guidance for these investments.

ACLI proposal seeks to clarify LR010 instruction such that these "SVO-designated non-bond debt securities" can obtain asset concentration factor treatment akin to bonds in LR002, i.e., **C-1o** risk component (Option 1). Option 1 will put the investments' RBC treatment almost the same pre and post – Principle-Based Bond Definition adoption.

Alternatively, these investments will be assessed an asset concentration factor of 15% for Other Schedule BA Assets, which will ultimately be categorized as **C-1o** risk component as well. (Option 2). Option 2 will be a hybrid approach wherein the base factor are NAIC-designation-driven whereas asset concentration factor is flat at 15%.

Schedule BA	Description
Line 0199999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Reflect a Creditor Relationship in Substance - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Unaffiliated
Line 0299999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Reflect a Creditor Relationship in Substance - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Affiliated
Line 0599999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Lack Substantive Credit Enhancement-NAIC Designation Assigned by the Securities Valuation Office (SVO) - Unaffiliated
Line 0699999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Lack Substantive Credit Enhancement - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Affiliated
Line 0999999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Qualify as Bonds Solely Due to a Lack of Meaningful Cash Flows - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Unaffiliated
Line 1099999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Qualify as Bonds Solely Due to a Lack of Meaningful Cash Flows - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Affiliated

©2025 National Association of Insurance Commissioners

Note that similar investments that are NOT designated by the SVO are afforded 30% base charge and treated as Other schedule BA Assets (15%) for asset concentration factor purposes and thus is outside of the scope of this proposal.

NAIC Staff look to the Working Group to determine how to clarify the LR010 Asset Concentration Factor instruction and/or blanks to capture these specific asset types. To ensure accurate determination among Option 1, Option 2 or any other options, NAIC staff recommend that the LRBCWG refer the proposal to SAPWG for review with a request for comments.

**** This section must be completed on all forms.** **Revised 2-2023**

©2025 National Association of Insurance Commissioners

ASSET CONCENTRATION FACTOR
LR010

Basis of Factors

The purpose of the concentration factor is to reflect the additional risk of high concentrations in single exposures (represented by an individual issuer of a security or a holder of a mortgage, etc.) The concentration factor doubles the risk-based capital pre-tax factor (with a maximum of 45% pre-tax) of the 10 largest asset exposures excluding various low-risk categories or categories that already have a maximum factor. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, the asset concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

Specific Instructions for Application of the Formula

The 10 largest asset exposures should be developed by consolidating the assets of the parent with the assets of the company's insurance and investment subsidiaries. The concentration factor component on any asset already reflected in the subsidiary's RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a "stand alone" basis.

The 10 largest exposures should exclude the following: affiliated and non-affiliated common stock, affiliated preferred stock, home office properties, policy loans, bonds for which AVR and RBC are zero, NAIC 1 bonds, NAIC 1 unaffiliated preferred stock, ~~**NAIC 1 Hybrids,**~~ CM 1 Commercial and Farm Mortgages and any other asset categories with RBC factors less than 0.8% post-tax (this includes residential mortgages in good standing, insured or guaranteed mortgages, cash and short-term investments).

In determining the assets subject to the concentration factor for both C-1o and C-1cs, the ceding company should exclude any asset whose performance inures primarily (>50%) to one reinsurer under modified coinsurance or funds withheld arrangements. The reinsurer should include 100% of such asset. Any asset where no one reinsurer receives more than 50% of its performance should remain with the ceding company.

Assets should be aggregated by issuer before determining the 10 largest exposures. Aggregations should be done separately for bonds, **including applicable Other Invested Assets with Underlying Characteristics of Bonds that are reported in Line 22 through 28 of Asset Valuation Reserve (AVR) Equity and Other Invested Asset Component table,** and preferred stock (the first six digits of the CUSIP number can be used as a starting point) (please note that the same issuer may have more than one unique series of the first six digits of the CUSIP), mortgages and real estate. Securities held within Schedule BA **joint ventures**, partnerships, **limited liability and other fund structures** should be aggregated by issuer as if the securities are held directly. Likewise, where joint venture real estate is mortgaged by the insurer, both the mortgage and the joint venture real estate should be considered as part of a single exposure. Tenant exposure is not included. For bonds and unaffiliated preferred stock, aggregations should be done first for classes 2 through 6. After the 10 largest issuer exposures are chosen, any NAIC 1 bonds~~**, or**~~ NAIC 1 unaffiliated preferred stock, ~~**or NAIC 1 Hybrids**~~, from any of these issuers should be included before doubling the risk-based capital. For some companies, following the above steps may generate less than 10 "issuer" exposures. These companies should list all available exposures.

