



Date 3/5/2025

2025 Spring National Meeting
Indianapolis, Indiana

Statutory Accounting Principles (E) Working Group

Monday, March 24, 2025

2:15 PM - 4:15 PM EDT

JW Marriott Indianapolis—JW White River F—J—Level 1

OVERVIEW AGENDA

HEARING AGENDA

	<u>Hearing Page Number</u>	<u>Attachment</u>
1. SAPWG Hearing – Adoption of Minutes— <i>Dale Bruggeman (OH)</i>	1	1-3
2. SAPWG Hearing – Review of Comments on Exposed Items— <i>Dale Bruggeman (OH)</i>		
• Ref #2023-28: Collateral Loan Reporting	2	4
• Ref #2024-07: Reporting of Funds Withheld and Modco Assets	6	5
• Ref #2024-20: Restricted Asset Clarification	9	6
• Ref #2024-21: Investment Subsidiaries	14	7
• Ref #2024-24: Medicare Part D – Prescription Payment Program	17	8 - 10
• Ref #2024-04: Conforming Repurchase Agreement Assets	18	11
• Ref #2024-15: ALM Derivatives	24	12
Comment Letters	32	13-14
• Attachment 13: Comments Ref #2023-28 through Ref #2024-01		
• Attachment 14: 2024-15 ALM Derivatives Comments Only		

OVERVIEW AGENDA

MEETING AGENDA

	<u>Meeting Page</u>	
	<u>Number</u>	<u>Attachment</u>
3. SAPWG Meeting – Maintenance Agenda – Pending List—Dale Bruggeman (OH)		
• Ref #2025-01: Sale Leaseback Clarification	1	A
• Ref #2025-02: ASU 2024-04, Induced Conversions of Convertible Debt Instruments	2	B
• Ref #2025-03: IMR Definition	2	C
• Ref #2025-04: Capital Structure Code	4	D
• Ref #2025-05: Reinsurer Affiliated Assets	5	E-F
• Ref #2025-06: AVR Line: Unrated Multi-Class Securities	6	G
• Ref #2025-07: Dividend General Interrogatory Update	7	H
• Ref #2025-08: Medicare Part D Prescription Payment Plan Disclosures	7	I
• Ref #2025-09: VM-22 Update Coordination	8	J
• Ref #2025-10: ASU 2023-07, Improvements to Reportable Segment Disclosures	9	K
• Ref #2025-11: ASU 2024-03 and ASU 2025-01, Reporting Comprehensive Income	9	L
• Ref #2025-12EP: Editorial Revisions	10	M
4. SAPWG Meeting – Maintenance Agenda – Active List—Dale Bruggeman (OH)		
• Ref #2023-14: Hypothetical IMR Memo	10	N
5. SAPWG Meeting – Any Other Matters Brought Before the Working Group—Dale Bruggeman (OH)		
• Update on the IMR Ad Hoc Subgroup	10	None
• Referral from Life Risk-Based Capital (E) Working Group	11	O
• Notice of planned Joint Meeting with LATF (April 10)	11	None
• Notice of SAPWG Meeting (May 22)	11	None
• Review of U.S. GAAP Exposures	11	P
• Notice of Electronic Version of AP&P Manual	12	None
• IAIS Audit and Accounting Working Group (AAWG Update)	12	None
➤ Comment Deadline for Refs #2024-07, #2025-04, #2025-05, #2025-06, #2025-07, #2025-08 – Friday, May 2, 2025		
➤ Comment Deadline for all other items – Friday, June 6, 2025		

Hearing Agenda
**Statutory Accounting Principles (E) Working Group
 Hearing Agenda
 March 24, 2025**
ROLL CALL

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

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

Note: This meeting will be recorded for subsequent use.

The Statutory Accounting Principles (E) Working Group met in regulator-to-regulator session on February 18 and March 18, 2025. These regulator-only sessions were pursuant to the NAIC Open Meetings Policy paragraph 3 (discussion of specific companies, entities or individuals) and paragraph 6 (consultations with NAIC staff related to NAIC technical guidance of the *Accounting Practices and Procedures Manual*). No actions were taken during these meetings, as the discussions related to reinsurance transactions at certain companies and for NAIC staff to present the technical guidance captured within the Spring National Meeting agenda.

REVIEW AND ADOPTION OF MINUTES

1. Fall National Meeting (Attachment 1)
2. Dec. 17, 2024 (Attachment 2)
3. Feb. 25, 2025 (Attachment 3)

REVIEW of COMMENTS on EXPOSED ITEMS

- **Attachment 13: Comments Ref #2023-28 through Ref #2024-01**
- **Attachment 14: 2024-15 ALM Derivatives Comments Only**

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

1. Ref #2023-28: Collateral Loan Reporting
2. Ref #2024-07: Reporting of Funds Withheld and Modco Assets
3. Ref #2024-20: Restricted Asset Clarification
4. Ref #2024-21: Investment Subsidiaries
5. Ref #2024-24: Medicare Part D – Prescription Payment Program
6. Ref #2024-04: Conforming Repurchase Agreement Assets
7. Ref #2024-15: ALM Derivatives

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-28 (Julie)	Collateral Loan Reporting	4 – Agenda Item	Comments Received	IP – 29

Summary:

On November 17, 2024, the Working Group re-exposed this agenda item detailing the proposed collateral loan reporting lines for Schedule BA and AVR to allow for concurrent exposure with blanks proposal 2024-19BWG. Comments received by the Blanks (E) Working Group and the SAPWG will be reviewed collectively.

The exposure (illustrated in the 2024 Summer National Meeting Updated Recommendation in the agenda item) proposed Schedule BA reporting lines (and corresponding AVR lines) for collateral lines as follows (all lines separated by affiliated/unaffiliated):

- Collateral loans backed by mortgage loans
- Collateral loans backed by joint ventures, partnerships or limited liability companies
- Collateral loans backed by residual interests
- Collateral loans backed by debt securities
- Collateral loans backed by real estate
- Collateral loans not captured in the specific reporting lines - (noted as all other)

With the inclusion of the new reporting lines, the recommendation also supported the following Schedule BA electronic-only columns for all collateral loan investments:

- Fair value of collateral backing the collateral loan
- Percentage of collateral to the collateral loan

With the exposure, specific questions were asked regarding the allocation of collateral loans backed by mortgage loans (as those have an interim process through the existing SSAP No. 48 BA underlying mortgage loan lines) as well as whether additional reporting lines are necessary for RBC assessment purposes.

Interested Parties' Comments - SAPWG:

Interested parties have responded (responses are in *italics*) to the following elements for which feedback was requested during the exposure:

- 1) Should collateral loans backed by mortgage loans be included in the new collateral loan category, or should those continue to flow through the “Investments with the Underlying Characteristics of Mortgage Loans” permitted during the interim as the long-term resolution?

Interested parties believe the ‘Collateral Loans – Backed by Mortgage Loans’ Schedule BA subcategory should continue to flow through the “Investments with the Underlying Characteristics of Mortgage Loans” AVR category until a permanent solution is identified.

If captured in the new collateral loan AVR category, to what extent should the underlying characteristic lines detailing quality / past due / foreclosure status (AVR lines 38-64) be duplicated?

Interested parties believe there should be just 1 category in AVR for ‘Collateral Loans – Backed by Mortgage Loans’ and not bifurcate between quality / past due / foreclosure status. The accounting for Collateral Loans will be able to appropriately report the fair value of the underlying collateral.

- 2) What additional reporting lines (breakouts) of the proposed AVR categories are necessary to ensure appropriate look-through for RBC assessment purposes?

Interested parties believe no changes in the following breakouts are warranted at this time. We will actively engage in the RBC discussions with the appropriate NAIC Working Group on this issue.

As it relates to the corresponding Blanks Working Group exposure 2024-19BWG, we have requested a re-exposure / deferral to address this item which was exposed for the first time. Our question to the Working Group is: should Ref #2023-28 also be re-exposed / deferred to align these 2 items?

Interested Parties' Comments – Blanks (E) Working Group:

2024-19BWG - Update Schedule BA line categories and instructions for the expansion of collateral loans. Add two electronic-only columns on Schedule BA, Part 1 for reporting fair value of collateral backing and the percentage of the collateral. Update the Assets Valuation Reserve instructions and blank for the added collateral loan lines. This is sponsored by SAPWG Ref #2023-28 (*Collateral Loan Reporting*). Anticipated effective date is Annual 2025 / Quarterly 2026.

Overall, IPs are supportive of regulator efforts to increase transparency and consistency of collateral loan reporting.

As it relates to mapping to RBC, the interim solution as adopted by CATF #2024-15-L states that for collateral loans backed by mortgage loans should be considered Schedule BA Mortgages. As such, IPs suggest keeping it 'as is' until a permanent solution is adopted.

After changes to the Schedule BA Collateral Loan categories are final, IPs ask that consideration be given to either aligning Annual Statement Footnote 5S with Schedule BA Collateral Loan categories or delete Annual Statement Footnote 5S as it is interpreted to be redundant with the changes to Schedule BA Collateral Loan categories. This would facilitate accounting systems reporting collateral loans consistently.

IPs suggest the following technical edits to the proposal:

For AVR Blanks Schedule - Equity Component:

- insertion of XXX into columns 2 and 3 for lines 93-105
- clarification on whether these new lines will be inserted before or after the 2023-12BWG adoption which modifies the AVR schedule for the insertion of Surplus Notes and Capital Notes lines, effective 1st Quarter 2025 – These lines will be after the Surplus Notes and Capital Notes lines.
- clarification if this proposal should be using the new line names adopted by 2024-11BWG (*Investment in Tax Credit Structures*)

For AVR Instructions, IPs suggest updates are needed to the line references for Lines 7, 9, and 10 on the front page of AVR as it relates to the Other Invested Asset total line on the Equity Component.

In the instructions for the 'Backed by Debt Securities' subcategory, the SSAP No. 26 description should be 'Bonds' and not 'Issuer Credit Obligations'.

Suggest adding some clarifying language in the instructions for the Backed by Mortgage Loans category to include SSAP No. 83 as follows: Backed by Mortgage Loans – collateral loans backed by mortgage loans that would be in scope of SSAP No. 37—Mortgage Loans or SSAP No. 83—Mezzanine Real Estate Loans if held directly.

IPs suggest creating 3 subcategories under the 'Non-collateral Loans' category to better clarify what is in each subcategory and to be consistent with the overall subcategories within Schedule BA: Related Party Loans; Other Unaffiliated Loans; Affiliated Loans. Related Party and Other Unaffiliated would be added into the 'Unaffiliated'

subtotal and the Affiliated would be included in the ‘Affiliated’ subtotal. The 3 subcategories would be unique to Non-collateral Loans.

For consistency within the subcategories under Collateral Loans, IPs suggest renaming ‘Collateral Loans – All Other’ to ‘Backed by Other Collateral Types.’

To clarify what should be included in the ‘Backed by Other Collateral Types’ subcategory, IPs suggest removing the last sentence in the 3rd paragraph of the instructions and add the following for enhanced clarity as to what should be included in this subcategory: *The Backed by Other Collateral Types subcategory shall include any other collateral which meets the definition of a qualifying invested asset which was not captured elsewhere. All collateral loans secured by collateral that does not qualify as an investment are required to be nonadmitted under SSAP No. 21. If a collateral loan secured by collateral that does not qualify as an investment is admitted, it shall be supported by a prescribed or permitted practice disclosure.*

For Columns 27 and 28, insert a line “Use only for the ‘Collateral Loans – Reported by Collateral that Secures the Loan’ category.” to clarify that the 2 columns are only to be updated for Collateral Loans.

Based on the above comments, IPs respectfully request a re-exposure or deferral of this item to further address the proposed changes and related comments.

