NATIONAL MEETING
FALL / DENVER

Date 11/4/2024

2024 Fall National Meeting
Denver, Colorado

Statutory Accounting Principles (E) Working Group
Sunday, November 17, 2024
9:00 - 11:00 AM MST
Gaylord Rockies Hotel—Colorado Ballroom A—Level 3

OVERVIEW AGENDA

HEARING AGENDA

	Hearing Page Number	Attachment
1. SAPWG Hearing – Adoption of Minutes—*Dale Bruggeman (OH)*	1	1-3
2. SAPWG Hearing – Review and Adoption of Non-Contested Positions—*Dale Bruggeman (OH)*		
• Ref #2024-11: *ASU 2023-09, Improvements to Income Tax Disclosures*	2	4
• Ref #2024-17: Clearly Defined Hedging Strategy	2	5
• Ref #2024-18: Clarification to NMTC Project	3	6
• Ref #2024-19: *ASU 2024-02, Codification Improvements, Amendments to Remove References to the Concepts Statements*	3	7
3. SAPWG Hearing – Review of Comments on Exposed Items—*Dale Bruggeman (OH)*		
• Ref #2019-21: INT 24-01 - Principles-Based Bond Definition Implementation Questions & Answers	5	8-9
• Ref #2023-28: Collateral Loan Reporting	12	10
• Ref #2024-16: Repack and Derivative Investments	15	11
Comment Letters	18	12

OVERVIEW AGENDA

MEETING AGENDA

	Meeting Page Number	Attachment
4. SAPWG Meeting – Maintenance Agenda – Pending List—*Dale Bruggeman (OH)*		
• Ref #2024-20: Restricted Asset Clarification	1	A
• Ref #2024-21: Investment Subsidiary Classification	4	B
• Ref #2024-22: ASU 2024-01, Scope Application of Profits Interest and Similar Awards	6	C
• Ref #2024-23: Derivative Premium Clarifications	7	D
• Ref #2024-24: Medicare Part D – Prescription Payment Plan	7	E-F
• Ref #2024-25: SSAP No. 16 ASU Clarification	9	G
• Ref #2024-26EP: Fall 2024 Editorial Revisions	9	H
5. SAPWG Meeting – Any Other Matters Brought Before the Working Group —*Dale Bruggeman (OH)*		
• Review of U.S. GAAP Exposures	10	I
• Update on the IMR Ad Hoc Subgroup	10	None
• Update on the Bond Project Implementation / Bond Small Group	10	None
• Use of 3rd Party Vendors / Checklists to Determine Bond Definition Compliance / Classification	10	None
• IAIS Audit and Accounting Working Group (AAWG Update)	10	None
• Update on Reinsurance Exposures	10	None
• December 17th Meeting	10	None

- **Comment Deadline for Ref #2024-26EP – Monday, December 9, 2024**
- **Comment Deadline for all other items – Friday, January 31, 2025**

Statutory Accounting Principles (E) Working Group
Hearing Agenda
November 17, 2024

ROLL CALL

Dale Bruggeman, Chair	Ohio	Judy Weaver/Steve Mayhew	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/Elena Vetrina	Wisconsin
Melissa Gibson/Bill Werner	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 October 9, 15 and November 12. These regulator 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 to preview the Fall National Meeting agendas and discussed other items with NAIC staff pursuant to the NAIC open meeting policy.

REVIEW AND ADOPTION OF MINUTES

1. Summer National Meeting **(Attachment 1)**
2. September 12, 2024 **(Attachment 2)**
3. October 4, 2024 **(Attachment 3)**

REVIEW AND ADOPTION of NON-CONTESTED POSITIONS

The Working Group may individually discuss the following items, or may consider adoption in a single motion:

1. Ref #2024-11: *ASU 2023-09, Improvements to Income Tax Disclosures*
2. Ref #2024-17: Clearly Defined Hedging Strategy
3. Ref #2024-18: Clarification to NMTC Project
4. Ref #2024-19: *ASU 2024-02, Codification Improvements, Amendments to Remove References to the Concepts Statements*

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-11 (Wil)	**ASU 2023-09, Improvements to Income Tax Disclosures**	**4 – Agenda item**	**No Comments**	**IP – 4**

<u>*Summary:*</u>
On August 13, 2024, the Working Group exposed revisions to reject *ASU 2023-09, Improvements to Income Tax Disclosures* in *SSAP No. 101—Income Taxes*, and to remove the disclosure detailed in SSAP No. 101, paragraph 23b as it is no longer relevant due to changes in existing tax laws.

<u>*Interested Parties' Comments:*</u>
Interested parties support the conclusion on this item and note that since paragraph 23.b has been deleted, paragraph 23. a should be changed to paragraph 23.

<u>*Recommendation:*</u>
NAIC staff recommends that the Working Group adopted the exposed revisions to reject *ASU 2023-09, Improvements to Income Tax Disclosures* in *SSAP No. 101—Income Taxes*, and to remove the disclosure detailed in SSAP No. 101, paragraph 23b, and have incorporated interested parties' recommendation to consolidate paragraph 23a into a single paragraph.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-17 (Julie)	**Clearly Defined Hedging Strategy**	**5 – Agenda item**	**No Comments**	**IP – 6**

<u>*Summary:*</u>
On August 13, 2024, the Working Group exposed revisions *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees* to update the definition of a clearly defined hedging strategy (CDHS) to reflect the revised guidance pursuant to VM-01. This agenda item has been prepared to update the guidance in SSAP No. 108 for a clearly defined hedging strategy (CDHS) to mirror guidance adopted by the Life Actuarial (A) Task Force in 2022, and in effect starting with the 2023 version of the Valuation Manual. The guidance previously included in SSAP No. 108 referred to the CDHS defined in VM-21, and the actuarial guidance has been modified to ensure consistent definitions of a CDHS in both VM-20 and VM-21 and is now captured within VM-01.

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

<u>*Interested Parties' Comments:*</u>
Interested parties have no comments on this item.

<u>*Recommendation:*</u>
NAIC staff recommends that the Working Group adopt the exposed revisions to SSAP No. 108 to update the definition of a clearly defined hedging strategy (CDHS) to reflect the revised guidance pursuant to VM-01. (Only references to the CDHS are being revised to VM-01. Other references to VM-21 are product specific to variable annuity contracts and shall be retained in SSAP No. 108.)

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-18 (Wil)	**Clarifications to NMTC Project**	**6 – Agenda item**	**No Comments**	**IP – 6**

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

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

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

On August 13, 2024, the Working Group exposed revisions to update the recently adopted accounting guidance in SSAP No. 93 and SSAP No. 94R, and one unrevised sentence in SSAP No. 48.