Replicated assets other than synthetically created indices should be included in the asset concentration calculation in the same manner as other assets.

The book/adjusted carrying value of each asset is listed in Column (2).

The RBC factor will correspond to the risk-based capital category of the asset reported previously in the formula before application of the size factor for bonds. **Consistent with the aggregation noted above, applicable Other Invested Assets with Underlying Characteristics of Bonds receive the same RBC factor as bonds. To get the proper Asset Type for investments within the '*Other Invested Assets with Underlying Characteristics of Bonds*' AVR category, use the NAIC Designation and NAIC Designation Modifier from the '*NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol*' column as reported on Schedule BA – Part 1.**The RBC filing software automatically allows for an overall 45% RBC cap.

Detail Eliminated to Conserve Space

2025 Spring National Meeting - Review of U.S. 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—*Agenda Consultation*	June 30, 2025

The purpose of the Invitation to Comment (ITC) is to solicit broad stakeholder feedback about the future standard-setting agenda of the Financial Accounting Standards Board (FASB). The feedback on the ITC is critical to ensure that the FASB continues to allocate its finite resources to standard-setting projects that fulfill its mission and address financial accounting and reporting topics that are of the highest priority to its stakeholders.

The FASB requests feedback on improvements to financial accounting and reporting needed to:

1. Provide investors with better, more useful financial statement information that will directly influence their capital allocation decisions.
2. Reduce unnecessary cost and complexity.
3. Maintain and improve the FASB Accounting Standards Codification.

The ITC seeks broad stakeholder feedback on the following:

1. Whether the financial accounting and reporting topics described in the ITC are areas for which there is potential for significant improvement.
2. The priority and urgency of addressing each topic.
3. Which potential solution(s) the FASB should consider.
4. For any potential solution, the expected benefits and expected costs.
5. Whether there are other financial accounting and reporting topics beyond those described in the ITC that the FASB should consider adding to its agenda and the priority and urgency of addressing those topics. This would include accounting associated with emerging accounting issues, changes in business models, and potential areas of convergence.

The ITC does not include Board views. The content of this ITC is based on input received from stakeholders and is being provided to solicit broad input. The Board will consider the feedback received in response to the ITC when making decisions about potential changes to its agenda. Those decisions include which topics, if any, should be added to the FASB's agenda and order of priority. The ITC and the agenda consultation process are intended to complement the FASB's formal agenda request process. Stakeholders are encouraged to continue to submit agenda requests about needed improvements to generally accepted accounting principles (GAAP) as they arise.

Background

In June 2022, the FASB issued the 2021 Agenda Consultation Report, which summarized the robust feedback obtained during the 2021 agenda consultation project (the 2021 Agenda Consultation) and how that feedback has influenced the Board's technical and research agendas and standard-setting process. Since then, the Board has continued to make significant progress on the top priorities identified by stakeholders.

The top standard-setting priorities identified by stakeholders from the 2021 Agenda Consultation have been addressed as follows:

1. Accounting Standards Updates have been issued related to crypto assets, disaggregation of income statement expenses, and income tax disclosures.
2. Proposed Accounting Standards Updates have been issued related to derivatives scope refinements, accounting for environmental credit programs, accounting for government grants, and accounting for software costs. The Board will begin re-deliberations in 2025 on each of those proposals.
3. ITC documents have been issued to gather feedback on whether the Board should prioritize standard setting related to financial key performance indicators (KPIs) for business entities and intangible assets. The Board will consider feedback on these topics at future Board meetings.
4. The technical agenda includes a project to make targeted improvements to the statement of cash flows for financial institutions, which the Board continues to deliberate.
5. The research agenda includes projects related to (a) the statement of cash flows and (b) consolidation of business entities. The staff continues to research issues related to these topics for potential consideration to be added to the technical agenda and any additional feedback received as part of the agenda consultation process will be incorporated into those projects.