Recommendation:

NAIC staff recommends that the Working Group adopt agenda item 2023-28 with the proposed expansion of Schedule BA / AVR reporting lines for collateral loans, with communicated support to the Blanks (E) Working Group on the adoption of 2024-19BWG, with an effective date of Jan. 1, 2026, with the inclusion of certain modifications suggested by interested parties. (The Blanks proposal 2024-19BWG was exposed with revisions on March 6 for a comment period ending April 29.) Although many of the interested parties’ proposed blanks changes are supported, it is recommended that the Working Group not support the deletion of the note disclosure that details collateral loans by investment category. This note disclosure is not duplicative to the Schedule BA reporting lines as it is more granular and separates collateral loans by the distinct type of qualifying collateral. This disclosure is captured in SSAP No. 21, and any action to remove the disclosure would need to first be considered as a revision to that SSAP.

The following items are specifically noted for support / modification in the Blanks Proposal:

- With the adoption / effective date of the collateral loan reporting lines in Schedule BA and AVR, this will reflect a permanent solution, therefore all collateral loans backed by mortgage loans shall be captured on these reporting lines. This means that reporting entities shall no longer follow the June 2024 interim provision that permitted collateral loans backed by mortgage loans to flow through AVR in lines 38-64 as an “Equity and other Invested Asset Component.”
- Expansion of the description for collateral loans backed by mortgage loans to include loans that would be in scope of both *SSAP No. 37—Mortgage Loans* and *SSAP No. 83—Mezzanine Real Estate Loans* if held directly. (This change adds specific reference to SSAP No. 83.)
- Expansion of the reporting lines for “non-collateral loans” to separate affiliated and related party loans. This will result in reporting lines for Affiliated Loans, Related Party Loans and Other Unaffiliated Loans. This expansion was requested by interested parties as the original proposal had related party and affiliated loans in the same reporting line. As SSAP No. 25 provides specific guidance for assessing and admitting loans made to parents and loans made to all other related parties, identification of related party loans (and not just affiliated loans) is recommended in the reporting lines.

- Revisions to the “Collateral Loans – All Other” to reflect “Collateral Loans – Backed by Other Collateral Types.” The description for this category is proposed as follows (modifications are shown from the interested parties’ proposal). Modifications are necessary because if the collateral meets the definition of a qualifying invested asset, it would be admitted. As such, the description would cause confusion on the reporting for nonadmitted items.

The Backed by Other Collateral Types subcategory shall include ~~any other collateral loans which meets the definition of a qualifying invested asset which was not captured in any other collateral loan reporting line elsewhere.~~ All collateral loans secured by collateral that does not qualify under SSAP No. 21 as an investment are required to be nonadmitted under SSAP No. 21. If a collateral loan secured by collateral that does not qualify as an investment is admitted, it shall be unless supported by a prescribed or permitted practice disclosure.

An aggregate review of the 2024 collateral loan disclosure is as follows:

(This information is from the reported note only and does not include a comparison to Schedule BA.)

As shown in the detail below, collateral loans backed by “affiliated ICO bonds,” unaffiliated mortgage loans” and “affiliated investments in joint ventures, LLCs and partnerships” are greater than 70% of the total.

Of the \$27.8B in collateral loans, only \$65M was disclosed as nonadmitted:

- Of the \$10.6B reported as backed by JV, LLC or partnership investments, \$3M was nonadmitted.
- Of the \$309M reported as backed by affiliated other qualifying investments, \$32.5M was nonadmitted.
- Of the \$45.8M reported as backed by unaffiliated non-qualifying collateral, \$28.5M was nonadmitted.

Collateral Backing Collateral Loan	Note Disclosure Total	% of Total
Unaffiliated Cash / CE & ST	\$145,575,627	0.52%
Issuer Credit Obligations - Affiliated	\$3,286,243,783	11.79%
Issuer Credit Obligations - Unaffiliated	\$1,196,181,621	4.29%
Asset-Backed Securities - Affiliated	\$1,292,104,481	4.63%
Asset-Backed Securities - Unaffiliated	\$547,154,663	1.96%
Preferred Stocks - Affiliated	\$25,000,000	0.09%
Preferred Stocks - Unaffiliated	\$875,892,650	3.14%
Common Stocks - Affiliated	\$10,089,663	0.04%
Common Stocks - Unaffiliated	\$93,746,538	0.34%
Real Estate - Affiliated	\$584,798,322	2.10%
Real Estate - Unaffiliated	\$304,055,142	1.09%
Mortgage Loans - Affiliated	\$377,120,058	1.35%
Mortgage Loans - Unaffiliated	\$5,966,730,875	21.40%
JV, LLC & Partnerships - Affiliated	\$10,603,824,022	38.04%
JV, LLC & Partnerships - Unaffiliated	\$1,292,344,887	4.64%
Other Qualifying - Affiliated	\$309,339,173	1.11%
Other Qualifying - Unaffiliated	\$916,698,627	3.29%
Does Not Qualify - Affiliated	\$4,912,141	0.02%
Does Not Qualify - Unaffiliated	\$45,869,262	0.16%
Reported Note Total	\$27,877,681,535	100%

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-07 (Jake)	Reporting of Funds Withheld and Modco Assets	5 – Agenda item	Comments Received	IP – 4 APCIA – 2 UHC – 12

Summary:

On August 13, 2024, the Working Group exposed this agenda item, for an extended comment period, which proposes to add a new part to the reinsurance Schedule S in the Life/Fraternal and Health annual statement blanks and Schedule F in the Property/Casualty and Title annual statement blanks. In response to comments submitted that indicated that non-trust assets could not be identified, the Working Group also specifically requested comments asking if the assets cannot be identified, then how are the numbers determined for the life risk-based capital charge reductions reported and the collateral fair value?

Interested Parties' Comments:

The proposal, Ref # 2024-07, Reporting of Funds Withheld and Modco Assets, originated from discussions among the IMR Ad Hoc Group, as they noted issues with identifying assets that are subject to funds withheld (FWH) or modified coinsurance (Modco) arrangements. Our understanding of the intent of the proposal is to have transparency in the Annual Statement into the reduction of Risk Based Capital (RBC) charges for ceded FWH and Modco assets in the life RBC formula.

Interested parties request that SAPWG reject the proposed new Schedule F - Part 7 to the property and casualty Annual Statement that would require special reporting for FWH and Modco assets and consider the proposed alternative to the proposed new Schedule S - Part 8 to the life and health Annual Statement as discussed below.

Property & Casualty:

Interested parties request that the SAPWG reject the proposed Schedule F - Part 7 for property and casualty FWH and Modco assets.

Reasons for Rejection:

1. **Limited Applicability:** Property and casualty insurers do not engage in Modco transactions. Moreover, due to the recognition of Certified Reinsurers and Reciprocal Jurisdictions, FWH provisions in reinsurance agreements have significantly decreased. Contracts with FWH provisions are typically in run-off and not substantive.
2. **Lack of Specific Asset Identification and Use Restrictions:** Past reinsurance agreements did not mandate specific identification or restrict the use of assets acquired with the withheld funds. Consequently, the assets are commingled with property and casualty insurers' general account assets and reported in cash and/or the appropriate investment schedule in the ceding insurer's annual statement. Additionally, FWH liabilities are either settled using general account assets or netted against amounts due from reinsurers. Currently, the amounts of FWH are reported in the aggregate on line 13 of the liabilities page of the annual statement balance sheet and in Schedule F - Part 3, column 20, by individual reinsurer.

Life Insurance

Reporting Format

As noted in the interested parties comment letter dated May 31, 2024, we are concerned that the disclosure of CUSIP-by-CUSIP information may create competitive harm or jeopardize the proprietary nature of reinsurance pricing strategies. Additionally, the presentation of this level of information does not seem relevant based on the stated objective of the accounting standard.

Given these concerns, we recommend that this proposed schedule follow the format of the AVR Schedule in the Annual Statement that shows summarized data by each asset class and rating category. This approach ties directly to the 20-category structure used by the RBC calculation which will allow software providers to easily program the asset totals to move through to the RBC calculation. FWH and Modco assets in this schedule would include Book/Adjusted Carrying Value (BACV) of General Account and Guaranteed Separate Account assets.

We have created a revised version of the exposed Schedule S – Part 8 (see attachment) utilizing the AVR Schedule format including ceded and assumed transactions. Given that this revised schedule is based on the AVR Schedules format, any future changes to the AVR schedules should be considered for Schedule S – Part 8.

We believe this solution would address regulators' goals with respect to RBC for FWH and Modco reinsurance transactions while addressing key industry concerns by creating a direct feed to the RBC formula. For cedants, the scope of reinsurance transactions subject to this reporting requirement would be where RBC credit is taken for asset risks transferred to the assuming entity. For assuming companies, the scope would include transactions where RBC asset charges are taken for asset risks assumed from the cedant.

Separate Account Assets

For Separate Account assets where there is no C-1 required capital, interested parties propose including the BACV of such FWH and Modco assets as a single line in the schedule. For example, reinsurance arrangements involving liabilities supported by Non-Guaranteed Separate Account assets are typically reinsured on a Modco basis, as the underlying assets are owned by the policyholders rather than the insurer. Consequently, they do not incur an RBC asset charge and are not recorded in an AVR schedule.

Timing

To facilitate the required reporting, commercial annual statement reporting vendors will need to build the new schedule into their software. Beyond that, many companies note additional work may be required to modify their investment and/or accounting systems to populate the proposed new schedules with the assets associated with FWH and Modco agreements. Others may not have the ability to make changes to their investment and/or accounting systems and would need to create manual processes including appropriate controls to meet the reporting obligations. This will all require significant time, effort, and cost. The ongoing bond definition project will compete for company resources. In spite of these challenges, the preliminary view of life interested parties is that a 2025 year-end implementation of a newly populated schedule S – Part 8 is likely achievable. However, process steps including Blanks Working Group adoption, RBC linkages, and software vendor requirements must be considered as well.

Interested parties acknowledge the importance of transparency in financial reporting for RBC with respect to assets backing FWH and Modco reinsurance transactions. We look forward to working with the SAPWG, as you further refine this proposal.

American Property Casualty Insurance Association (APCIA):

The American Property Casualty Insurance Association (APCIA) appreciates the opportunity to comment on Agenda Item 2024-07. We write to urge the Working Group to reject the proposed new Schedule F Part 7 to the property casualty Annual Statement that would require special reporting for funds withheld for reinsurance contracts. We participated in the discussions and endorse the comments of the industry's interested parties group on this item, but would like to raise several issues that are specific to property casualty insurers as there are significant differences in funds held arrangements between property casualty and life insurers.

The use of funds withheld arrangements in property and casualty reinsurance agreements has declined due to the recognition of Certified Reinsurers and Reciprocal Jurisdictions.

There are generally two types of arrangements in the property and casualty insurance industry where cash were "withheld" in past reinsurance transactions. The first is quota share arrangements where the cedent would hold back

cash as both a credit risk mitigant and to lessen the operational burden of funds being paid to/from the reinsurer. The second was cash received as collateral in lieu of a letter of credit or trust agreement to allow the ceding insurer to take credit for reinsurance. The cash withheld component of these agreements is generally no longer used due to changes in the reinsurance collateral rules with the introduction of Certified Reinsurers and Reciprocal Jurisdictions. As a result, the reinsurance agreements in which funds were withheld as collateral in the past are in runoff and thus the proposed reporting change would generally only apply to older reinsurance contracts where the cash withheld amounts are generally no longer significant.

No specifically identified assets

The proposed Schedule F-Part 7 requires specific identification and reporting of the assets comprising funds withheld. This is contrary to the manner in which property casualty reinsurance is conducted. Property casualty insurers do not use modified co-insurance (modco) and ceding companies generally hold cash in the funds withheld arrangement and the cash held is comingled with the ceding company's general cash account(s). There was no need to designate specific assets as supporting a funds withheld liability because the necessary amounts due the reinsurer are either paid from the ceding company's general account or are netted with amounts receivable from the reinsurer in satisfaction of amounts owed to the cedent. If the new Schedule F Part 7 requires companies to segregate assets to support funds withheld, this would require companies to attempt to track fungible cash from funds withheld to the investments made from those funds for reinsurance agreements that were generally entered into prior to the reinsurance collateral changes and are in runoff. In addition, such reporting would not be supported by any legal restriction on such cash (in fact, no such legal restriction exists).