Interested Parties' Comments:
Interested parties have no comments on this item.

Recommendation:
NAIC staff recommends that the Working Group adopt the exposed revisions to *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, *SSAP No. 93—Investments in Tax Credit Structures*, and *SSAP No. 94—State and Federal Tax Credit*, effective as of January 1, 2025.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-19 (Wil)	**ASU 2024-02, Codification Improvements, Amendments to Remove References to the Concepts Statements**	**7 – Agenda item**	**No Comments**	**IP – 6**

Summary:
On August 13, 2024, the Working Group exposed revisions to reject ASU 2024-02 within Appendix D. FASB issued *ASU 2024-02, Codification Improvements—Amendments to Remove References to the Concepts Statements*, which removes references to FASB Concept Statements from the Codification. The main rationale for this amendment is to simplify the Codification by removing Concepts Statements in the guidance and draw a clear distinction between authoritative and nonauthoritative literature. The Board was concerned that references to

Concept Statements would result in users incorrectly inferring that the referenced Concept Statements were authoritative.

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

Interested Parties' Comments:
Interested parties have no comments on this item.

Recommendation:
NAIC staff recommends that the Working Group adopt the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2024-02, Codification Improvements—Amendments to Remove References to the Concepts Statements* as not applicable to statutory accounting. This guidance is not considered relevant to the existing statutory accounting references to FASB Concept statements.

REVIEW of COMMENTS on EXPOSED ITEMS

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

1. Ref #2019-21: INT 24-01 - Principles-Based Bond Definition Implementation Questions & Answers
2. Ref #2023-28: Collateral Loan Reporting
3. Ref #2024-16: Repack and Derivative Investments

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2019-21 (Julie)	**INT 24-01 - Principles-Based Bond Definition Implementation Questions & Answers**	**8 – Q&A 9 – INT**	**Comments Received**	**IP – 2 & 8 Spectrum – 10**

Summary:
On August 13, 2024, the Working Group exposed the draft Question-and-Answer Implementation Guide (Q&A) for a comment period ending Sept. 27, 2024, to address issues of implementing the Principles-Based Bond Project that have been brought from industry to the Bond / AICPA small group. The Q&A interprets how the SAP guidance should be applied to specific investment structures or investment characteristics.

On October 4, 2024, the Working Group exposed (via evote) an updated Q&A to incorporate three additional topics including, commercial mortgage-backed securities (CMBS) interest-only (IO) strips, commercial mortgage loan (CML) single asset single borrower investments (SASBs), and hybrids. With this exposure, it was identified that interested parties had not provided comment on any of the prior bond implementation questions and answers in the first exposure but had provided comment on the classification of issue papers in the statutory hierarchy. The updated Q&A included minor edits to paragraph 9.2 to eliminate this aspect from the Q&A without changing the intent of the guidance. As the discussion of an issue paper's classification in the statutory hierarchy is broader than the Q&A, discussion of issue paper classification was noted to occur at the Fall National Meeting.

Interested Parties' Comments – Exposure Ending Sept. 27, 2024:
Interested parties appreciate the exposure of the Q&A as it will help address meaningful interpretative issues and facilitate more consistent implementation by insurance companies. Interested parties also would like to highlight the following language in paragraph 7.2:

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

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

Practices & Procedures Manual that suggest issues papers are not authoritative (e.g., Appendix E) would need to be updated for consistency.

Interested parties also believe the Q&A should be included in the statutory hierarchy, perhaps by including them as an interpretation (Level 2) which still serves the purpose of the language in paragraph 7.2 that puts the Q&A in a position subordinate to *SSAP No. 26—Bonds* and *SSAP No. 43—Asset-Backed Securities*.

<u>*Interested Parties' Comments – Exposure Ending Oct. 28, 2024:*</u>

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

1) In paragraph 7.4, change "SSAP No. 26R" to "SSAP No. 26" to be consistent with other references to SSAP No. 26 throughout the document.
2) In the "Q" in paragraph 8, change Schedule "D-2-1" to "D-1-2" to properly reflect the ABS schedule.
3) In paragraph 10.3, remove the last "sentence" that ends in a colon. This sentence does not appear needed and ends in a colon which implies everything after paragraph 10.3 does not qualify under the bond definition while paragraph 10.6 includes bonds that do qualify.
4) In paragraph 10.6, make the last sentence a separate paragraph (e.g., 10.7) so it is clear the summary in Exhibit A is applicable to all paragraphs of Q10.
5) As a result of Q10, SSAP No. 41 may need slight revisions to appropriately reflect these new distinctions in classifications. Interested parties are happy to work with NAIC staff and regulators on this as appropriate.

<u>*Spectrum Asset Management, Inc – Exposure Ending Oct. 28, 2024:*</u>
Regarding the "Implementation Questions and Answers" document, section 10.4:

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

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

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

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

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

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

<u>*Recommendation:*</u>
This discussion has been divided between comments received on the exposed QA guidance and discussion on an issue paper's status in the statutory hierarchy.

1) <u>Review and Consider Adoption of Bond Definition Q&A Implementation Guide:</u>

Recommendation: **NAIC staff recommend that the Working Group consider adoption of the exposed Q&A in a new interpretation to *SSAP No. 21—Other Admitted Assets* and *SSAP No. 26—Bonds* with the edits suggested by interested parties. By including as an interpretation, the guidance in the Q&A is captured as Level 2 of the hierarchy. In the event the SSAP guidance was revised and the Q&A did not incorporate consistent revisions, the SSAP guidance would be the authoritative literature.**

In addition to the adoption of the Q&A, NAIC staff recommend that the Working Group send a referral to the P/C and Health RBC (E) Working Group with information on the adopted revisions for the bond definition with identification that the non-bond debt securities will not have the opportunity for RBC based on SVO-Assigned Designations. This referral will inquire whether the RBC Working Groups should consider more granular RBC reporting based on SVO-Assigned Designations.

Lastly, NAIC staff recommend that the Working Group direct NAIC staff to work with industry on a review of *SSAP No. 41—Surplus Notes* to consider slight revisions as requested for the capital notes distinction. It is noted that capital notes are already in scope of that statement.