In addition to the Board's progress on its standard-setting projects, the following improvements to the standard-setting process were made in response to the 2021 Agenda Consultation:

1. The Emerging Issues Task Force (EITF) was reconstituted with new membership and operating procedures to enhance the effectiveness and efficiency of the interpretive process. Since its reconstitution, the EITF has recommended that the FASB add two projects to its technical agenda, which has resulted in the October 2024 issuance of a proposed Accounting Standards Update on determining the accounting acquirer when a variable interest entity (VIE) is acquired and an expected proposed Accounting Standards Update to be issued in early 2025 on the accounting for debt exchanges.
2. The Financial Accounting Foundation made an enhanced version of the online Codification available for all stakeholders to access at no charge.
3. The FASB launched a redesigned website that features streamlined navigation, a simpler menu structure, a more attractive and intuitive design, a more robust search algorithm, and more prominent placement of the most important information stakeholders are looking for.
4. Internal processes have been enhanced to improve consistency of transition requirements and provide more transparency to stakeholders on procedures performed to support the benefit-cost evaluation.

As a result of the progress on the 2021 Agenda Consultation priorities, the FASB Chair announced in May 2024 that the FASB would undertake a similar agenda consultation process to understand the priority areas that the Board should next address.

Agenda Prioritization Process

The Board's agenda consists of both a technical agenda and a research agenda.

Technical Agenda

A majority of the Board must approve any projects that are added to or removed from the technical agenda. Only projects on the technical agenda can result in standard setting. When considering whether to add a project to the technical agenda, the Board evaluates potential projects against the following three criteria to ensure consistent agenda prioritization decisions:

1. There is an identifiable and sufficiently pervasive need to improve GAAP—in other words, what improvement is needed? What is the case for change?
2. There are technically feasible solutions, and the expected benefits of those solutions are likely to justify the expected costs of change—what are the various alternative ways that an issue could be addressed? What are the expected benefits and expected costs of the solutions, and can the solutions be implemented?
3. The issue has an identifiable scope—can the FASB effectively identify the scope of the potential project? Can the issue be sufficiently described?

Decisions about whether a project meets those criteria are a matter of Board members' professional judgment that is informed by research and analysis performed by the FASB staff. The criteria help the Board to use its time and resources efficiently and effectively on the highest priority projects that the Board will be able to complete in a timely manner.

Research Agenda

The FASB chair adds projects to or removes projects from the research agenda and directs the research projects to (1) gather additional information and (2) explore potential standard-setting solutions.

Development of the ITC

To begin the current agenda consultation process, the FASB staff sought input from a cross-section of over 200 stakeholders, including investors, practitioners, preparers, and academics. This included outreach with numerous stakeholder groups and FASB advisory groups, including the Investor Advisory Committee, the Financial Accounting Standards Advisory Council, the Not-for-Profit Advisory Committee, the Private Company Council (PCC), and the Small Business Advisory Committee, to identify priority areas of improvement to financial accounting and reporting.

Overall, those stakeholders commended the Board on its significant progress on the priorities identified in the 2021 Agenda Consultation and expressed their appreciation that the Board listened to stakeholders and took timely action on the identified priorities.

Additionally, those stakeholders appreciated the Board's thorough and careful consideration of stakeholder feedback in recent standard-setting projects and encouraged the Board to continue to:

1. Stay cognizant of the pace of change, especially while setting effective dates for new guidance.
2. Develop illustrative examples to help apply GAAP in complex and/or industry-specific fact patterns.
3. Consider industry-specific matters.
4. Communicate how stakeholder feedback and expected benefits and expected costs factored into the Board's decisions.
5. Assess the effectiveness of disclosures for both new guidance and current guidance.