Funds withheld already reported

Schedule F, Part 3 of the property casualty Annual Statement already requires ceding companies to report funds withheld with regard to each reinsurer with which the cedent does business. Funds withheld are further included in the analysis of credit risk in Part 3. Since funds withheld are not attributable to specific assets, there is no additional reporting to be made.

No significant effect on RBC

We understand that in the life insurance industry funds withheld and modco assets may be separately identified, and that such identification has RBC (risk-based capital) and/or IMR (interest maintenance reserve) consequences. The identity of funds withheld assets has no implications for property casualty insurers – the RBC charge for a particular type of asset is not affected by whether the asset relates to funds withheld or not. In other words, any asset will have the appropriate RBC charge whether it is a funds held asset or not.

Finally, we notice that the agenda item contains no rationale for imposing this requirement on property casualty insurers except that “funds withheld also exist for property/casualty insurance.” This is not a sufficient reason to impose an unnecessary requirement that will require significant company resources for no solvency-related purposes. APCA respectfully requests that this agenda item be amended to remove the proposed requirement for a new property casualty Part 7.

United Healthcare:

Thank you for the opportunity to comment on the above-referenced item that was re-exposed by the Statutory Accounting Principles (E) Working Group (SAPWG). The intent of this item was to make it easier to identify assets that are subject to a funds withheld or modified co-insurance arrangements through updated reporting in the financials.

Interested parties previously submitted comments in response to the initial exposure indicating that, under certain reinsurance arrangements, it would not be possible to identify or report specific assets for funds withheld as proposed in this exposure. To further clarify the point in the original comment letter, we would like to provide the following example, which is similar to several of our reinsurance arrangements:

An insurer may have a reinsurance arrangement transferring insurance risk whereby the terms of the agreement require funds to be withheld equal to the amount of ceded statutory reserves. The funds are withheld to permit

statutory credit for nonadmitted reinsurance. The insurer’s financial statements would reflect a ceded funds withheld liability. In this case, there is no investment risk being passed to the reinsurer and no specific assets separately identified. As such, the information proposed to be disclosed in the newly developed Schedule S page would not be applicable to this type of arrangement with these characteristics. This type of reinsurance arrangement is often seen for health insurance.

In the re-exposed item, SAPWG staff noted that the Life RBC formula reflects a reduction in RBC charges for modco and funds withheld assets. This reduction is by asset type and often by asset designation. SAPWG staff also indicated the fair value of the assets withheld is also reported in the reinsurance Schedule S and F as collateral. As such, SAPWG staff feels there may be a disconnect.

In response to these points, it is important to note that assets are only required to be identified for Life RBC calculation purposes if the insurer is passing investment risk to the reinsurer. For the types of arrangements with the characteristics described in our example above, this RBC reporting requirement does not apply. In addition, upon review of the instructions for Schedule S, we were unable to locate a place in Schedule S where we are required to report fair value of the assets withheld as collateral. The fair value reporting requirement applies to assets that are held in a trust or are otherwise placed on deposit by the reinsurer; however, in the example given above, the assets are simply investments within the ceding company’s general account and are not segregated or separately identified.

We respectfully request the Working Group limits the application of this guidance and Schedule S reporting requirement to reinsurance arrangements under which investment risk is being passed to the reinsurer or where the terms of the reinsurance arrangement require a segregation or specific identification of assets used to collateralize the ceded reserves. Arrangements without such characteristics should be excluded from the reporting requirements as they are not applicable.

Recommendation:

NAIC staff recommends that the Working Group expose until May 2, the agenda item which includes an updated draft of Schedule S, Part 8 for only the Life/Fraternal blank. After reading the comments and holding discussions with interested parties, NAIC staff has removed Schedule F, Part 7 from the proposal, and will also not include a new Schedule S, Part 8, on the Health blank. The updated draft is closely in line with the recommendations from interested parties, and more closely aligns with AVR reporting. A corresponding SAPWG sponsored blanks proposal was exposed by the Blanks (E) Working Group on March 6. The full Schedule S, Part 8 blank and instructions is included in Exhibit 1 of the agenda item.

If Working Group members continue to support inclusion of comparable schedules in the P/C and Health blanks, NAIC staff can include those items in the exposure and direct their inclusion in the Blank proposal.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-20 (Julie)	Restricted Asset Clarification	6 – Agenda item	Comments Received	IP – 32

Summary:

On November 17, 2024, the Working Group moved this item to the active listing categorized as a SAP clarification and exposed revisions to SSAP No. 1 as well as corresponding proposed revisions to the Annual Statement instructions/template for the restricted asset disclosure in Note 5L to specify how Modco and FWH assets reported within a ceding company’s financial statements shall be reported. The exposed revisions also include a new disclosure to identify whether Modco/FHW assets are pledged by the ceding entity as well as expanded disclosures to detail differences between what is reported in the restricted asset note and what is in the general interrogatories.

Interested Parties' Comments:

Interested parties appreciate the opportunity to comment on this item after it was re-exposed for comment by the Working Group during the NAIC Fall National Meeting in Denver.

We have split our comments below based on the section of instructions they refer to, following feedback comments related to the overall exposure.

General Feedback

Interested parties note that the instructions for SSAP No. 1, Note 5L, General Interrogatories (GI), and Risk Based Capital (RBC) do not indicate which values should be used for each of the disclosures (i.e., Book Adjusted Carrying Value (BACV), collateral amount, Fair Value). As such, we recommend that BACV be used for all disclosures to ensure consistency.

For example, in Note 5L, columns 8 & 9, Total Admitted/Nonadmitted Assets are reported using BACV, as the assets would appear in the Assets page under the Admitted and Nonadmitted Assets columns. In lines b and c, *Collateral held under security lending agreements* and *Subject to repurchase agreements*, may be reported as collateral amounts to match the General Interrogatory (GI). Combining BACV and collateral amounts could be misleading to the reader.

Interested parties recommend that changes to the *NAIC Accounting Practices and Procedures Manual* (AP&P manual) be made concurrent with any Blanks and RBC instruction updates to ensure that all reporting is consistent.

SSAP No. 1

We have no comment on the changes in SSAP No. 1 – *Accounting Policies, Risks & Uncertainties and Other Disclosures* other than the clarification of expected reporting values.

Notes to the Financial Statements - 5L

5L(1)

- Interested parties note that instructions are not included for the new columns and rows or the newly required reconciliation. Therefore, we recommend instructions be added to the Restricted Assets section.
- We note that this section still has line o titled: *Total restricted assets*, but the new chart shows that the total is now line r. We recommend instructions be updated with the new line titles.
- We note that changes to SSAP No. 1's requirements would also require Note 5L be updated for Health and Property & Casualty companies, which have slightly different formats than Life.

Illustrations to the Financial Statements - 5L

5L(1)

- The exposure should clarify what happens if assets are pledged and may show up as restricted assets in another row.
- Interested parties recommend the removal of the reference to SSAP No. 1 Paragraph 23.c from the Restricted Assets Category in lines o-q.
- We would like to confirm that line o should exclude collateral received from security lending and repurchase agreements as these items are already included in lines b-f. We recommend clarification language to call out the exclusions.

5L(2)

- Question: Is the amount of total assets pledged under derivative contracts supposed to be on the new line (*Amount of Total pledged under derivative contracts*) and not included above the current line “Total (c)”? If so, why would we need to remove that line from the new total line?
- We recommend that the new Total Excluding Derivatives include a formula showing it is Total (c) less Amt of total pledged under derivative contracts.
- We recommend Staff Note be included as a subnote to the table or included in the Note 5L instructions.
 - ✓ **Note: The amount of pledged under derivative contracts should agree to Schedule DB and agree to what is subtracted from the life RBC formula.**

5L(4)

- Interested parties would like clarification if the new Collateral/Modco/FWH Columns are independent of each other or are Modco/FWH subsets of the collateral amount.
- We note that the subnotes for Columns 3 and 4 were not updated and still state the formula is column 1 / Asset page. Column 1 refers to all data for BACV. The columns will need to be renumbered (i.e., 1.1 Collateral; 1.2 Modco; 1.3 FWH) and/or the subnotes for j and t would be updated.
- We note that row j currently should be column total lines, but the headers for the Separate Account (SA) section were added to the total line instead of a new row. We recommend a new line be added for the SA section headers. Line t should be numerical values rather than column headers.
- We would like to confirm that the “Recognized Obligation for Modco/FWH Assets” required in 5L(4)u and v are equal to the Modco/FWH reserve liabilities. If so, the language should be updated to read as such.

5L(4) – The second one should be renumbered to 5L(5)

- The exposure should clarify that this table applies only when the economic benefits received from pledging the asset stay with the cedant. Stated differently, if the benefit or cost associated with the restriction inures to the reinsurer, that would not be considered “purpose specific to the ceding insurance reporting entity.” We recommend a principle be developed to apply the intended rules to a wide array of transactions.

Life RBC (E) Working Group Referral

Interested parties propose the following changes be made to the referral to the Life RBC (E) Working Group.

Basis of Factors

When the default risk in modified coinsurance (MODCO) and other reinsurance transactions with funds withheld is transferred, this transfer should be recognized by reducing the RBC for the ceding company and increasing it for the assuming company. In the event that the entire asset credit or variability in statement value risk associated with the assets supporting the business reinsured is not transferred to the assuming company for the entire duration of the reinsurance treaty, the RBC for the ceding company should not be reduced. For clarity, if the Modco/Funds Withheld reinsurance agreement asset held as of the year-end date has been used as a pledged asset concurrently with the pledged asset being included as a Modco/Funds Withheld reinsurance agreement asset for any purpose specific to the ceding insurance reporting entity at any time during the year, the RBC for the ceding company shall not be reduced. For example, if the Modco/Funds Withheld reinsurance agreement asset held as of the year-end date was the collateral in a securities lending, repurchase, or FHLB transaction executed for the benefit of by the ceding entity at any time over the year concurrently with the pledged asset being included as a Modco/Funds Withheld reinsurance agreement asset, then the reporting entity cannot assert that they have transferred the asset risk or variability and RBC shall not be reduced. In situations where the economic benefit received from pledging the assets inure to the reinsurer throughout the duration of the reinsurance treaty, the cedant is allowed to reduce its RBC for those assets.

Recommendation:

NAIC staff recommends that the Working Group adopt the exposed revisions to *SSAP No. 1—Accounting Policies, Risk & Uncertainties and Other Disclosures*, to be effective December 31, with minor modifications to replace “amount” with “book/adjusted carrying value (BACV)” in paragraph 23b and 23c as recommended by interested parties. (These are illustrated on the following pages.)

A corresponding SAPWG sponsored blanks proposal was exposed by the Blanks (E) Working Group on March 6. As many of the interested parties’ comments focused on the draft mark-up of blanks changes / note illustrations within the SAPWG agenda item, those items were considered for inclusion in the blanks proposal prior to exposing. It is anticipated that Blanks (E) Working Group adoption consideration will occur on May 29 to allow for year-end 2025 data-capturing.

With adoption, it is recommended that the Working Group send a referral to the Life Risk-Based Capital (E) Working Group to clarify the guidance for when an RBC reduction can occur for modco and funds withheld reinsurance agreements. After considering the industry comments, NAIC staff recommends the referral include the proposed new language shown below for consideration by the Life RBC (E) Working Group in the instructions for “Modco or Funds Withheld Reinsurance Agreements” addressing pages LR045, LR046, LR047 and LR0148. This language has been revised to reflect most of the interested party proposed edits, but also with edits to clarify that the RBC reduction is not permissible if any portion of the modco / FWH asset has been pledged to prevent interpretations that pro-rata reductions are permitted.

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
LR045, LR046, LR047 and LR048

References to MODCO and funds withheld reinsurance agreements apply to all treaties in effect.