With regards to the comments from Spectrum Asset Management, NAIC staff does not recommend any revisions to the proposed Q&A. This is because it is not recommended to revise the reporting location simply in response to the RBC charge. Investments shall be accounted for and reported based on the applicable statutory accounting guidance, regardless of the resulting RBC charge. It is also noted that the dynamic where RBC factors on Schedule BA for P/C and health companies do not utilize SVO-Assigned designations is not a new concept. This currently exists for held surplus notes, and those investments permit CRP ratings to influence RBC for life companies. NAIC staff notes that an assessment of whether SVO-Assigned designations should influence RBC for P/C companies occurred prior to COVID (2018-2019 timeframe). However, with the adoption of the principles-based bond definition, and the classification of debt securities that do not qualify as bonds on Schedule BA, NAIC staff recommends a referral to the Capital Adequacy (E) Task Force (and/or the P/C RBC (E) Working Group and Health RBC (E) Working Group) to assess whether SVO-Assigned designations (and CRP ratings for surplus notes) shall be utilized for more granular RBC similar to life insurance entities.

Proposed edits reflected in the proposed INT:

1) In paragraph 7.4, revised "SSAP No. 26R" to "SSAP No. 26".
2) In paragraph 8, change Schedule "D-2-1" to "D-1-2" to properly reflect the ABS schedule.
3) In paragraph 10.3, deleted the last sentence.
4) Made the last sentence in paragraph 10.6, a separate paragraph (e.g., 10.7) (This refers to the Appendix.)
5) A small edit (adding the word "be") has been made to paragraph 3.3c.

2) <u>Discuss Issue Paper Status in Statutory Hierarchy</u>

Recommendation: **NAIC staff recommend that the Working Group direct a new agenda item to consider capturing issue papers in Level 5 of the statutory hierarchy. Although interested parties have proposed a classification of Level 2, and an alternative classification in Level 4, NAIC staff suggest that consideration of a Level 5 classification is most appropriate to prevent any unintended conflicts with other sources of statutory guidance. The rationale for this position is that issue papers are not updated after adoption and should not be considered more applicable than any other statutory-specific guidance, whether that guidance is deemed to reflect accounting guidance, reporting instructions or information from the SVO manual. The Level 5 classification will put issue papers on the same level as non-authoritative GAAP guidance and literature. NAIC staff believe this is appropriate, as if guidance for a topic is not specifically detailed in any other form of statutory-specific sources, adopted issue papers should be a viable source for guidance along with non-authoritative GAAP.**

As detailed within, from a review of references in the issue papers, various references imply that issue papers can be applied and utilized as long as the guidance within the Issue Paper does not conflict with other guidance. There are a few explicit instances that note they are not authoritative/in the statutory hierarchy. NAIC staff notes that Issue Papers often include discussion of guidance or components that are not incorporated into SSAP, therefore it is imperative for the guidance to only be applicable if consistent with an adopted SSAP. By adding the issue papers to Level 5, this reference would clarify the intent to use issue papers, and the use of information detailed within, eliminating questions on the use of the guidance that is consistent with currently adopted SSAPs.

- By classifying issue papers as Level 5, instead of Level 2, if there is a subsequent reporting revision that is not captured in statutory accounting but only reflected in the annual statement instructions, the updated instructions, which are level 3, shall be followed. If issue papers were classified as Level 2, there could be inherent reporting conflict if the issue paper detailed reporting requirements at the time of adoption as that guidance would not be subsequently updated.

- By classifying issue papers as Level 5, instead of Level 4, issue papers will continue to be below the SAP Preamble and Statement of Concepts. As such, if there are revisions to the Preamble, those revisions will continue to override any potential conflicts with a previously adopted issue paper.

NAIC staff recognizes that existing guidance presents inconsistent references to issue papers causing confusion on how/when they should apply. As noted, there are a few explicit statements that issue papers are not authoritative, but other references imply application and use of Issue Papers when there are no differences between the issue paper and the SSAP. NAIC staff believe it is imperative to stress application only when the guidance is in line with a current adopted SSAP. As SSAPs have not historically been posted publicly, NAIC staff receive questions that cite guidance in issue papers as they are posted publicly. Often in these situations, the citations have been superseded by more current SSAP, so attempting to use the issue paper guidance in those instances would not be in line with current SSAP. The following Preamble excerpt has been within the NAIC *Accounting Practices and Procedures Manual* since original codification (2000 Manual) and implies that finalized issue papers are applicable but defer to the SSAP if differences exist. (This was paragraph 41 in the 2000 Manual and is reflected as paragraph 45 in the 2024 Manual.)

> 41/45. This Manual consists primarily of Statements of Statutory Accounting Principles (SSAPs). SSAPs are the primary Accounting Practices and Procedures promulgated by the NAIC. These statements are the result of issue papers that have been exposed for public comment and finalized. **Finalized issue papers are in Appendix E. While it is not intended that there be any significant differences between an underlying issue paper and the resultant SSAP, if differences exist, the SSAP prevails and shall be considered definitive.**

The following Preamble excerpt has also been within the NAIC *Accounting Practices and Procedures Manual* since original codification (2000 Manual) and indicates in the absence of a SSAP or "established source of statutory accounting principles," other accounting literature may be considered. As issue papers would represent an established source of statutory guidance, this Preamble guidance could be argued to have always supported issue papers as a source that could be considered along with non-authoritative GAAP if other statutory guidance did not exist. (This is paragraph 40 in the 2000 Manual and is reflected as paragraph 44 in the 2024 Manual.)

40/44. Because of developments such as new legislation or the evolution of a new type of business transaction, there sometimes are no established statutory accounting principles for reporting a specific transaction or event. In those instances, it might be possible to report the event or transaction on the basis of its substance by selecting a statutory accounting principle that appears appropriate when applied in a manner similar to the application of an established statutory principle to an analogous transaction or event. In **the absence of a SSAP or another source of established statutory accounting principles, the preparer, regulator or auditor of statutory financial statements may consider other accounting literature, depending on its relevance in the circumstances. Other accounting literature includes the Statutory Accounting Principles Statement of Concepts and GAAP reference material and accounting literature below category c in the GAAP hierarchy as defined in SAS 69**. The appropriateness of other accounting literature depends on its relevance to the particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, the Statutory Accounting Principles Statement of Concepts would be more authoritative than any other sources of accounting literature. Similarly, FASB Concepts Statements would normally be more influential than other sources below category d in the GAAP hierarchy4.

From a review of all issue papers, NAIC staff has identified that the original issue papers that correspond to the original codification of statutory accounting principles through issue papers adopted in 2000 did not include an "Effective Date" section. Beginning with *Issue Paper No. 107—Certain Health Care Receivables and Receivables Under Government Insured Plans*, which was finalized Aug. 8, 2001, an Effective Date section was included. After that issue paper, some form of "Effective Date" guidance was generally included (but not always). From Issue Paper No. 107 through Issue Paper No. 164, when effective date language was included, it was worded like the excerpts below. Although these excerpts identify that the issue papers are not in the statutory hierarchy, they also indicate an expectation that the issue paper's conclusions can be "applied" once the SSAP has been adopted.