Most of those stakeholders, including investors, said that there is not a case to make major changes to GAAP at this time. Therefore, many of the topics that were suggested for standard-setting efforts, and consequently described within the ITC, focus on targeted improvements to GAAP.

The discussions included within this ITC are based on input received from those stakeholders. When the ITC refers to feedback provided by stakeholders or certain stakeholder groups, such as investors, it is meant to indicate that the item was raised as part of this outreach, not that it was necessarily heard broadly across all stakeholders (or stakeholder groups).

Stakeholder input on the FASB's future standard-setting activities generally fell within one of the following areas:

1. Combination of entities (Chapter 1)
2. Financial instruments (Chapter 2)
3. Intangibles (Chapter 3)
4. Other assets and liabilities (Chapter 4)
5. Retirement and other employee benefits (Chapter 5)
6. Income and expenses (Chapter 6)
7. Presentation and disclosure of financial reporting information (Chapter 7)
8. Current research agenda projects (Chapter 8).

The remainder of this ITC describes topics for improvement that were suggested during the outreach described above. The FASB welcomes feedback on the topics in the ITC as well as other topics that are of the highest priority to stakeholders for the Board to consider.

Overall Questions for Respondents

Individuals and organizations are invited to comment on all matters in the ITC, particularly on the issues and questions that are specifically asked in the document. General questions about the FASB's technical agenda are included in the document, and questions on a specific area or topic are included in each chapter. The appendix contains a comprehensive list of the questions for respondents.

FASB stated that while it would be helpful to receive feedback on all the questions in the ITC, the FASB staff welcomes comments from those who are only interested in a specific topic or topics described in the ITC. Comments are most helpful if they are as specific as possible, identify and clearly explain the topic or question to which they relate, and are specific to financial accounting and reporting.

Staff Review and Commentary:

Comment deadline is June 30, 2025

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—*Recognition of Intangibles*	May 30, 2025

The purpose of this ITC is to solicit stakeholder feedback on whether the Board should pursue standard setting on intangibles. The ITC uses the term intangibles to include both (1) intangibles recognized as assets in the financial statements and (2) intangibles and related costs not recognized as assets in the financial statements.

The ITC is focused on the initial recognition of intangibles. Specifically, the FASB would like to understand:

1. Whether there is a pervasive need to improve generally accepted accounting principles (GAAP) related to the accounting for and disclosure of intangibles (that is, is there a case for change)
2. What intangibles, or groups of intangibles, the FASB should consider addressing
4. What potential solution(s) the FASB should consider—including whether the potential solution or solutions are narrow for a specific intangible or could be applied broadly to a group of intangibles—and the expected benefits and expected costs of the potential solution(s)
3. Whether different accounting for intangibles should exist depending on how the asset is obtained (internally developed, acquired in a business combination, or acquired in an asset acquisition)
5. What information about intangibles an investor utilizes (or would utilize) for its analysis and how that information influences the investor's capital allocation decisions.

The FASB has frequently sought views on intangibles from a wide variety of stakeholders. In addition, feedback has been received as part of the Board's due process on various intangibles-related projects, including technical and research agenda projects on research and development (R&D), asset acquisitions, business combinations, software costs, film costs, disaggregation of income statement expenses, and the Board's Conceptual Framework. Feedback on intangibles also has been received through two agenda consultations. Invitation to Comment, Agenda Consultation, issued in 2016 (the 2016 Agenda Consultation), and FASB Invitation to Comment, Agenda Consultation, issued in 2021 (the 2021 Agenda Consultation).

Respondents to the 2021 Agenda Consultation stated that the Board should perform research to better understand the information needs of investors and other allocators of capital (herein referred to as "investors") related to intangibles, while also considering the costs and challenges associated with preparing that information. While many respondents, across all stakeholder types, acknowledged that there can be a significant difference between the book value and market capitalization of certain entities, respondents were mixed about whether narrowing that gap would provide investors with relevant information when making decisions about providing resources to entities.

That feedback has shaped the direction of the current Accounting for and Disclosure of Intangibles research project (the Intangibles Research Project), which is intended to explore ways to improve the accounting for and disclosure of intangibles, including internally developed intangibles and R&D.