Basis of Factors

When the default risk in modified coinsurance (MODCO) and other reinsurance transactions with funds withheld is transferred, this transfer should be recognized by reducing the RBC for the ceding company and increasing it for the assuming company. In the event that the entire asset credit or variability in statement value risk associated with the assets supporting the business reinsured is not transferred to the assuming company for the entire duration of the reinsurance treaty, the RBC for the ceding company should not be reduced. For clarity, if any portion of a Modco/Funds Withheld reinsurance agreement asset held as of the year-end date has been used as a pledged asset concurrently with the pledged asset being included as a Modco/Funds Withheld reinsurance agreement asset for any purpose specific to the ceding insurance reporting entity at any time during the year, the RBC for the ceding company shall not be reduced. For example, if any portion of a Modco/Funds Withheld reinsurance agreement asset held as of the year-end date was the collateral in a securities lending, repurchase, or FHLB transaction executed for the benefit of by the ceding entity at any time over the year concurrently with the pledged asset being included as a Modco/Funds Withheld reinsurance agreement asset, then RBC shall not be reduced. In situations where the economic benefit received from pledging the assets inure to the reinsurer throughout the duration of the reinsurance treaty, the cedant is allowed to reduce its RBC for those assets.

FAWG Referral: A referral from the Financial Analysis (E) Working Group has also been received requesting disclosure when a reporting entity’s modco/FWH invested assets are affiliated with or related to a reinsurer. This referral is being addressed in agenda item Ref #2025-05 captured on the meeting agenda. The recommendation in that item is proposing an expansion of the restricted asset disclosures captured in this agenda item. It is likely that both items can be adopted and incorporated for year-end 2025 blanks reporting. However, if needed, the disclosures proposed in response to the FAWG referral can be considered on a separate timeline.

Adoption Consideration: The exposed edits to SSAP No. 1 with the proposed changes shaded.
(Edits are to reference BACV and to incorporate a Dec. 31, 2025 effective date):

23. Reporting entities shall disclose¹ the following information in the financial statements:

- a. Amounts not recorded in the financial statements that represent segregated funds held for others, the nature of the assets and the related fiduciary responsibilities associated with such assets. One example of such an item is escrow accounts held by title insurance companies; and
- b. The total combined (admitted and nonadmitted) book/adjusted carrying value (BACV) amount of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category, and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.)² in the general and separate accounts³ by the reporting entity in comparison to total assets and total admitted assets. (Pursuant to SSAP No. 4, paragraph 6, all assets pledged as collateral or otherwise restricted shall be reported in this disclosure regardless if the asset is considered an admitted asset.) Reporting entities shall also disclose differences in the amounts reported in this note versus the amounts reported for the same categories in the general interrogatories. This disclosure shall include the following restricted asset categories:
 - i. Reported assets subject to contractual obligation for which liability is not shown;
 - ii. Collateral held under security lending agreements;
 - iii. Assets subject to repurchase agreements;
 - iv. Assets subject to reverse repurchase agreements;
 - v. Assets subject to dollar repurchase agreements;
 - vi. Assets subject to dollar reverse repurchase agreements;
 - vii. Assets placed under option contracts;
 - viii. Letter stock or securities restricted as to sale⁴ – excluding FHLB stock;
 - ix. FHLB capital stock;
 - x. Assets on deposit with states;
 - xi. Assets on deposit with other regulatory bodies;

¹ Disclosure of restricted assets shall be included in the annual 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.

² The aggregate information captured within this disclosure is intended to reflect the information reported in the Annual Statement Investment Schedules in accordance with the coding of investments that are not under the exclusive control of the reporting entity, including assets loaned to others and the information reported in the General Interrogatories, as well as information on restricted cash, cash equivalents and short-term investments.

³ Restricted assets in the separate account are not intended to reflect amounts “restricted” only because they are insulated from the general account or because they are attributed to specific policyholders. Separate account assets shall be captured in this disclosure only if they are restricted outside of these characteristics.

⁴ The nature, description and amount of the restriction are required in the disclosure.

- xii. Pledged as collateral to the FHLB (including assets backing funding agreements);
- xiii. Assets pledged as collateral not captured in other categories^{ENI}; and
- xiv. Other restricted assets.

New Footnote 1: Items captured in this category shall include assets reported within the financial statements that are pledged to a counterparty that have not been captured in other categories or within paragraph 23.c. Items reported should include, but not be limited to, assets pledged under derivative arrangements.

- c. The book/adjusted carrying value (BACV) 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 ~~and~~ the 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.

Effective Date and Transition

34. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*. The guidance in paragraphs 17-22, requiring evaluation and disclosure of substantial doubt about an entity’s ability to continue as a going concern is effective December 31, 2016, and is required for interim and annual reporting periods thereafter. Early application is permitted. The update to Section 3, Summary Investment Schedule, of Appendix A-001 is effective January 1, 2019. Revisions to the restricted asset disclosure to include information on assets held under modified coinsurance and funds withheld reinsurance agreements, and to require the restricted asset disclosure in quarterly financial statements are effective December 31, 2025.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-21 (Julie)	Investment Subsidiaries	7 – Agenda Item	Comments Received	IP - 35

Summary:

On November 17, 2024, the Working Group moved this item to the active listing and exposed this concept agenda item requesting comments on options to clarify accounting guidelines and resulting reporting impacts for investment subsidiaries. The potential options were included as follows:

- 1) **Revisions to SSAP No. 97 to incorporate statutory accounting guidance for SCAs that hold assets on behalf of the reporting entity and affiliate (investment subsidiaries).** By incorporating in SSAP, consideration can be given as to prescribing the measurement method and potential nonadmittance thresholds if the assets within the investment subsidiary would be nonadmitted if held directly. (As detailed in the agenda item, the existing reference to measurement and nonadmittance in the instructions for D-6-1 would not overrule the guidance in SSAP No. 97. If the revisions to SSAP No. 97 are not supported, then the Working Group could consider sponsoring a blanks proposal to clarify the instructions in D-6-1 to prescribe allocation of the underlying investments in a manner that coincides with the SCA measurement and admittance under SSAP No. 97.)

- 2) **Sponsor blanks proposals to capture new investment schedules, or perhaps expansions to existing investment schedules, to detail the underlying assets held within an investment subsidiary.** As the RBC and AVR calculations require reporting entities to calculate RBC and AVR based on the underlying assets, this information should be readily available. If revisions are not incorporated into SSAP No. 97, these proposals can also clarify requirements for reporting as an investment subsidiary.
- 3) **Referrals to the Capital Adequacy (E) Task Force and related RBC Working Groups to incorporate details that allow regulators to verify the RBC calculation for the underlying assets in investment subsidiaries.** If blanks reporting revisions are incorporated that provide this detail, then the RBC formula can likely pull from those sources. If reporting revisions are not incorporated, then additional schedules or reporting lines would be necessary within the RBC formula.

Interested Parties Comments:

As background, investment subsidiaries are often used by insurers as operationally efficient investment vehicles and also may be used for various legal reasons (e.g., reinsurance transactions). Using a separate legal entity to own certain types of investments may be a lot more efficient than having the insurer own the assets outright. For example, insurers may use an investment subsidiary to own residential mortgage loans. This asset type usually requires the issuance of a high volume of loans to achieve the appropriate economies of scale so that the investment is cost-effective. Insurers may create a separate legal entity to allow for licensing to purchase loans in every state and that will engage a mortgage loan servicer to administer and service all the loans. Additionally, when insurers establish an investment subsidiary in the form of a trust with a national bank as trustee, the national bank trustee is either explicitly exempted from state lending licensing requirements or entitled to federal preemption from state lending license requirements. Using an investment subsidiary in this case would allow the insurance company to invest in large volumes of residential mortgages without significant burden on internal resources and internal operations while holding a capital charge on the underlying mortgages that is commensurate with the risk of each underlying mortgage loan.

With the background above, following are our comments to the potential actions included in the exposure draft.

1. **Proposal No. 1: Revisions to SSAP No. 97 to incorporate statutory accounting guidance for SCAs that hold assets on behalf of the reporting entity and affiliate (investment subsidiaries)**

Interested parties agree with including guidance in SSAP No. 97 to address the following items:

- a. The definition of an investment subsidiary from Schedule D should be brought over into SSAP No. 97.
- b. Interested parties agree that clarification should be added on the accounting for these investments. We understand that these investments are to be reported using an equity method of accounting with U.S. GAAP audited financial statements required for admissibility. There is a current lack of clarity on how to apply the “imputed value” requirement in the investment subsidiary definition. There is inconsistency in practice as to whether the underlying investments are adjusted from a U.S. GAAP value to a U.S. SAP value in instances where U.S. GAAP and U.S. SAP differ from an investment valuation perspective. If the intent is for the investment subsidiary’s assets to be recorded with a carrying value equal to what would be recorded if the assets were held directly by the insurer, more clear guidance should be included in SSAP No. 97 as to how this rule is intended to be applied.
- c. There should be clarification that in no instance the RBC charges applied to the underlying assets can be more beneficial than if the assets were held directly by the insurer. This should address the Working Group’s concern regarding investment subsidiaries that own bonds that do not meet the new principles-based definition and would require an SVO designation for reporting. Interested parties also request clarification in the RBC instructions that the applicable charges be applied to the accounting basis used to determine the carrying value of the investment subsidiary.

2. Proposal No. 2: Sponsor Blanks proposals to capture new investment Schedules or perhaps expansions to existing investment schedules, to detail the underlying assets held within an investment subsidiary

Interested parties believe that having to include a listing of each underlying asset of the investment subsidiary will take away some of the operational efficiency that is gained by having the investment subsidiary own the underlying assets. If this is a “must have” for the Working Group, perhaps we can work together on the most efficient way to provide the data. See additional suggestions under item 3 below.

3. Proposal No. 3: Referrals to Capital the Capital Adequacy (E) Task Force and related RBC Working Groups to incorporate details that allow regulators to verify the RBC calculation for the underlying assets in investment subsidiaries

Interested parties agree with providing transparency for RBC purposes. Since listing each asset individually may take away some of the benefits of creating an investment subsidiary, perhaps the assets can be provided by groupings that match AVR/RBC schedules similar to the industry’s recent response on the funds withheld assets exposure. Another option may be to include detail in a note to the financial statement that would be less onerous than including it in the actual Investment schedules.

In addition to providing responses above to the specific actions detailed in the Exposure Draft, interested parties would like to provide additional comments as follows:

1. We understand from the exposure draft that the concept of an investment subsidiary is intended to be limited to Schedule D common stock and preferred stock investments. However, it is not clear to us why the concept cannot be extended to investments in subsidiaries that are legally structured as limited partnerships (LPs) or limited liability companies (LLC). The legal form of the entity should not impact whether a subsidiary meets the criteria for investment subsidiary reporting as the accounting and reporting would follow substance over form. In fact, we understand that insurance law in some states already allows the concept of an investment subsidiary to be applied to any legal entity. For example, state statutes modeled on the NAIC Holding Company System Regulatory Act refer to investment subsidiaries as “entities organized as corporations, partnerships, associations, joint stock companies, trusts, unincorporated organizations that are engaged or organized to engage exclusively in the ownership and management of assets authorized as investments for the insurer.” We understand that this would require some changes to Schedule BA to add a specific line item for investment subsidiaries, which will require additional work and new AVR/RBC mapping. Another option could be to require all investment subsidiaries, regardless of legal form, to be reported on Schedule D.
2. There are entities that are not legally structured as either a corporation or LP/LLC. However, the equity they issue is more akin to a common stock investment in a corporation than it is to an equity interest in an LP/LLC. This is the case for Delaware statutory trusts (DSTs). From a legal perspective, equity investments in these types of entities are treated similarly to common stock as investors in both DSTs and corporations have limited liability. Unlike LPs/LLCs, DSTs do not maintain separate capital accounts for each investor since the ownership interest is usually represented by shares/beneficial interests similar to ownership of equity in a corporation. Any new guidance added to SSAP No. 97 should allow for the reporting entity’s assessment of whether the equity investment in the investment subsidiary is more akin to common stock (Schedule D reporting) or more akin to LP/LLC interests (Schedule BA reporting). Each reporting entity needs to assess individual facts and circumstances for each investment vehicle to determine guidance applicability and the appropriate schedule in which to report the investment subsidiary.
3. Some trusts are established to hold assets such as mortgage loans that allow for direct reporting on Schedule B. We understand that this is done by including legal language in the trust certificates that specifically state that ownership in the trust represents a participation in each mortgage loan owned by

the Trust. In these instances, the insurer has an undivided interest in each mortgage loan and it has the same rights as the lender of record with all proceeds from the loans as well as foreclosure rights being pari-passu with the lender of record. We believe that since ownership in the trust in this instance represents a participation in each loan as defined in SSAP No. 37, these loans are Schedule B eligible assets and are outside of the scope of the investment subsidiary guidance.