Issue Paper No. 107: Finalized Aug. 1, 2001

28. Upon adoption of this issue paper, the NAIC will release a Statement of Statutory Accounting Principle (SSAP) for comment. The SSAP will contain the adopted Summary Conclusion of this issue paper. **Users of the Accounting Practices and Procedures Manual should note that issue papers are not represented in the Statutory Hierarchy (see Section IV of the Preamble) and therefore the conclusions reached in this issue paper should not be applied until the corresponding SSAP has been adopted by the Plenary of the NAIC.** It is expected that the SSAP will contain an effective date of years ending on or after December 31, 2001.

Issue Paper No. 164: Finalized July 30, 2020

23. The adoption of this issue paper by the Statutory Accounting Principles (E) Working Group, and the substantively revised statement of statutory accounting principles (SSAP) occurred on July 30, 2020. The substantive revisions to SSAP No. 32R are detailed in Exhibit A of this issue paper and reflected in the substantively-revised SSAP No. 32R—Preferred Stock. The effective date of the guidance will be identified in the SSAP. **Users of the Accounting Practices & Procedures Manual should note that issue papers are not represented in the Statutory Hierarchy (see**

[4] As specified by AU Section 411, paragraph 11.

Section IV of the Preamble) and therefore the conclusions reached in this issue paper should not be applied until the corresponding SSAP has been adopted by the Plenary of the NAIC.

Although the original process for issue papers was to have them adopted prior to the development and adoption of the SSAP (which could result in differences between the SSAP and issue paper), current practice more often adopts the SSAP revisions, and then uses the issue paper for historical documentation purposes, or they are completed concurrently. The following effective date language is captured in more recent issue papers adopted between 2019-2023. (Noted also in Issue Papers No. 163, 165 and 167.)

Issue Paper No. 162: Finalized Aug. 3, 2019

24. As issue papers are not represented in the Statutory Hierarchy (see Section IV of the Preamble), the subsequent consideration and adoption of this issue paper will not have any impact of the effective date of the substantive revisions adopted to SSAP No. 62R during the 2018 Fall National Meeting.

NAIC staff only identified the following two issue papers that appear to have been expanded to include language as "not authoritative" in the issue paper's effective date language. These are relatively recent issue papers adopted in 2022 and 2023.

Issue Paper No. 166—Updates to the Definition of a Asset (Finalized Aug. 10, 2022)

21. **As issue papers are not authoritative** and are not represented in the Statutory Hierarchy (see Section V of the Preamble), the consideration and adoption of this issue paper will not have any impact on the SAP clarifications adopted to SSAP No. 4 by the Working Group on August 10, 2022.

Issue Paper No. 168—Updates to the Definition of a Liability (Finalized Aug. 13, 2023)

24. **As issue papers are not authoritative** and are not represented in the Statutory Hierarchy (see Section V of the Preamble), the consideration and adoption of this issue paper will not have any impact on the SAP clarifications adopted to SSAP No. 5R by the Working Group on August 13, 2023.

Ultimately, with the historical guidance in the Preamble and issue paper effective date language that indicates application and usage of issue papers when they do not conflict with statutory accounting guidance, <u>NAIC staff notes the issue papers contain relevant reference information and guidance on the intent of SSAP principles / concepts. Consistent with existing references, issue papers should only be used as a source of statutory guidance when the guidance does not conflict with any other source of established statutory guidance captured in a higher level of the statutory hierarchy</u>.

With direction of a new agenda item, proposed revisions will be drafted to capture the issue papers in the Statutory Hierarchy, with revisions to update the introduction to Appendix E, along with any other noted areas in the Preamble or references on "how to use the manual," etc. Currently, NAIC staff does not anticipate revising the effective date language in the historical Issue Papers. Rather, if supported, consideration could occur on a standard header / footer to reference the placement in the statutory hierarchy upon adoption of that change.

Current Appendix E Introduction is as follows:

Introduction

Issue papers are used as the first step in developing new or revised SSAPs, and each contains a recommended conclusion, discussion and relevant literature section. **While issue papers do not constitute an authoritative level of statutory accounting guidance as defined by the statutory hierarchy, they are an important part of the *Accounting Practices and Procedures Manual* (Manual) because they reference the history and discussion of the related SSAP.**

Issue papers are published in the Manual within Appendix E the first year after adoption of the related SSAP, but are then removed from the subsequent year's Manual and posted for public reference on the Statutory Accounting Principles (E) Working Group (SAPWG) web page at *https://content.naic.org/cmte_e_app_sapwg.htm*.

Current Statutory Hierarchy (2024 AP&P Manual):

V. Statutory Hierarchy

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

Level 1

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

Level 2

Consensus positions of the Emerging Accounting Issues (E) Working Group as adopted by the NAIC (INTs adopted before 2016)

Interpretations of existing SSAPs as adopted by the Statutory Accounting Principles (E) Working Group (INTs adopted in 2016 or beyond)

Level 3

NAIC Annual Statement Instructions

Purposes and Procedures Manual of the NAIC Investment Analysis Office

Level 4

Statutory Accounting Principles Preamble and Statement of Concepts[2]

Level 5

Sources of nonauthoritative GAAP accounting guidance and literature, including: (a) practices that are widely recognized and prevalent either generally or in the industry, (b) FASB Concept Statements, (c) AICPA guidance not included in FASB Codification, (d) International Financial Reporting Standards, (e)

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

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

Pronouncements of professional associations or regulatory agencies, (f) Technical Information Service Inquiries and Replies included in the AICPA Technical Practice Aids, and (g) Accounting textbooks, handbooks and articles

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

44. Because of developments such as new legislation or the evolution of a new type of business transaction, there sometimes are no established statutory accounting principles for reporting a specific transaction or event. In those instances, it might be possible to report the event or transaction on the basis of its substance by selecting a statutory accounting principle that appears appropriate when applied in a manner similar to the application of an established statutory principle to an analogous transaction or event. In the absence of a SSAP or another source of established statutory accounting principles, the preparer, regulator or auditor of statutory financial statements may consider other accounting literature, depending on its relevance in the circumstances. Other accounting literature includes the Statutory Accounting Principles Statement of Concepts and GAAP reference material and accounting literature identified in Level 5. The appropriateness of other accounting literature depends on its relevance to the particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, the Statutory Accounting Principles Statement of Concepts would be more authoritative than any other sources of accounting literature. Similarly, FASB Concepts Statements would normally be more influential than other sources of nonauthoritative GAAP pronouncements.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-28 (Julie)	**Collateral Loan reporting**	**10 – Form A**	**Comments Received**	**IP – 3**

Summary:
On August 13, 2024, the Working Group exposed this agenda item with a request for comments on potential Schedule BA collateral loan reporting lines. The Working Group also sponsored a blanks proposal to begin detailing the revisions to Schedule BA and AVR that would occur with these changes. This action followed prior Working Group discussion and actions to allow, as an interim step, collateral loans with underlying mortgage loans to flow through AVR. This instructional change was supported by the Working Group on May 15, and corresponding RBC revisions were adopted on June 18. Correspondence to the Blanks Working Group on this interim step was received on August 7, 2024.