The ITC is a staff document prepared at the direction of the FASB chair in which the Board does not express any preliminary views. Responses to the questions in the ITC will help inform the Board as it considers whether to add a project to its technical agenda on intangibles.

Background

2021 Agenda Consultation Feedback

The 2021 Agenda Consultation asked stakeholders whether the Board should pursue a project on intangibles and, if so, what intangibles should be included within the scope of the project and whether it should be primarily focused on changes to recognition and measurement and/or disclosure. Respondents across all stakeholder types, including investors, practitioners, and preparers, identified intangibles as a top priority but there was not a general consensus on the scope and objective of a potential project.

Several respondents suggested prioritizing an intangibles project focused on recognition and measurement. Numerous respondents suggested that the Board align the accounting for internally developed R&D and in-process R&D (IPR&D) acquired through an asset acquisition and a business combination. For example, some suggested revising current guidance so that R&D would be accounted for consistently regardless of whether it was internally developed or acquired. In addition, some respondents suggested that the Board look at R&D as a first step in a recognition and measurement project on intangibles. As another suggestion, some respondents urged the Board to focus on developing a recognition and measurement framework that could be applied to all internally developed intangibles.

Other respondents noted that significantly changing the guidance for recognition and measurement of intangibles would be challenging and that it was not worthwhile for the Board to prioritize this type of project at that time. For example, several respondents said that the costs of recognizing more internally developed intangibles on the balance sheet would outweigh the benefits and that evaluating rules for capitalization, amortization, and impairment would be challenging and costly.

Some respondents suggested that the Board consider prioritizing disclosure improvements for intangibles. Those respondents encouraged the Board to perform investor outreach and focus on providing relevant disclosures to address that feedback. However, there were some respondents that did not support additional quantitative disclosures. Generally, those respondents said that additional intangibles disclosures would not provide relevant information that would result in a meaningful benefit to investors and that qualitative disclosures would likely result in entities providing boilerplate information.

While the Board added several intangibles-related projects to its technical agenda as a result of the 2021 Agenda Consultation, those projects ultimately addressed targeted improvements related to outdated guidance (software costs) or new and emerging types of intangibles (crypto assets and environmental credits).

Standard-Setting History on Intangibles

The FASB first addressed the accounting for intangibles in 1973 with the development and issuance of FASB Statement No. 2, Accounting for Research and Development Costs, which defined R&D and provided a simple rule to account for R&D costs—they are to be charged to expense as incurred.

Since then, the topic of intangibles, in various forms, has consistently been on either the FASB's technical agenda or research agenda. These projects have (1) resulted in recognition guidance on specific intangibles, such as crypto assets, software costs, and film costs, (2) resulted in initial recognition guidance on intangibles based on how they were obtained (FASB Statements No. 141, Business Combinations, No. 141 (revised 2007), Business Combinations, and No. 142, Goodwill and Other Intangible Assets), and (3) furthered the FASB's understanding of stakeholder views on the recognition and disclosure of intangibles. See Appendix A for a listing of certain intangibles-related documents that have been issued in the past by the FASB or the American Institute of Certified Public Accountants (AICPA).

These efforts have demonstrated that stakeholder views on intangibles continue to be diverse. This includes diverse views about (1) when an intangible should be recognized as an asset and (2) what information about intangibles is decision useful to investors. There are several reasons for that diversity, the wide breadth of the types of intangibles, uncertainty around intangibles' economic benefits, and whether information about intangibles is likely to affect investors' capital allocation decisions.

A question that the Board continues to contend with is at what point an asset should be recognized in the financial statements for an internally developed or acquired intangible item. Although the Board's current Conceptual Framework defines an asset, it also emphasizes that because the facts and circumstance that generate intangibles are so varied, whether an asset has been created often must be resolved at the standards level. (See paragraph E36 of Chapter 4, Elements of Financial Statements, of FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting, which is reproduced in Appendix B.)

Overall Questions for All Respondents

Individuals and organizations are invited to comment on all matters in the ITC. While it would be helpful to receive feedback on all the questions in this ITC, comments also are requested from those who are only interested in specific questions or specific intangibles. Comments are most helpful if they identify and clearly explain the issue or question to which they relate and are specific to financial accounting and reporting.