Recommendation:

NAIC staff recommends that the Working Group defer this item to allow for further consideration of Delaware Statutory Trusts (DSTs) holding residential mortgages loans, and whether specific statutory accounting parameters and guidance should be established.

As a general note, DSTs are distinct from common-law trusts as they are established under Delaware statutory trust laws, which allows for significant flexibility in structuring the trust. While holding real estate investments within a DST provides a number of structural and tax advantages, one of the most notable benefits is that it enables insurance companies to bypass the requirement of obtaining individual state lending licenses for each state where they hold residential mortgage investments. NAIC staff has concerns with the overall reporting of “investment subsidiaries” on Schedule D-6-1 and the potential RBC benefit that can occur without transparency to the regulators on the assets within an “investment subsidiary” and how the RBC is being calculated. From an interim discussion with interested parties, NAIC staff has an initial impression that the key industry focus is on developing accounting and reporting guidance for Delaware Statutory Trusts (DST) structures holding residential mortgage loans. Rather than retaining a generic reporting category that allows an RBC look-through without any parameters, which likely should have been eliminated when the concept of “investment subsidiaries” was deleted from SSAP No. 97 in 2005, NAIC staff recommends a project to assess DST structures holding residential mortgage loans and the potential establishment of specific accounting and reporting guidance. During this time, if there are other specific structures captured as “investment subsidiaries” on D-6-1 that warrant separate review, industry can present those dynamics to NAIC staff for further assessment. Once a Working Group decision is made for residential mortgage loans held in DSTs (potentially with new SAP guidance addressing structure requirements, accounting and reporting), then it would be recommended that the Working Group sponsor a blanks proposal to remove the concept of a generic “investment subsidiary” from Schedule D-6-1, along with referrals to remove that concept from related RBC formulas, to prevent future use of that generic reporting / RBC look-through. Going forward, if there are SSAP No. 97 structures for which look-through RBC is desired, NAIC staff would recommend that industry bring those structures to the attention of the Working Group for assessment.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-24 (Robin)	Medicare Part D – Prescription Payment Program	8 – Agenda item 9 – INT 24-02 9a INT -24-02 10 – INT 05-05	Comments Received	AHIP BCBSA – 42

Summary:

On February 25, 2025, the Statutory Accounting Principles (E) Working Group exposed additional revisions to tentative *Interpretation (INT) 24-02: Medicare Part D Prescription Payment Plans* and re-exposed the minor edits to *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage for a shortened comment period ending on March 5, 2025*, to allow for discussion at the Spring National Meeting. In addition, the Working Group directed NAIC staff to continue with the blanks proposals on this topic with the goal of incorporation into the 2025 annual statement instructions. The majority of the new revisions are terminology revisions which did not change the key provisions of the November 2024 exposure.

The Medicare Part D, Prescription Payment Plan adds to the voluntary outpatient prescription drug program (Part D), a new program to offer Part D enrollees the option to their out-of-pocket Part D prescription drug costs through monthly payments over the course of the plan year instead of at the pharmacy counter. This program, known as the

Medicare Prescription Payment Plan (MPPP), is effective on January 1, 2025. INT 24-02 was developed with input from health industry representatives and provides statutory accounting and reporting guidance for aspects of MPPP. Key components of the MPPP guidance include the following:

- Allows admitted asset treatment for receivables from MPPP participants which are less than 90 days overdue. with reporting on the on the Health care receivables asset line.
- MPPP recoverables from participants which are more than 90 days overdue based on program billing requirements are nonadmitted.
- MPPP recoverables are also subject to impairment analysis.
- Uncollectible receivables from MPPP participants which are written off as are reported as a Medicare prescription claims expense.

Blue Cross and Blue Shield Association / AHIP Comments:

Blue Cross and Blue Shield Association / AHIP provided recommended edits to paragraphs 1, 3, 5, 8, 9g,10, 11, 16, 20, 21, and 23. These proposed tracked revisions are shown in the comment’s Attachment 13.

Recommendation:

NAIC staff recommends adoption of the exposed minor edits to INT 05-05: Accounting for Revenues Under Medicare Part D Coverage and recommends adoption of the exposed revisions to INT 24-02: Medicare Part D Prescription Payment Plans with the addition of almost all of the modifications suggested by Blue Cross and Blue Shield Association and AHIP. The majority of the AHIP and BCBSA proposed revisions are minor wording clarifications. The revisions to paragraph 23 clarify differences in the medical loss ratio between the federal calculation and statutory accounting. In addition, NAIC staff proposed a correction to the illustration in scenario 2 to change an amount from negative to positive. The proposed revisions do not change the key accounting components. All revisions have been discussed with representatives of BCBSA and AHIP.

- Attachment 9 illustrates the prior exposed revisions with additional proposed edits shaded.
- Attachment 9a illustrates only the new edits proposed for adoption, primarily from AHIP and BCBSA which are shown as tracked and shaded.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-04 (Julie)	Conforming Repurchase Agreement Assets	11 – Agenda item	Comments Received	IP – 15

Summary:

On August 13, 2024, the Working Group exposed this agenda item and a memorandum detailing accounting, reporting and RBC guidance for repurchase agreement and securities lending transactions with a request for feedback from regulators and interested parties on the documented processes and noted questions. This original exposure was until September 27, 2024, but a comment deadline extension was requested to December 16, 2024.

Interested Parties’ Comments:

The interested parties duplicated the exposed memo detailing accounting, reporting and RBC guidance for repo and sec lending transactions in their comment letter with responses to the NAIC staff questions. This full response is included in the comment letter attachment. To save space, only the NAIC questions and interested parties’ responses have been included below divided by section topic.

Securities Lending – Reporting Entity Lends a Security and Receives Collateral in Exchange:

1. *Lending Entity Cannot Sell / Repledge Security Collateral Received:*

NAIC Note 1: Should the type of collateral received in these programs be captured in a financial statement disclosure to allow for regulator verification of the “conforming” program guidelines? Additionally, it has been noted that the admittance calculation focuses solely on the fair value comparison of the collateral received to the security lent. However, there is no current guidance that assesses admittance based on the quality/type of collateral received. Under the current guidance, residuals or low-quality assets could be received and there is no documentation of this type of collateral for certain sec lending and repo programs. Even if these programs would not qualify as conforming, there is a question on whether admittance restrictions should exist based on the collateral received from the counterparty.

Interested parties’ response: *Given the deferral of the conforming repo proposal, only conforming sec lending programs will be subject to the conforming guidelines. In these programs, the insurer attests to the conforming criteria. One possible additional disclosure could be footnote like footnote 5.E.8 for repo, whereby the collateral received is specified by asset type.*

In typical security lending programs, the insurer receives cash in these transactions, but the master agreement between the counterparties also allows the insurer to receive high-quality collateral – restrictively defined as “acceptable collateral” - which must be marked to market regularly for ongoing margining purposes. Regardless of whether the program is conforming or not, the combination of daily margining and the restrictive definition of “acceptable collateral” should provide NAIC with sufficient comfort that additional admittance restrictions on collateral received would be duplicative.

NAIC Note 2: NAIC staff believes there is inconsistent application of the current guidance as there is a disconnect in language between RBC and the Blanks on whether the collateral received or the lent asset is identified as a restricted asset. The blanks instructions in GI 25.04 and GI 25.05 identify the “Amount of Collateral.” The lines in RBC identify “Loaned to Others.” This inconsistency in terminology likely causes confusion on whether the amount reported should be the lent security or the collateral received in exchange. NAIC staff suggest clarifying terminology for consistency purposes, clarifying that the loaned asset retained on book should be the amount reported as restricted that flows through all schedules.

Interested parties’ response: *We agree that consistent terminology should be established between Blanks and RBC to clarify that the loaned security is identified as a restricted asset. We suggest that Blanks references to “Amount of Collateral” in GI 25.04 and GI 25.05 should be changed to “Loaned to Others,” consistent with RBC.*

2. *Lending Entity Can Sell / Repledge Collateral Received – (Also Applies to Cash Collateral)*

NAIC Note 3: As the collateral can be sold/repledged, there is a question on the application of the admittance provisions in paragraphs 91-92 of SSAP No. 103. That guidance is focused on the fair value of the original collateral received in comparison to the fair value of the security lent. Once the collateral has been reinvested, the reporting entity is responsible for the reinvestment risk and the counterparty is not responsible for fair value changes of the reinvested security. Although a position could be taken that the fair value of the collateral originally received should continue to be compared to the fair value of the lent security to determine if more collateral needs to be provided, with the current financial statement reporting, this information is not captured to allow assessments once the collateral has been reinvested allowing regulators to verify the admittance provisions.

Interested parties’ response: *We do not believe that there is any ongoing need to compare the fair value of the original collateral received in comparison to the fair value of the security lent. One salient feature of securities lending and repurchase agreement transactions is that exchange of variation margin covers the differences that*

emerge over time between the original market value of the security lent and the original market value of the collateral received. The margining process maintains equality between the market value of the collateral received – plus or minus any variation margin – and the market value of the security lent. This market structure obviates the need for regulators to generate an admittance test on whether the fair value of original collateral received compares with the fair value of the security lent.

Existing disclosures also provide regulators with sufficient visibility:

1. *Footnote 5.E.5 b: The reinvestment portfolio acquired with cash received consisted principally of high quality, liquid, publicly traded long term bonds, short term investments, cash equivalents, or held in cash. If the securities sold or the reinvestment portfolio become less liquid, the Company has the liquidity resources of most of its general account available to meet any potential cash demands when securities are returned to the Company.*
2. *Footnote 5.E.5 provides a maturity schedule for the collateral received.*
3. *Schedule DL provides full transparency and look-through to the assets in the reinvestment portfolio.*

In summary, existing financial statements disclose the risk and maturity summary in the footnotes and provide a full schedule for reinvested assets. The fair value security lent and collateral received continue to be matched via the margining process.

NAIC Note 4: With regards to the admittance calculation, there is also a question on application when the original collateral still covers 100% of the BACV of the loaned security but does not meet the requirement for 100% of the loaned security's fair value. As an example, if the loaned security at amortized cost has a BACV of \$90, but had a fair value of \$100 when loaned, the guidance in paragraph 91 requires collateral of \$102 at the onset of the transaction. If the original collateral was to decrease in fair value to \$98, it would no longer comply with the guidance in paragraph 91 and nonadmittance of the loaned security for \$2 is expected under the guidance (\$100 - \$98). However, as the loaned security is reported at BACV of \$90, the collateral still covers the full reported value of the loaned security. If the counterparty was to default, the reporting entity would eliminate the loaned security (\$90) and the liability to return the collateral (\$98) from the books and retain the collateral asset as their own. This transaction would result in an \$8 gain for the reporting entity. If the loaned security had been nonadmitted by \$2 prior to the default due to the FV decline of the collateral, there would have been a surplus hit of \$2 for the nonadmittance. Upon the counterparty default, in addition to the \$8 gain, there would have then been a surplus bump of \$2 with the elimination of the nonadmitted asset. (*It is noted that if the fair value for the collateral asset had been retained, the reporting entity would have had a greater gain, but they are still fully covered based on how the loaned asset is reported.*) NAIC staff requests confirmation of the admittance guidance and its application from regulators, particularly when the fair value of the collateral continues to cover the BACV of the loaned security.