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

Schedule BA
- Remove the italicized items under the sub-categories and incorporate them into the Schedule BA instructions.
- Consider renaming the sub-category 'Backed by Residual Interests' to 'Backed by Residual Tranches or Interests' for consistency with the Schedule BA category for Residuals.

- For the sub-category 'Backed by Debt Securities,' clarify in the instructions that Debt Securities could be reported on either Schedule D or Schedule BA because it fails the bond definition.
- For the electronic-only column 'Percentage of Collateral to the Collateral Loan,' rename the column 'Current Overcollateralization Percentage' for consistency with the Schedule D column.

AVR

- Consider renaming 'Backed by SSAP No. 48 Investments' to 'Backed by Investments in Joint Ventures, Partnerships, or Limited Liability Companies' (as reported in Schedule BA) for consistency.
- Consider renaming 'Backed by Residuals…' to 'Backed by Residual Tranches or Interests…' for consistency with the Schedule BA category for Residuals.
- Clarify if this new Collateral Loan section should be ahead of or after the newly adopted Capital/Surplus Note section of the schedule.
- Consider modification to the instructions to clarify that amounts include only admitted collateral loans.

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

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

Recommendation:
NAIC staff recommend that the Working Group re-expose this agenda item without revisions and resume discussion once comments have been received on the exposed blanks proposal. (The blanks proposal was exposed on November 6, 2024, for a 90-day comment period ending February 6, 2025.) The interested parties' comments predominantly addressed the presentation of changes within Schedule BA and the AVR schedule and not the overall category breakouts or concept for granularity with collateral loan reporting. With the ability to consider these comments before the blanks exposure, these comments were provided to the Blanks staff and they were considered in the drafting of the blanks proposal.

The key aspect that could warrant advance discussion from the current interested parties' comments will be on the treatment of collateral loans backed by mortgage loans. Previous actions in 2024 have permitted an interim step to allow collateral loans backed by mortgage loans to flow through AVR, using lines 38-64 that generally capture SSAP No. 48 "Investments with the Underlying Characteristics of Mortgage Loans." The comments from interested parties have suggested retaining this AVR reporting, rather than including a separate reporting category in the AVR:

- The benefit of using the existing SSAP No. 48 AVR reporting lines is that there are many lines that allows reporting based on the characteristics of the underlying mortgage loans. However, NAIC staff does not know whether all these lines will be utilized and if reporting entities know the specifics of the underlying mortgages backing collateral loans to properly assess and report in these categories.

- The downfall of using this approach is that the population of collateral loans will be bifurcated in AVR and not reported together in the RBC formula. (If reported collectively with collateral loans, they would flow through to LR008. If reported with other Schedule BA items with underlying mortgage loans, they would flow through to LR009.)

Although NAIC staff suggests Working Group discussion on this dynamic, it may be most beneficial to receive information from interested parties on which reporting line(s) in AVR the collateral loans backed by mortgage loans will be reported in 2024 and how reporting entities determined which reporting line to utilize. If supported, this information can be requested specifically as part of the re-exposure.

Beginning with year-end 2024, a data-captured disclosure in Note 5T will detail the collateral supporting mortgage loans by broad categories. Although it is too late to expand on the data-capturing for year-end 2024, if collateral backed by mortgage loans will be divided significantly in AVR due to differing characteristics, consideration could occur to expand on the note to capture this information, so regulators know how collateral loans backed by mortgage loans are being reported in AVR. The following details the various AVR lines that could be used:

Line Number	INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF MORTGAGE LOANS
	In Good Standing Affiliated:
38	Mortgages – CM1 – Highest Quality.....
39	Mortgages – CM2 – High Quality ....
40	Mortgages – CM3 – Medium Quality....
41	Mortgages – CM4 – Low Medium Quality
42	Mortgages – CM5 – Low Quality..........
43	Residential Mortgages – Insured or Guaranteed
44	Residential Mortgages – All Other ....
45	Commercial Mortgages – Insured or Guaranteed
	Overdue, Not in Process Affiliated:
46	Farm Mortgages....................................
47	Residential Mortgages – Insured or Guaranteed
48	Residential Mortgages – All Other ....
49	Commercial Mortgages – Insured or Guaranteed
50	Commercial Mortgages –- All Other .....
	In Process of Foreclosure Affiliated:
51	Farm Mortgages....................................
52	Residential Mortgages – Insured or Guaranteed
53	Residential Mortgages – All Other ....
54	Commercial Mortgages – Insured or Guaranteed
55	Commercial Mortgages – All Other ......
56	Total Affiliated (Sum of Lines 38 through 55)
57	Unaffiliated – In Good Standing With Covenants
58	Unaffiliated – In Good Standing Defeased With Government Securities
59	Unaffiliated – In Good Standing Primarily Senior
60	Unaffiliated – In Good Standing All Other
61	Unaffiliated – Overdue, Not in Process .
62	Unaffiliated – In Process of Foreclosure
63	Total Unaffiliated (Sum of Lines 57 through 62)
64	Total with Mortgage Loan Characteristics (Lines 56 + 63)

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-16 (Julie)	**Repacks and Derivative Wrapper Investments**	**11 – Agenda item**	**Comments Received**	**IP – 4**

Summary:

On August 13, 2024, the Working Group exposed revisions to *SSAP No. 86—Derivatives* with a proposal to require bifurcation of debt securities with derivative wrappers or components if the item did not reflect a structured note, as defined in SSAP No. 86. The exposed guidance then detailed the accounting and reporting for the bifurcated debt and derivative components. The detailed agenda item discussed origination of this agenda item (credit repack notes) which are debt securities issued by an SPV, that reflects a combined debt security and a derivative. The agenda item also detailed various statutory accounting and reporting aspects if the item was reported as a single debt instrument.

A key aspect to note with the origination of the agenda item was how these debt securities would be accounted for under the principles-based bond definition:

- If the reporting entity held a traditional debt security, backed by the creditworthiness of the issuer, it would be reported as an issuer credit obligation. If that reporting entity also held a derivative (perhaps a cross-currency swap) that impacted what was received under the debt security, the derivative would be reported under SSAP No. 86 and reported on Schedule DB. There would be no change to the reporting of the debt security as a result of the separate derivative instrument.