Staff Review and Commentary:

Comment deadline is May 30, 2025

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— *Financial Key Performance Indicators for Business Entities*	April 30, 2025

This ITC is being issued as part of the FASB research project on financial key performance indicators (Financial KPIs) for business entities. Responses to the questions in this ITC will help inform the Board as it considers whether to add a project on Financial KPIs to its technical agenda and, if added, to determine the objective and scope of the project.

In previous outreach, including the 2021 ITC, Agenda Consultation, the FASB received feedback from stakeholders that a project on Financial KPIs should be considered. However, respondents expressed diverse views on the nature and extent of the perceived issues, whether the Board should add a project to its technical agenda, and, if a project is added, the objective of the project. While a potential project on Financial KPIs was often highlighted as a priority by investors, it was rarely cited as a priority by preparers.

The FASB staff is issuing this ITC to solicit additional feedback on potential standard setting for Financial KPIs, including the following:

1. Should Financial KPIs be standardized and, if so, which ones?
2. Should Financial KPIs be required or permitted to be disclosed in an entity's generally accepted accounting principles (GAAP) financial statements and, if so, when and for what types of entities?

Staff Review and Commentary:

Comment deadline is April 30, 2025

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— *Codification Improvements*	April 22, 2025

The Board has a standing project to address suggestions received from stakeholders on the Accounting Standards Codification and to make other incremental improvements to GAAP. This evergreen project facilitates Codification updates for a broad range of Topics arising from technical corrections, unintended application of the Codification, clarifications, and other minor improvements. The resulting amendments are collectively referred to as Codification improvements.

The Board decided that the types of issues that it will consider through this project are improvements that are not expected to have a significant effect on current accounting practice or result in significant costs to most entities.

An explanation of why each amendment in this proposed Update is being made is provided in the "Amendments to the FASB Accounting Standards Codification" section. Therefore, there is no separate section for the Board's basis for conclusions in this proposed Update.

The amendments in this proposed Update would affect a wide variety of Topics in the Codification and would apply to all reporting entities within the scope of the affected accounting guidance.

Thirty-four issues are addressed in this proposed Update. FASB stated that respondents should review the entire document to assess what effect the proposed amendments would be expected to have.

The Board would specifically like to highlight Issues 1, 4, 6, 20, and 25 to ensure that stakeholders provide feedback on those issues.

Staff Review and Commentary:

Comment deadline is April 22, 2025

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—*Environmental Credits and Environmental Credit Obligations (Topic 818)*	April 15, 2025

The Board is issuing this proposed Update to improve the financial accounting for and disclosure of environmental credits and environmental credit obligations. The proposed Update provides recognition, measurement, presentation, and disclosure requirements for all entities that purchase or hold environmental credits or have a regulatory compliance obligation that may be settled with environmental credits.

Stakeholder feedback, including from respondents to the 2021 FASB ITC, Agenda Consultation, indicates that entities are increasingly subject to additional government mandates and regulatory compliance programs related to emissions, which often result in obligations that may be settled with environmental credits. Additionally, some entities that voluntarily commit to reducing their emissions by a future date (for example, voluntary "net zero" and "carbon neutral" initiatives) use environmental credits to partially offset their emissions.

Stakeholders emphasized that GAAP does not provide specific authoritative guidance on how to recognize and measure environmental credits or the related obligations that result from regulatory compliance programs. As a result, entities typically account for environmental credits and environmental credit obligations by analogy to Topic 330, Inventory, Subtopic 350-30, Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill, and Topic 450, Contingencies, resulting in diversity in practice.

The following are examples of environmental credits and the associated regulatory compliance program that are subject to the amendments in this proposed Update (these examples are not all-inclusive):

1. Emissions allowances originating from domestic and global cap-and-trade programs.
2. Corporate Average Fuel Economy (CAFE) credits originating from U.S. CAFE Standards
3. Renewable identification numbers originating from the U.S. Renewable Fuel Standard

4. Renewable energy certificates originating from U.S. State Renewable Portfolio Standards.

Additionally, carbon offsets, which often are generated by projects represented to reduce or remove carbon dioxide from the atmosphere, are typically used by entities to meet voluntary initiatives to reduce net emissions and are subject to the amendments in this proposed Update.