Interested parties' response: *We agree with NAIC staff's recommendation that admittance calculations should be based on the fair value of the original collateral and loaned security, as opposed to book value. As discussed above, the margining provisions of these contracts ensures that market values, rather than book values, remain aligned over the term of each transaction.*

NAIC Note 5: As the collateral received can be sold/repledged, there is a question on the application of the "conforming security lending" collateral requirements. From a broad review of financial statements, collateral reported on Schedule DL was identified as outside of the conforming parameters, but the security lending program was identified as "conforming" with the lower RBC charge. NAIC staff recommend clarification on the application of the "conforming" requirements. Particularly, if the intent is to permit a lower RBC charge due to the liquidity / stability of certain types of collateral, then it may be appropriate to require the collateral to always comply with the "conforming" provisions regardless of if it has been reinvested by the reporting entity.

Interested parties' response: *We believe that the narrow definition of “acceptable collateral,” which is intended to be applied **only** to the original collateral received against the lent security, has been misapplied to the reinvestment portfolio. Acceptable asset classes in the reinvestment portfolio are defined in the portfolio’s Investment Guidelines, not by the “acceptable collateral” criteria. Applying the narrow definition of “acceptable collateral” to the reinvestment portfolio could disrupt the economic viability of these programs.*

3. Securities Borrowing – Entity Borrows a Security and Provides Collateral in Exchange

NAIC Note 6: A security borrowing transaction is the flipside of the security lending transaction, with the reporting entity operating on the opposite side as borrower instead of lender. With this dynamic, it is presumed that the same restricted asset categories, and whether it is a conforming program, would be determinants in reporting the restricted asset and in the resulting RBC charge. NAIC staff requests confirmation of this assessment. (A security borrowing is the transaction, and it is accounted for as a “secured borrowing” – this terminology can be confusing when discussing the design.)

Interested parties' comments on Notes 6-8: *From the insurer’s perspective, securities borrowing transactions have a very different structure than securities lending transactions. Insurers have not, and do not anticipate, requesting the establishment of “conforming securities borrowing” programs with changes to RBC.*

Note 7: The guidance for a security borrowing could result with restricted asset reporting for both the collateral provided (if not cash collateral) as well as for the reinvested borrowed securities that the reporting entity has sold. NAIC staff notes that this could be a double hit of restricted asset charges and recommends comments on paragraph 94 of SSAP No. 103 on the elimination of the restricted asset requirement for the assets received from the sale of the borrowed security. It is noted that the reporting entity would already have a liability recognized to return the borrowed security to the counterparty.

See interested parties' comments above.

Note 8: For security borrowing transactions, it is identified that both a receivable and payable from the counterparty could be recognized. A receivable - if cash was originally provided as collateral for the return of the cash - and a payable - if the reporting entity sold the borrowed security for the obligation to return the security. This dynamic could result in a netting of the transactions under SSAP No. 64. If netted, then the regulators would not be able to identify these aspects within the financial statements, but the provisions that permit netting under SSAP No. 64 (legal right to offset) may be present.

See interested parties' comments above.

Repurchase Agreements***

4. Repurchase Agreement – Reporting Entity Sells Security and Receives Cash / Collateral

NAIC Note 9: Due to the similarities in overall function between securities lending and repurchase agreements, NAIC staff supports consistent accounting, reporting and disclosures. NAIC staff recommends expanding Schedule DL to capture repurchase agreements, and a reassessment of the repurchase agreement disclosures to determine whether the level of detail should be retained.

Interested parties' response: *Extending Schedule DL to repurchase agreements makes sense only for any future “conforming repo” programs that have segregated assets in the reinvestment portfolio. In certain cases, repo can be used for secured borrowing whereby the cash is used for alternative purposes and not explicitly reinvested. Since industry is no longer requesting the establishment of conforming repo programs, we believe that Schedule DL should not be extended to repo programs at this time.*

NAIC Note 10: The same concept issues exist for the nonadmittance of reported securities under repo transactions than what exist under the securities lending transactions. Under current guidance, if the fair value of the sold security was to increase, more proceeds (collateral) is required or the sold security is subject to nonadmittance. If collateral was reinvested, the comparison would have to be based on the original collateral received and not the reinvested collateral. Also, there is the question on nonadmittance when the collateral received still covers the BACV of the sold security.

Interested parties' response (similar to Note 3): One salient feature of securities lending and repurchase agreement transactions is that exchange of variation margin covers the differences that emerge over time between the original market value of the security lent and the original market value of the collateral received. The margining process therefore aligns the **market value** of the collateral received – plus or minus any variation margin – with the **market value** of the security lent. This market structure obviates the need for regulators separately to test the market value of original collateral received in comparison with the fair value of the security lent. Additionally, repo funding proceeds may be used for purposes outside of a reinvestment portfolio which results in a lack of asset base to test against for nonadmittance.

5. **Reverse Repurchase Agreement – Reporting Entity Buys Security and Provides Cash / Collateral**

NAIC Note 11: The SSAP No. 103 guidance for reverse repo transactions does not have an explicit nonadmittance component if the % threshold is not met. Clarification on what should occur if the adequate collateral is not received / retained is recommended. Additionally, it has been noted that there is no current guidance that assesses admittance based on the quality/type of collateral received. Under the current guidance, residuals or low-quality assets could be received and there is no documentation of this type of collateral for certain sec lending and repo programs. Even if these programs would not qualify as conforming, there is a question on whether admittance restrictions should exist based on the collateral received from the counterparty.

Interested parties' comments on Notes 11-13: In terms of general quality of collateral received in reverse repo transactions, we do not believe there should be regulatory restrictions on the type of collateral that is eligible to be received, other than it being a permitted investment for the reporting entity. The yield earned on the transaction and haircut charged reflects the quality of the collateral.

Maintenance of the collateralization threshold is governed by the legal document (MRA or MSLA) between the counterparts. While collateralization threshold is one of the criteria for a conforming securities lending program, there is no intention to establish conforming reverse repo programs. We believe that regulators should derive comfort on collateralization thresholds from the existing legal agreements between counterparts.

NAIC Note 12: SAP does not currently capture details on securities acquired upon the sale of the asset acquired under a reverse repo. The note disclosures only detail aggregate amounts.

See interested parties' comments on Notes 11-13 above.

NAIC Note 13: The guidance does not explicitly indicate that the short-term receivable recorded for reverse repurchase transactions should be coded as a restricted asset and taken to GI 26.23. However, as the restricted asset note detailed in SSAP No. 1 and GI 26.23 both capture “assets subject to reverse repurchase agreements,” this reference can only refer to the short-term receivable as there is no other asset reported on the books from the transaction. Assessment may be warranted on identification of restricted assets on reverse repurchase transactions.

Interested parties' comments: Interested parties do not believe that there is a cogent rationale for restricting the short-term lending receivable. Other short-term lending receivables - CDs, CP and Short-Term ABS – are not considered “restricted.” Nothing in these short-term loans implies lack of exclusive control or encumbrances or third-party interests prohibiting the insurer from using these short-term loans (or the collateral obtained therefrom at 102% FMV or greater) to satisfy policyholder obligations.

Recommendation:

NAIC staff greatly appreciate the responses from interested parties, as well as the interim discussions held with industry and regulators on repurchase and securities lending transactions. From the information received, it seems that certain aspects of guidance in SSAP No. 103 may not be relevant and/or may be inconsistently applied. Those discussions have identified that the structure / format of SSAP No. 103 (which mirrored an approach from FASB that was subsequently revised) is not easy to follow or to find information, particularly as the guidance for “secured borrowing” under GAAP (adopted in SSAP No. 103) is different from the statutory accounting method for securities lending and repo secured borrowing transactions when the secured party has the ability to sell or repledge collateral. Lastly, there have been questions raised on existing guidance restrictions (e.g., limiting admittance to short-term repos), the application of the “conforming” securities lending concept for reduced RBC, as well as the use of the detailed repo disclosures.

NAIC staff recommend that the Working Group direct staff to proceed with developing and presenting revisions to clarify the statutory accounting guidance, potentially with consideration of separating securities lending / repurchase guidance from SSAP No. 103 into a separate statement. Although the list of elements to review is lengthy, NAIC staff believes most of the items will only result in clarifications, with the potential for enhanced / consolidated disclosures.

Specific elements to review include, but are not limited to:

- **Review of the “conforming” provisions for securities lending transactions, including mechanisms in place to confirm compliance as well as verify regulator intent as to application.** For example, the industry position is that the conforming collateral provisions are only required at the onset of the transaction, and the classification of a conforming program should not be impacted if the reporting entity reinvests the received collateral into non-eligible assets. NAIC staff question this position, as the reduced RBC is contingent on the collateral being in specific categories or with an NAIC 1 designation. There is nothing in the current instruction that implies the threshold is only required at the beginning of the program, and the guidance refers to “collateral held” which implies that it would encompass currently-held collateral. NAIC staff notes that the conforming RBC guidance predates the current statutory guidance, which requires on-balance sheet reporting for collateral that can be sold or repledged, therefore a current review of this guidance is likely appropriate. Regardless of the re-invested collateral decision, further disclosure or documentation may be necessary to allow for regulator review and confirmation of the conforming status. (For this issue, the conforming guidance allows a lower RBC charge, so the findings / recommendations on this topic would be referred to the RBC groups.)
- **Review of the current admittance provisions based on ongoing comparisons to fair value.** Pursuant to comments received, industry believes the margining process (to the collateral original received) obviates any need for regulators to test the market value of collateral to the fair value of securities lent. There is a question as to whether nonadmittance should occur if the original collateral fair value covers the BACV of the loaned security, but not the loaned security’s fair value (as the loaned security would be on the books at BACV). Although the comparison (and margining) should be completed at fair value, if there is a shortfall, nonadmittance when the reporting entity is still fully covered for the reported BACV results in anomalies in the financial statement presentation.
- **Review with the potential for enhanced guidance and/or disclosure for repo transactions that result in the received collateral being used as working capital (or other external uses).** The discussion with industry identified that collateral received from repo transactions does not need to be retained, even in the form of reinvested collateral, but can be used by the reporting entity for other business needs such as paying claims or for other obligations. NAIC staff does not believe there are disclosures or information available to the regulators to identify the extent to which collateral received in a repo transaction is no longer retained by the reporting entity where the return of the collateral to the counterparty will require use of other assets. (Industry identified that this is a dynamic for repo agreements only and not securities lending.)

- **Review of the existing disclosures for both repurchase and securities lending transactions with a goal to simplify and consolidate to the extent possible.** NAIC staff supports the use of Schedule DL to detail all held collateral for both securities lending and repurchase transactions. Although industry has not supported that position, their rationale is because the collateral received from repurchase transactions may not be retained or reinvested internally. Although this may be true, NAIC staff does not believe this hinders the use of the schedule for the collateral that is held (original or reinvested) with additional information on the repo collateral that has been used as working capital and not retained by the reporting entity.
- **Review of the restricted asset coding for sec lending and repo transactions as well as a review of the current short-term admittance provisions for repurchase transactions.** NAIC staff notes that the approach to report restricted assets is not clear and likely inconsistently applied. Further, although discussed and reaffirmed in 2015, there have been recent questions on the requirement for repo agreements to be short-term for admittance under SAP. In addition to questions on whether there should be a short-term restriction, inquiries have been received about the mechanics of nonadmittance based on which side of the transaction the insurers is on (cash taker or cash provider) and what should be nonadmitted in the financial statements. NAIC staff believe it would be beneficial to review the entries for these transactions to ensure a full understanding of the impact of nonadmittance and to establish consistency with recognition. NAIC staff suggest that the discussion also consider whether an insurer retains repo collateral (whether original or reinvested) or whether it is used for working capital. For example, an insurer with a long-term repo agreement with retained collateral may be considered differently by the regulators from a 5-year repo agreement where the insurer has used the collateral received and will rely on other assets to settle the transaction in 5-years to get a return of their asset.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-15 (Julie)	ALM Derivatives	12 – Agenda Item	Comments Received	ACLI – 2 (Attachment 14)

Summary:

On December 17, 2024, the Working Group received comments from the August 2024 exposure. Due to the extent of comments, and the complexity of the topic, the Working Group deferred directing staff to move forward with the development of new guidance for the deferral of realized gains/losses generated from non-accounting effective hedges. It was noted that this discussion would likely resume at the Spring National Meeting, along with a review of the data reported for IMR derivatives as that information will be data-captured for the year-end 2024 financial statements. This item was not formally re-exposed.