- However, If the reporting entity sells that debt security to an SPV and reacquires a debt security that reflects cashflows from the original debt issuance and a derivative component/wrapper, the resulting security no longer reflects an issuer credit obligation. Rather, the revised debt security is an asset-backed security, where payment is driven from the cash flows generated from the underlying collateral, as impacted by the derivative. Unless other features were incorporated to create a substantive credit enhancement, this security would fail the ABS requirements and would be considered a non-bond debt security captured in SSAP No. 21 and captured on Schedule BA.

Although initial consideration tried to assess whether certain structures could continue to be classified as issuer credit obligations, it was noted that the derivatives that can be utilized and combined with the debt security can be complex and are not limited to cross-currency swaps that simply exchange cash flows for another currency. It was identified that even with cross-currency swaps, the SPV wrapped debt security could be altered with the timing of cash flows, whereas there would be bullet payments at maturity, rather than periodic receipt of interest in line with what would have been received if the debt security had been held directly by the reporting entity.

Ultimately, the agenda item proposed to revise the long-standing guidance that embedded derivatives shall not be separated from the host contract and accounted for separately as a derivative instrument, and included proposed revisions to separate the debt securities and derivative components/wrappers in all instances (not just credit repacks). These proposed revisions were exposed at the Summer National Meeting for comment.

<u>*Interested Parties' Comments:*</u>

Interested parties note that this agenda item recommends bifurcation of debt securities with derivative wrappers or components if the item does not reflect a structured note. The guidance details the accounting and reporting guidance for the bifurcated debt and derivative components.

This agenda item has been developed to address debt security investments with derivative components that do not qualify as structured notes. Although the original focus was on specific "credit repack" investments, the scope of the agenda item has been expanded to include all debt security investments with derivative wrappers / components.

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

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

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

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

- The investor does not control or own the derivative directly and reporting the derivative in Schedule DB would be inconsistent with state law. Also, the investor would not have the requisite information to complete Schedule DB (e.g., when they are rolled into a new derivative, terms of the derivative, etc.),

- The insurer may not have the information to apply the requisite hedge accounting requirements including determining whether the derivative qualifies as hedging, income generation, or replication (synthetic asset) transactions and/or, and

- Companies would potentially need a new category within their derivative use plans.

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

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

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

Recommendation:
NAIC staff recognizes that the exposed change to SSAP No. 86 to separate embedded derivatives is a key change from original statutory accounting concepts. Based on the comments received, this change is not supported by interested parties. If preferred by Working Group members, NAIC staff recommends that this proposal be modified to eliminate the exposed revisions to separate embedded derivatives. Instead, NAIC

recommends that this agenda item be limited to sponsoring blanks revisions to clarify the guidance on the bond disposal/acquisition schedules (as shown in the agenda item) to ensure that the sale of a security to an SPV for which a debt security is acquired back from the SPV with derivative wrappers (or other components) is shown as a disposal and acquisition.

NAIC is not currently recommending revisions to encompass more disclosure or reporting codes to identify debt securities with derivative components that do not reflect structured notes and/or to provide interpretative guidance under the bond definition. NAIC staff can proceed with proposing guidance on these elements if Working Group members believe additional disclosure or guidance for these items are necessary.

The comment letters are included in Attachment 12 (20 pages).

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/11-17-24 Fall National Meeting/Hearing/00 - 11-17-2024 - SAPWG Hearing Agenda.docx

Statutory Accounting Principles (E) Working Group
Meeting Agenda
November 17, 2024

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

1. Ref #2024-20: Restricted Asset Clarification
2. Ref #2024-21: Investment Subsidiary Classification
3. Ref #2024-22: *ASU 2024-01, Scope Application of Profits Interest and Similar Awards*
4. Ref #2024-23: Derivative Premium Clarifications
5. Ref #2024-24: Medicare Part D – Prescription Payment Plan
6. Ref #2024-25: SSAP No. 16 ASU Clarification
7. Ref #2024-26EP: Fall 2024 Editorial Revisions

Ref #	Title	Attachment #
2024-20 (Julie)	**Restricted Asset Clarifications**	**A – Form A**

<u>*Summary:*</u>
This agenda item has been prepared to clarify how assets held under modified coinsurance (Modco) or funds withheld (FWH) agreements shall be reflected within the restricted asset disclosure in paragraph 23 of *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures* and in the corresponding disclosures in Note 5L of the statutory financial statements. It also proposes enhanced disclosures to fully identify the extent of restricted assets reported on balance sheet within a single disclosure as well as identify differences between the "restricted asset" annual statement disclosure and the amount reported in the general interrogatories, which is pulled directly into the RBC formulas. Lastly, this agenda item suggests a referral to propose revisions to the life RBC instructions to clarify that if the reporting entity uses any assets held under a modco or FWH agreement as collateral or as a pledged asset for a purpose unrelated to the reinsurance agreement (securing an exposure that has not been ceded to the reinsurer), then the reporting entity should not take any Modco/FWH reduction in RBC charges (credit) for those assets in the life RBC formula. This clarification is consistent with the existing life RBC instruction that does not permit RBC credit when the asset risk has not been transferred to the assuming entity for the entire duration of the reinsurance treaty. This referral to life RBC intends to make it clear that if the insurance entity has utilized Modco/FWH assets as collateral or as a pledged item for their own repurchase agreements, securities lending transactions, FHLB agreements/borrowings, or any other purpose specific to the ceding insurer's use, then the asset risk/benefit has not been sufficiently transferred to the assuming entity warranting RBC credit for those assets.

As a key item to note, this agenda item does not propose to capture modco/FWH assets in the restricted asset reporting that flows through to the general interrogatories (GI) that results with an additional "noncontrolled" asset RBC charge. As the RBC formula allows credit for modco/FWH assets held, if these were included in the "noncontrolled asset" category, more complexity and adjustments to the RBC formula would be required to also provide credit against the additional noncontrolled asset charge. Instead, as detailed within, this agenda item proposes modifications to capture modco/FWH assets in the existing restricted asset disclosure (SSAP No. 1, paragraph 23c) that currently focuses on collateral received reported on balance sheet for when there is an corresponding liability reported. By including at this location and expanding disclosures to provide a complete view of restricted assets in comparison to total assets and total admitted assets, there is no additional RBC impact and regulators have a better picture of the assets that are restricted as pledged, not under the exclusive control of the reporting entity or that are earmarked (such as modco/FWH) for a specific purpose.