The amendments in the proposed Update are expected to provide investors with additional decision-useful information by improving the (1) understandability of financial accounting and reporting information about environmental credits and environmental credit obligations associated with regulatory compliance programs and (2) comparability of that information by reducing diversity in practice.

The FASB's mission is to establish and improve financial accounting and reporting standards; therefore, the amendments in this proposed Update are intended to address only amounts reported in financial statements. As a result, measuring or tracking an entity's voluntary net zero emissions initiatives or the entity's actual greenhouse gas emissions are beyond the scope of the FASB's mission and are not addressed by the FASB or by the proposed amendments.

Staff Review and Commentary:

Comment deadline is April 15, 2025

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—*Government Grants (Topic 832): Accounting for Government Grants by Business Entities*	March 31, 2025

The FASB is issuing this proposed Update to improve GAAP by establishing authoritative guidance on the accounting for government grants by business entities.

GAAP does not provide specific authoritative guidance about the recognition, measurement, and presentation of a grant received by a business entity from a government. In the absence of specific guidance, many business entities analogize to the guidance in International Accounting Standard (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance, or, less commonly, the guidance in Subtopic 958-605, Not-For-Profit Entities—Revenue Recognition. When applying that guidance by analogy, business entities may not apply all that guidance. Stakeholders have observed that the lack of specific authoritative guidance on the accounting for government grants has led to questions about the acceptability of certain accounting approaches and has resulted in diversity in practice.

In November 2021, the FASB issued disclosure guidance in Accounting Standards Update No. 2021-10, Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance, to address requests from investors for increased transparency about government grants. Even with the disclosure requirements established in Update 2021-10, the lack of specific guidance about recognition, measurement, and presentation has continued to be highlighted by stakeholders as an area for potential improvement.

Stakeholder feedback, particularly from practitioners and preparers, including the respondents to the 2021 FASB Invitation to Comment, Agenda Consultation (2021 Agenda Consultation), and the 2022 Invitation to Comment, Accounting for Government Grants by Business Entities—Potential Incorporation of IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, into Generally Accepted Accounting Principles

(2022 GG ITC), expressed support for developing specific authoritative guidance for recognition, measurement, and presentation of government grants. Those stakeholders noted that having guidance in GAAP on the accounting for government grants would reduce diversity in practice and increase consistency among business entities.

The amendments in this proposed Update would apply to business entities (specifically, all entities except for not-for-profit entities and employee benefit plans) that receive a government grant, which would be defined as a transfer of a monetary or a tangible non-monetary asset, other than an exchange transaction, from a government. The proposed amendments would not apply to exchange transactions, income taxes, the benefit of below-market interest rate loans, and government guarantees.

The amendments in this proposed Update would establish guidance for a government grant including (1) a grant related to an asset and (2) a grant related to income. A grant related to an asset is a government grant in which the primary condition is for the business entity to purchase, construct, or otherwise acquire a long-term asset, including the direct grant of a tangible non-monetary asset from a government. A grant related to income is a government grant other than a grant related to an asset (for example, a grant that reimburses a business entity for operating expenses).
The amendments in this proposed Update would require a consistent initial recognition threshold for all government grants. In accordance with the proposed amendments, a government grant would be initially recognized when it is probable that (1) a business entity will comply with the conditions attached to the grant and (2) the grant will be received.

The amendments in this proposed Update would require that, upon meeting the initial recognition threshold, a grant related to an asset be recognized in the balance sheet either as:

1. Deferred income (the deferred income approach)
2. A part of the cost basis in determining the carrying amount of the asset (the cost accumulation approach).

A grant related to income and a grant related to an asset in which the deferred income approach is elected would be recognized in earnings on a systematic and rational basis over the periods in which a business entity recognizes as expenses the costs the grant is intended to compensate. When a business entity elects the cost accumulation approach for a grant related to an asset, the business entity would recognize the amount of the grant in determining the carrying amount of the asset.