The information presented for the December 17 discussion has been duplicated within this agenda along with initial data results for derivatives captured in IMR as of year-end 2024. Note: Only a small number of companies are reporting a net negative IMR that includes derivative realized losses. This is because only companies that had a historical practice of deferring derivative gains in IMR are permitted under INT 23-01 to defer derivative losses and include those losses in an admitted net negative IMR balance. NAIC staff has heard that more companies want the ability to defer derivative losses, and admit those as assets, therefore the number of companies and impact of the derivative realized losses is expected to increase from what is shown as of year-end 2024.

Key 2024 F/S Data – IMR Derivatives – General Account:

- 26 Companies have Unamortized Derivative Gains and Losses Remaining in the General Account IMR:
 - Total Remaining Gains: \$10,263,498,906
 - Total Remaining Losses: \$15,225,131,590*

From this detail, there is net \$4,961,632,684 of non-accounting effective derivative losses in the IMR reserve. With a total net negative general account IMR balance across all reporting entities of \$14,079,297,653, the net unamortized derivative losses make up 35% of the entire net negative IMR balance.

Of the 26 companies with unamortized general account derivative gains and losses, 1 company reported remaining gains without any remaining losses, and 5 companies reported losses without any remaining gains. The other companies reported both unamortized losses and gains.

NAIC staff noted that for 8 companies, the net derivative loss balance made up over 70% of their entire net negative IMR, including 4 companies with over 100%.

The full reconciliation of non-accounting effective derivative gains and losses in the GA IMR is as follows:

	Derivative Gains	Derivative Losses
Beginning Balance	10,016,926,590	(13,870,860,354)
Added in Current Year	788,339,533	(1,969,919,705)
Amortized Current Year	(541,767,217)	614,870,143
Remaining in IMR	10,263,498,906	(15,225,909,916)*

**NAIC staff knows that the total for derivative losses in the reconciliation does not agree to the total reported losses. This is because one company did not properly compute the total. That company's reported total is in the initial total, and NAIC staff adjusted the reconciliation so it would properly sum. Also, companies reported a mix of positive/negative numbers that were adjusted to make sure the summation was consistent across all companies.*

On August 13, 2024, the Working Group moved this item to the active listing, classified as a new SAP concept, and exposed this agenda item with a request for feedback on the items noted within the agenda item, which included an overall inquiry on the development of new guidance for the deferral of realized gains/losses for non-accounting effective hedges captured in SSAP No. 86—*Derivatives*. Discussion items captured in the agenda item included the following:

- 1) Do Working Group members support the development of statutory accounting guidance that would defer derivative gains/losses for structures that hedge interest rate risk with amortization over time into income? (These derivative programs would not qualify as accounting effective under SSAP No. 86 and are not captured within the specific variable annuity guarantee guidance in SSAP No. 108.)
- 2) If further development / consideration of guidance is supported, the following items are noted for discussion:
 - a. Determination of effectiveness that permits the derivative program to qualify for the special accounting treatment.
 - b. Discussion of whether net deferred losses (reported as assets) would be admissible, and if so, any admittance limitations.

- c. Macro-limits on admissible net deferred losses (reported as assets) and other “soft” assets. (For example, capturing IMR and derivative deferred net losses, and then perhaps considering other soft assets, such as DTAs, EDP equipment and software, goodwill, etc.)
- d. Timeframes over which deferred items are amortized into income.
- e. Extent of application across the industry. (NAIC staff notes that SSAP No. 108 is only applied by 9 entities, and from a review of the derivative disclosures for INT 23-01, only 14 entities captured derivative gains/losses in the IMR balance.)

ACLI Comments:

We support the development of new statutory accounting guidance for interest-rate hedging derivatives that do not qualify for hedge accounting under *SSAP No. 86—Derivatives*, but that are used for asset-liability management (ALM), also referred to as “ALM Hedges”. ACLI is very appreciative of the on-going dialogue with SAPWG and the IMR Ad Hoc Working Group and stands ready to continue working with the NAIC on this initiative.

Companies manage ALM programs to mitigate reinvestment, guarantee, and disintermediation risks, and to manage asset portfolios within limited ranges around a liability target duration. The new statutory accounting guidance is intended for derivative transactions that alter the interest rate characteristics of assets/liabilities under these types of risk mitigation programs. More specifically, “macro-hedging” ALM programs hedge risks that are often off-balance sheet risks given the “amortized cost” nature of statutory accounting, and therefore hedge accounting frameworks do not address this type of hedging construct. As discussed in our white paper “Derivatives and Hedging with Life Insurance” (included as Appendix I), this is because the duration and convexity of assets and liabilities may differ. When interest rates change, asset and liability durations may change by different amounts, making it nearly impossible to maintain the tight effectiveness assessment corridor requirements as the measurement criteria do not include metrics commonly used in these programs (e.g., duration). As a result, economically effective “macro-hedges” are generally considered hedges and carried at fair value, which misstates insurer solvency by causing surplus volatility or worse, can disincentivize prudent risk management. As further discussed in Appendix I, there is a critical need for developing appropriate accounting guidance.

Within the exposure, NAIC staff has identified several items for further discussion:

- 2) If further development / consideration of guidance is supported, the following items are noted for discussion:
 - a. Determination of effectiveness that permits the derivative program to qualify for the special accounting treatment.
 - b. Discussion of whether net deferred losses (reported as assets) would be admissible, and if so, any admittance limitations.
 - c. Macro-limits on admissible net deferred losses (reported as assets) and other “soft” assets. (For example, capturing IMR and derivative deferred net losses, and then perhaps considering other soft assets, such as DTAs, EDP equipment and software, goodwill, etc.)
 - d. Timeframes over which deferred items are amortized into income.
 - e. Extent of application across the industry. (NAIC staff notes that SSAP No. 108 is only applied by 9 entities, and from a review of the derivative disclosures for INT 23-01, only 14 entities captured derivative gains/losses in the IMR balance.)

The ACLI previously provided a detailed presentation entitled “ACLI Derivative IMR Solution Proposal” (“ACLI Solution,” included as Appendix II) to the IMR Ad Hoc Working Group. Discussions of the ACLI solution at the NAIC Ad Hoc IMR WG were the impetus for this exposure. The solution addresses many of the exposure’s components and ACLI would appreciate the opportunity to present to the full SAPWG membership and any additional interested regulators.

Additionally, the ACLI would like to provide specific comments regarding the admittance limitations identified in discussion points 2b and 2c. Although one of the methods within the ACLI Solution includes accounting which does not utilize the IMR, discussion of accounting treatment revisions for ALM Hedging arose within the context of derivatives and IMR. Therefore, our comments start with the “Definition of IMR” developed by the IMR Ad Hoc Working Group:

NAIC Staff Note: Although discussed at the ad hoc group, the following definition has not been exposed or adopted by the SAPWG Discussion of the IMR definition is captured in agenda item Ref #2025-03.

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.

This definition is part of a broader document (see attached Appendix III) that provides foundational principles for the NAIC’s statutory accounting framework.

As the document and definition of IMR states: fixed income investment assumptions can be more easily revised, that is “unlocked,” when the investments are sold/purchased. Statutory reserve liability assumptions typically are not revised. Therefore, to avoid situations in which transitory interest rate related realized gains/losses caused inaccurate solvency reflections (which could disguise an insurer’s true ability to pay claims), the IMR valuation adjustment was developed. Appendix III provides detailed examples in which this could occur. The IMR also remains a vital element of the statutory accounting framework and was incorporated in the methodology within other evolutions such as Principle-Based Reserving (PBR) and Asset Adequacy Testing (AAT).

The IMR is not an intangible asset, it is a valuation adjustment to reflect the company’s true solvency position under statutory accounting. Therefore, equating negative IMR to an asset (tangible or intangible) with claims paying ability, is not logical or appropriate. Following this, imposing any limit on admittance would misconstrue an insurer’s true solvency and would equate to a limit on unrealized losses on fixed income instruments more broadly, such as bonds where the unrealized losses are embedded within their amortized cost valuation; contrary to the purpose of the IMR and consistent valuation of assets and liabilities.

ACLI understands regulators may wish to separate ALM derivatives from IMR (both for recording unrealized during their lives and for recording any applicable realized gains/losses). However, ACLI emphasizes, in light of the previous, that:

1. Fixed income ALM hedges can be used to alter the interest rate characteristics of assets and/or liabilities, and therefore are another method of “unlocking” the fixed assumptions. Whether ALM hedge realized gains/losses are included in the IMR or a separate valuation adjustment, they will be theoretically aligned and maintain the intent of the IMR (see the definition of IMR discussed above); and

2. Any fixed income hedge unrealized gains/losses are not intangible assets. They represent the offset to the valuation of the derivative itself (the contract asset/liability) and equate to the value needed to close (settle) the derivative contract with the counterparty.

Any limits (or potential subsequent non-admittance) on these components would in fact equate to a limit on ALM hedging programs themselves, disincentivizing insurers from engaging in vital, prudent, fixed income hedging strategies. As discussed in Appendix I and II, ALM hedges are used to mitigate reinvestment, guarantee, and disintermediation risks, as well as managing asset portfolios within limited ranges around a liability target duration, all of which are shared goals between regulators and insurers.

Further limiting hedging programs through statutory accounting guidance creates significant regulatory redundancies given other existing, effective regulatory protections:

1. From a state perspective, insurer hedging programs are limited under individual state laws and insurer DUPs, such as the type(s) of derivative programs and/or derivative contract(s). Insurers are also prohibited from speculative derivatives.
2. From a federal perspective, most standard US agreements with derivative counterparties also require derivative trades to be collateralized through margin requirements.⁵ Collateral agreements ensure each counterparty (both the insurer and the institution on the other side of the derivative) are able to financially fulfill the derivative contract (i.e., pay the amount owed for the derivative's fair value) and/or reduce default risks incorporated in the contract for either party. In this case, any limit on the "valuation offset" is overly punitive when the insurer is legally required to post collateral to the counterparty.

Therefore, an aggregate cap for IMR and/or ALM derivatives is not appropriate, and it is not logical to call them intangible assets that cannot be used to pay claims. Rather, "negative" or "asset" valuation adjustments are simply explicitly shown on the balance sheet, whereas other unrealized losses are embedded in their amortized cost carrying values (i.e., bonds), both of which are required for consistent valuation of assets and liabilities so surplus properly reflects an insurers claims paying ability.

Turning to the macro cap on "soft assets," it is difficult to group these items as one category given their unique characteristics and purpose within the statutory accounting framework. Prudent business and risk decisions should not be disincentivized by the presence of completely unrelated economically viable assets or valuation adjustments on a company's balance sheet. To view these "soft assets" or intangibles in isolation from their broader purpose is also not appropriate. The NAIC's framework is an "amortized cost framework" with appropriate embedded conservatism, not a liquidation basis of accounting, for both assets and liabilities.

Deferred Tax Assets (DTAs) have appropriate conservatism by limiting reversals to 3-years as well as limiting carryback and carryforward potential. Further, DTAs represent real economic value to an insurer, and in fact does help pay claims by way of realizing tax benefits (i.e., reduction in tax payments).