NAIC staff is aware that some companies report modco/FWH assets held in the existing restricted asset disclosure as "pledged collateral not captured in other categories" or as "other restricted assets," but not all companies report these assets as restricted. (In the RBC formulas, there are adjustments for these assets that are reported that incur additional "noncontrolled" asset RBC.) This agenda item specifies the disclosure location and category to promote consistency and comparability across insurers in the reporting of these assets. NAIC staff supports the inclusion of these assets in the restricted asset disclosure (even when an offsetting liability is reported), as it allows for a full comparison of such assets to total assets. NAIC staff believes the total restricted assets may be considered by financial statement users when assessing available assets, and this disclosure could impact the extent to which borrowing is permitted. If Modco/FWH assets are not captured, it may present a picture of available assets that is not accurate.

As noted in the introduction, this agenda item also proposes additional disclosures to identify differences between what is captured as restricted in SSAP No. 1, paragraph 23b, in Note 5L(1), and what is captured in the general interrogatories. Although the categories are identical, NAIC staff is aware that amounts are reported differently between the two locations. NAIC staff believes this is due to the amounts that are reported in the GI are pulled for the additional noncontrolled asset RBC charge. Over time NAIC staff has received information that these discrepancies may be directed by the domiciliary state regulator for situations that have been identified not to warrant the additional "restricted asset" / "noncontrolled asset" RBC charge. Since the amount is pulled directly from the GI to the RBC formula it is not considered a permitted practice in RBC, however, it results in a mismatch between the note disclosure and the GI although the categories are identical. (NAIC staff has not identified any permitted practices for the differences between the Note and GI reporting. Regulator comments are requested on whether the two reporting locations are interpreted to have different parameters as the language appears identical in both locations.) At this time, this proposal is strictly a disclosure element to make it easy to identify variations and the explanation between the Note and GI reporting so that future assessments can occur. If certain restricted assets are supported for general exclusion from the GI reporting (and the RBC factor), then those situations should be considered by the Working Group so that all insurers are following the same provisions.

The following paragraphs detail how the existing disclosure in SSAP No. 1, paragraph 23b (reported in Note 5L(1)) compares to the information reported in the GI:

- As detailed in SSAP No. 1, paragraph 23b and in Note 5L(1), admitted and nonadmitted assets that are pledged or otherwise restricted in the general account and separate account are to be disclosed along with a comparison of the total restricted assets to total assets and total admitted assets. With specific categories for certain uses, the note also includes broad categories for "pledged as collateral not captured in other categories" and "other restricted assets" to capture items not covered within the specific lines. Note 5L(2) and 5L(3) captures information on these generic categories, and includes examples of reinsurance and derivatives contracts on what should be captured. This disclosure instruction indicates that contracts that share similar characteristics (such as reinsurance and derivatives) are to be reported in the aggregate.

- The restricted asset categories in Note 5L(1) are duplicated in the annual statement general interrogatories (GI), and the amounts reported in the GI are pulled directly into the RBC formula and incur an additional "noncontrolled asset" RBC charge. NAIC staff is aware that there are discrepancies between the amounts of restricted assets reported in Note 5L(1) and what is captured in the same categories within the GI. (These are lines 25.04, 25.05 and 26.21-26.32 in the GI.)

The following details how these items are pulled into RBC from the general interrogatories:

- In the life formula, the restricted assets captured in the GI are pulled directly from the GI to LR017. The standard "noncontrolled asset" charge on that page is 0.0126, except for conforming security lending programs which receive a charge of 0.0020. (Assets pledged as collateral to the FHLB are adjusted in the formula based on various factors.)

- In the P/C and health RBC formula, the restricted assets captured in the GI are pulled directly to PR014 and XR005 respectively, with a 0.010 charge except for conforming security lending programs which receive a 0.002 charge.

The specific excerpts from SSAP No. 1, Note 5L, the applicable GIs and RBC formulas have been captured in the authoritative language section. The categories are also listed in the table below. The terminology at each location is also included below to show the intended consistency in classifications.

<u>Assets identified as "Not Controlled" or "Restricted Assets":</u>

- <u>SSAP No. 1: Restricted Assets / Not Under Exclusive Control</u>: Defined in paragraph 23b as "not under the exclusive control, subject to a put option contract, etc." Footnote 3 of SSAP No. 1 includes the following: 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 **<u>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</u>**.

- <u>Note 5L</u>: Matches terminology and language as SSAP No. 1.

- <u>General Interrogatories: Exclusive Control</u>: GI 25 asks if the company has "exclusive control" over all securities, other than securities lending detailed in 25.03. The instructions define this guidance as "exclusive control means that the company has the exclusive right to dispose of the investment at will, without the necessity of making a substitution therefore." GI 26 that captures the statement value of investments that are not under the exclusive control of the reporting entity. **<u>These categories mirror what is captured in SSAP No. 1 and Note 5L.</u>**

- <u>RBC: Noncontrolled Assets</u>: The RBC instructions have separate lines to capture collateral from conforming and non-conforming securities lending programs and "noncontrolled assets." **<u>The instructions indicate "noncontrolled assets are any assets reported on the balance sheet that are not under the exclusively under the control of the company, or assets that have been sold or transferred subject to put option contract currently in force."</u>** *(Although not detailed in this agenda item, the RBC instructions include specific guidance on what to include (or exclude). Examples include assets related to the Federal Reserve's Asset Loan Facility (TALF) and for restricted assets in excess of FHLB borrowing.)*

<u>*Recommendation:*</u>
NAIC staff recommends that the Working Group move this item to the active listing and expose SAP clarification revisions to *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures* as well as corresponding proposed revisions to the Annual Statement (A/S) instructions/template for the restricted asset disclosure in Note 5L to more clearly identify how Modco and FWH assets reported within a ceding company's financial statements shall be captured.

In addition to the revisions that explicitly address Modco/FWH, the A/S revisions propose a new component to the existing disclosure to identify and explain differences between the note and what is captured in the general interrogatories. Although it was originally anticipated that the note and the GI would agree, NAIC staff is aware that there are often differences and that in some instances domiciliary states have directed specific items to be removed from the GI reporting because of the resulting RBC pull / factor impact. This disclosure will highlight those differences to ensure ease of regulator comparisons as well as allow NAIC staff

to assess consistency across companies and enable future discussions. NAIC staff recommends that the SAPWG sponsor a blanks proposal to incorporate Annual Statement instruction revisions.

Although there is a separate agenda item to identify Modco and FWH assets with more granularity, and to assist with RBC impact, this clarification of the aggregate restricted asset disclosure has been recommended to move forward to ensure the restricted asset disclosure is consistently reported.