The amendments in this proposed Update would require a business entity to present a grant related to income within earnings either (1) separately under a general heading such as other income or (2) deducted from the related expense. In addition, the amendments in this proposed Update would require consistent with current disclosure requirements, that a business entity provide disclosures about the nature of the government grant received, the accounting policies used to account for the grant, and significant terms and conditions of the grant, among other disclosure requirements.

Staff Review and Commentary:

Comment deadline is March 31, 2025

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— *Interim Reporting (Topic 270): Narrow-Scope Improvements*	March 31, 2025

The Board is issuing the amendments in this proposed Update to improve the guidance in Topic 270, Interim Reporting, by improving the navigability of the required interim disclosures and clarifying when that guidance is applicable. The proposed amendments also provide additional guidance on what disclosures should be provided in interim reporting periods. The proposed amendments include adding to Topic 270 a principle that would require entities to disclose events and changes since the end of the last annual reporting period that have a material impact on the entity. The Board does not intend to change the fundamental nature of interim reporting or expand or reduce current interim disclosure requirements, which were determined by prior Boards when the disclosure requirements were initially issued. Rather, the objective of the proposed amendments is to provide clarity on the current interim reporting requirements.

The Board has received feedback from stakeholders that Topic 270 is challenging and complex to navigate. The complexity of this Topic is mainly a result of the development of the source literature, the initial codification of the historical content, and subsequent amendments to the Topic as new accounting guidance was issued over time. Accordingly, the Board sought to clarify the types of interim reporting that are subject to the requirements in Topic 270.

The Board previously considered amendments to interim reporting in Topic 270 as part of the Disclosure Framework project, which resulted in the issuance of proposed Accounting Standards Update, Interim Reporting (Topic 270): Disclosure Framework—Changes to Interim Disclosure Requirements, in 2021. Although respondents to that proposed Update supported the Board's efforts, they expressed concerns about the proposed amendments. When redeliberating the 2021 proposed Update, the Board decided that the project's objective is to improve the guidance in Topic 270 by clarifying when that guidance is applicable, thereby improving the navigability of the required interim disclosures. The Board also decided to provide additional guidance on what interim disclosures should be provided in interim reporting periods.

The amendments in this proposed Update would apply to all entities that provide interim financial statements and notes in accordance with GAAP.

The amendments in this proposed Update include guidance about what is meant by the phrase interim financial statements and notes in accordance with GAAP, including referencing U.S. SEC requirements for entities to which those requirements apply.

The amendments in this proposed Update would clarify interim disclosure requirements and the applicability of Topic 270.

The amendments in this proposed Update would result in a comprehensive list of interim disclosures that are required by GAAP. In developing the list of disclosures required by other Topics, the Board focused on identifying the interim disclosures that are currently required under GAAP. The objective of the proposed amendments is to provide clarity about the current requirements, rather than evaluate whether to expand or reduce interim disclosure requirements.

The amendments in this proposed Update also include a disclosure principle that would require entities to disclose events and changes since the end of the last annual reporting period that have a material impact on the entity. The intent of the proposed disclosure principle, which is modeled after (and intended to be applied consistently with) a previous SEC disclosure requirement, is to help entities determine whether disclosures not specified in Topic 270 should be provided in interim reporting periods.

The amendments in this proposed Update also would clarify the applicability of Topic 270, the types of interim reporting, and the form and content of interim financial statements in accordance with GAAP. The Board expects that these clarifications would enhance consistency in interim reporting for all entities.

The Board considers the amendments in this proposed Update to be necessary to reflect the development of interim reporting over time.

The amendments in this proposed Update would be applied prospectively to interim financial statements and notes in accordance with GAAP issued for interim reporting periods after the effective date.

The Board will determine the effective date and whether early adoption should be permitted after it considers stakeholder feedback on the amendments in this proposed Update.

Staff Review and Commentary:

Comment deadline is March 31, 2025

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

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/03-24-25 Spring National Meeting/Meeting/P - Review of GAAP Exposures.docx

© 2025 National Association of Insurance Commissioners