Goodwill generally represents the difference between the cost of acquiring an entity and the reporting entity's share of the book value of the acquired entity. Within the acquisition, components of Goodwill could represent things of value such as costs acquiring a fully amortized building or an asset manager. Asset managers generally have limited balance sheet assets where its value is attributable to asset manager fees and directly proportional to assets under management (i.e., a not balance sheet metric).

⁵ Mandated by the Dodd Frank Act and related SEC and CFTC regulatory requirements.

Unlike US GAAP or IFRS, where Goodwill is not amortized because it is considered to have an indefinite useful life, until it is determined to be impaired, under statutory accounting Goodwill is conservatively amortized over a period not to exceed 10-years, as well as being subject to impairment testing.

DTAs and Goodwill also have percentage of surplus limitations, which serves as another layer of conservatism.

The common theme among all of these valuation adjustments and/or assets is that they either adjust values for consistent valuation of assets and liabilities to provide an accurate picture of claims paying ability or represent real economic value that help insurers pay claims. They are also all unique, with distinct purpose in the statutory accounting framework, so an aggregate limiting cap across other completely unrelated economically viable assets or valuation adjustments on a company's balance sheet is inappropriate.

Lastly, ACLI proposes a few brief comments on exposure item 2e regarding the extent of application in industry. From conversations with our members, use of SSAP No. 108 is limited due to its narrow scope (variable annuity guarantees only) and the relative rigor of guardrails that must be satisfied to implement (resource intensive, so the benefit must be substantial to justify the effort). However, we understand that the population of insurers who engage in macro-hedging programs is significantly larger and using the Negative IMR disclosures to gauge the population is not truly representative for several reasons, such as:

1. The interim solution did not allow insurers to engage in new hedging programs or to include any hedging programs that did not previously include realized gains within the IMR. There could be insurers who have had to adjust or start programs as the interest rate environment evolved, which may have disqualified them from using this guidance and therefore including their programs in the disclosure.
2. There is diversity in practice in insurer's interpretation of SSAP No. 86; not all insurers included gains/losses from interest rate related macro-hedging programs in the IMR, which also would have precluded them from using the interim guidance and included balances in the disclosure. Ensuring clear ALM hedging guidance would reduce diversity in practice and would likely lead to more insurers clearly identifying these programs in any future required disclosures.

Recommendation:

NAIC staff highlights that this exposure was focused on soliciting information from regulators on whether new statutory accounting guidance should be established that would allow the deferral of gains/losses for derivative transactions that do not qualify as accounting-effective hedges under SSAP No. 86—Derivatives. The ACLI has indicated support for the development of this guidance.

If the Working Group supports proceeding with this approach, NAIC staff recommend directions to proceed with developing statutory accounting guidance, working closely with Working Group members and ACLI representatives with development. NAIC staff anticipates that the guidance may be complex but will work to present updates and drafts to the Working Group for consideration if so directed. It is anticipated that to the extent feasible, NAIC staff may leverage guidance and the approach in SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees. It is anticipated that final guidance will require sufficient guardrails on the types of hedging strategies, proving effectiveness and mechanisms for the regulators, all which will be components of the discussion in accounting guidance development if directed by the Working Group.

NAIC staff notes there are several comments in the ACLI's letter indicating support for reporting realized losses as admitted assets, and comments opposing any limit as to the admittance of these realized losses (or an aggregate admittance limit on "soft assets"), that makes it appear that the detailed questions / inquiries are not necessary before proceeding with these allowances under statutory accounting. NAIC staff does not believe it is a given that these items should qualify as admitted assets or have unlimited admissibility, and believes distinct discussions by the Working Group are warranted for the following reasons:

- **Prior to the issuance of INT 23-01, net negative IMR was reported as a nonadmitted asset.** The INT guidance permitting admittance up to 10% of adjusted capital and surplus is a new, limited-time permission. It is up to the Working Group whether net negative IMR (which reflects realized losses) should be permitted as an admitted asset after the INT expiration, and if there should be a limit as to admittance. Prior to the August 2023 adoption of the INT, insurers that elected to engage in these derivative transactions with realized losses were unable to admit these losses. As such, it should not be viewed as a given under statutory accounting / derivative risk management to allow the admittance of these derivative losses. Additionally, some have acknowledged that IMR can be a managed item, with companies having the ability to select assets to sale in accordance with how it would impact the IMR balance (liability or asset) and overall financial statements. With the 2023 admittance of net negative IMR up to 10% adjusted capital and surplus, financial data show that companies are trending towards a net loss (asset) position up to the admitted asset parameters. This same dynamic could occur if derivative losses are permitted to be deferred within IMR and recognized as admitted assets.
- **Prior to the issuance of INT 23-01, state insurance regulators were unaware that some insurance companies were interpreting the annual statement instruction reference of “hedging” to permit capitalization of realized losses for non-accounting effective derivatives through IMR.** The guidance in *SSAP No. 86—Derivatives* is specific that such treatment was only permitted for accounting-effective hedges, as the offset between the hedged item and hedging instrument basically eliminated the impact to IMR. Reporting entities pointed to a generic reference in the A/S instructions as support for the inclusion of “non-accounting effective” hedges, but that was not the original intent of the adopted statutory accounting guidance. With the process that some companies currently follow, realized losses from non-accounting effective hedges are being repeatedly recognized (3-month derivatives) and the amortization timeframe companies support stretches over a significant period of time (years). With this approach, as long as the derivative arrangements result in realized losses, the amount of realized losses permitted to be presented as admitted assets (if further allowed) will just continue to increase as the amortization amount (over the longer timeframe) is much less than what is currently being recognized. As the realized loss balance builds, there would have to be derivative arrangements that result in substantial realized gains to reduce the balance timelier.
- **Deferring and amortizing gains and losses from derivative transactions is not permitted under U.S. GAAP. Under U.S. GAAP, all derivatives are reported at fair value, and all gains/losses are recognized immediately. It is only the location of the gain/loss, either directly through earnings or through other comprehensive income, that varies under U.S. GAAP based on whether the derivative is designated as hedging.** Under U.S. GAAP, derivative accounting is essentially an income-statement matching exercise where the gain/loss from the hedging instrument offsets the gain/loss for the hedged item. If the transaction does not qualify as hedged, the gain/loss is recognized currently in earnings. **In FAS 133, the FASB discussed decisions to require all derivatives to be reported at fair value, as well as their conclusion that only items that are assets or liabilities should be reported as such in the financials. Pursuant to this discussion (paragraph 229 of FAS 133), the FASB clarifies that gains and losses from derivative transactions are not separate assets or liabilities because they have none of the essential characteristics of assets or liabilities:**

229. Only items that are assets or liabilities should be reported as such in financial statements. Derivatives are assets or liabilities, and the Board decided that they should be reported in financial statements (fundamental decision 1) and measured at fair value (fundamental decision 2). If derivatives are measured at fair value, the losses or gains that result from changes in their fair values must be reported in the financial statements. **However, those losses or gains are not separate assets or liabilities because they have none of the essential characteristics of assets or liabilities as described in paragraph 218. The act of designating a derivative as a hedging instrument does not convert a subsequent loss or gain into an asset or a liability. A loss is not an asset because no future economic benefit is associated with it. The loss cannot be exchanged for**

cash, a financial asset, or a nonfinancial asset used to produce something of value, or used to settle liabilities. Similarly, a gain is not a liability because no obligation exists to sacrifice assets in the future. Consequently, the Board concluded that losses or gains on derivatives should not be reported as assets or liabilities in a statement of financial position.

- **Although industry compares unrecognized unrealized losses for bonds held at amortized cost to realized losses from the sale of bonds, some may disagree with this comparison.** While bonds held at amortized cost may have unrecognized fair value changes over time, when the bond matures, the insurer will receive the principal return. The unrecognized fair value fluctuations, unless there is a credit event, has no impact on what the insurer will receive at maturity and can use for policyholders. A realized loss from the sale of a bond is a definite action that monetizes a fair value change. Recovering that loss is contingent on actions to reinvest the sale proceeds to obtain a higher yield. If reinvestment does not occur, an action that is difficult to verify given the fungibility of cash flows, that realized loss will not be recovered. Therefore, while realized and unrealized losses can obtain equivalent economic results, there is much higher execution and verification risk associated with realized losses that requires significant guardrails to prevent the masking of economic losses.

The ultimate objective of solvency regulation is to ensure that the policyholder, contract holder and other legal obligations are met when they come due and that companies maintain capital and surplus at all times and in such forms as required by statute to provide a margin of safety. Pursuant to the SAP recognition concept pursuant to paragraph 36 of the Preamble to the *Accounting Practices and Procedures Manual*, “the ability to meet policyholder obligations is predicated on the existence of readily marketable assets available when both current and future obligations are due. Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third-party interests should not be recognized on the balance sheet but rather should be charged against surplus when acquired or when availability otherwise becomes questionable.” The Preamble here recognizes both current and future obligations as being relevant to the economic value of assets, hence supporting carrying bonds at amortized cost even when it exceeds their current marketable value. **A realized loss does not reflect an asset that is available for policyholder claims.** (Consistent with the U.S. FASB position, a realized loss does not qualify as an asset under SSAP No. 4 as there is no future benefit generated from the loss.) While a loss on an economic hedge does, in theory, represent a future value that is expected to be generated by incremental return on the invested assets, it does not have a direct, marketable value in accordance with the Preamble. **Although consideration can be given to permit admitted asset classification for realized derivative losses, such consideration would be a specific provision by the Working Group and is not consistent with the statutory accounting definition of an admitted asset (or as an asset under U.S. GAAP).** Some have noted that, although this is being considered as a potential admitted asset” it should be thought of as an adjustment to the policy reserve to partially “unlock” the valuation rate. Ultimately, the prevalence of “soft” assets (and realized losses permitted as admitted assets) should be monitored and managed by regulators as they do not reflect the types of assets that can be directly utilized for policyholder claims. Establishing an aggregate admittance limit or getting aggregate disclosures on these items collectively, is within the purview of state insurance regulators and the oversight of insurer solvency.

- **Industry has argued that implementing an aggregate cap on "soft assets" would be inappropriate. However, specific regulatory caps and limits already exist for certain types of "soft assets," and it is consistent with statutory principles to apply an aggregate cap on the accumulation of such assets within the same framework.** Industry notes that the common theme for “soft assets” is that they either adjust values for consistent valuation of assets and liabilities to provide an accurate picture of claims paying ability or represent real economic value that help insurers pay claims. While NAIC staff does not necessarily disagree with this perspective, the economic value of these assets and valuation adjustments do not directly correspond to funds available for paying policyholder claims, and neither are they readily marketable as discussed in the prior paragraph. Furthermore, concentrations of such assets pose an increased solvency

risk. However, the statutory caps currently in place take a narrow, individual view of the risks associated with these soft assets. If an insurer were to accumulate multiple types of soft assets and admit amounts up to the individual caps for each, the combined admitted value could significantly impact admitted surplus. While these financial instruments are distinct, they all represent abstractions of economic value in the context of the preamble recognition concept cited above. Implementing an aggregate cap to guard against the excessive accumulation of various kinds of “soft assets” would align with existing statutory principles and fall within the scope of regulatory oversight.

The comment letters are included in:

- **Attachment 13:** Comments Ref #2023-28 through Ref #2024-01 (48 pages)
- **Attachment 14:** 2024-15 ALM Derivatives Comments Only (52 pages)

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/03-24-25SpringNationalMeeting/Hearing/00-03-24-25-SAPWGHearingAgenda.docx>

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

A. Consideration of Maintenance Agenda – Pending List

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

Summary:

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.

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 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.

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.

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.

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.

Recommendation:

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

Summary:

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.”

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.

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.

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/NationalMeetings/A.NationalMeetingMaterials/2025/03-24-25SpringNationalMeeting/Meeting/0-03-2025SAPWGMeetingAgenda.docx>