Upon adoption of revisions, this agenda item recommends a referral to the Life RBC (E) Working Group to clarify that Modco assets held by a ceding entity that at any time during the year are pledged or used by the ceding entity for their own purpose, such as being used in assets reported to or as collateral to the FHLB or in a repurchase or securities lending agreement, are not permitted to be reported as an RBC charge reduction from the RBC formula for invested assets. Such uses would reflect circumstances in which the "entire asset credit or variability in statement value risk associated with the assets supporting the business reinsurance was not transferred to the assuming company for the entire duration of the reinsurance treaty." This referral will also identify the direction to capture modco/FWH assets in SSAP No. 1, paragraph 23c, therefore these assets should not be captured in the RBC reporting of "noncontrolled assets," therefore the existing elements in the RBC formula to adjust modco/FWH from the "noncontrolled" reporting lines may no longer be necessary.

Ref #	Title	Attachment #
2024-21 (Julie)	**Investment Subsidiary Classification**	**B – Form A**

<u>Summary:</u>
This agenda item has been prepared as questions have been received on the classification of investments as "investment subsidiaries" in schedule D-6-1: Valuation of Shares of Subsidiary, Controlled or Affiliated Companies and in the Life RBC formula on pages LR042, LR043 and LR044.

For background, the concept of an investment subsidiary was reflected in *SSAP No. 46—Investments in Subsidiary, Controlled and Affiliated Entities* as "investments in noninsurance subsidiary, controlled or affiliated (SCA) entities that have no significant ongoing operations other than to hold assets that are primarily for the direct or indirect benefit or use of the reporting entity or its affiliates." For these SCAs, the guidance in SSAP No. 46 required an equity measurement method adjusted to the statutory basis of accounting. With this adjustment to the statutory basis of accounting, the measurement of the SCA under SSAP No. 46 was intended to be consistent to the accumulated measurement of the underlying assets if they had been held directly. SSAP No. 46 was superseded by SSAP No. 88 as of Jan. 1, 2005, and the concept of an "investment subsidiary" (or a subsidiary designed to hold assets for the entity) was eliminated from statutory accounting guidance. SSAP No. 88 was then superseded by *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* as of Dec. 31, 2007, and is the current authoritative guidance for SCAs. Similar to SSAP No. 88, the concept of an "investment subsidiary" (or an SCA designed just to hold assets for the benefit of the reporting entity and its affiliates) is not in SSAP No. 97.

Under current guidance in SSAP No. 97, the concept of an SCA that simply holds assets is not reflected. Unless the SCA is an insurance subsidiary or engages in specific transactions on behalf of the entity, the SCA will be captured under paragraph 8.b.iii in SSAP No. 97 and reported based on the audited US GAAP equity value. Admittance is permitted if the parameters of the SSAP are met, which includes an audited financial statement supporting the US GAAP equity value. It is noted that the concept of an investment sub is still reflected in *SSAP No. 25—Affiliates and Other Related Parties*. The example of an entity only holding assets for the benefit of the insurer is an example of a non-economic transaction, where the assets are transferred/recognized at fair value, but any gain from the transfer is deferred until permanence can be verified.

From questions received and a review of financial statement reporting, the following list identifies issues:

- Situations have been identified in which companies have reported Schedule BA items (in scope of SSAP No. 48) as "investment subs" for RBC look through although those investments should not be captured within the classification. The concept for an "investment subsidiary" is for items reported as SCAs in scope of SSAP No. 97 with common and/or preferred stock ownership.

- Questions have been raised on whether companies can utilize the concept of an "investment sub" to avoid statutory accounting provisions for underlying assets but receive favorable RBC impact as if the SSAP criteria had been met. (For example, whether a company utilize the bond RBC factors for a debt security held within an investment subsidiary without verifying that the debt security would qualify as a bond under *SSAP No. 26—Bonds* or use CRP ratings to determine RBC when the asset may have required an SVO-assigned designation if held directly.)

- Questions have been received on how companies comply with Life RBC LR044 instruction for Affiliate Type 4 "*The risk-based capital charge for the ownership of an investment subsidiary is based on the risk-based capital of the underlying assets, pro-rated for the degree of ownership. The basis for this calculation is the assumption that the charge should be the same as it would be if the life insurer held the assets directly.*" Specifically, the measurement method for the SCA pursuant to *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* (audited U.S. GAAP equity) would not be consistent with the measurement of the assets if the assets were held directly (statutory basis). Questions arise whether the underlying assets within the investment subsidiary are converted to statutory basis of accounting prior to computation of RBC charge. In addition, there were questions as to how the RBC after covariance is calculated for investment subsidiaries.

- According to Annual Statement instructions, investment subsidiaries also need to apply a "look-through" approach in Asset Valuation Reserve (AVR) calculation. However, diversity in practice has been observed and for companies that utilize Lines 5 – 14 of the AVR Equity and Other Invested Asset Component table to calculate AVR, the computation is not transparent.

- Questions have been raised on the current annual statement instructions for D-6-1 regarding the "imputed value on a statutory basis" and the direction for nonadmittance of the excess or reclassification in the "all other affiliates" category. Schedule D-6-1 does not determine the amount reported on balance sheet, as that amount is pulled from *Schedule D-2-2, Common Stocks*. Further, the A/S instructions for D-6-1 would not override the SSAP guidance that prescribes the measurement and admittance requirement as that is governed by SSAP No. 97, which is higher in the statutory hierarchy. These A/S instructions regarding the "imputed statutory value" appear to come from historical RBC guidance, and it is assumed that the calculation of the "imputed statutory value" was intended to be a pre-requisite for classifying as an investment sub. However, as the A/S guidance does not override SSAP, and what is captured would seemingly create a disconnect from what is reported on balance sheet, it seems to be causing confusion on application, as companies are not consistently reporting "investment subsidiaries" throughout the schedule, AVR and the RBC formula.

- From a review of the financial statements, the amounts reported for "investment subsidiaries" vary between D-6-1, AVR and RBC. From the 2023 filing, the amount reported in the RBC formula (which allows company RBC calculation based on the underlying assets) is significantly greater than the amount reported on D-6-1 and what is reported through the equity component of AVR.

Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing and expose this agenda item with a request for comments on the options offered to clarify statutory accounting guidelines (and resulting reporting impacts) for investment subsidiaries. As noted, with the exception of possible revisions to SSAP No. 97, the other possible actions are to sponsor blanks proposals or send referrals to the Capital

Adequacy (E) Task Force and related RBC groups with a request for revisions. (Determination on whether this is a SAP classification or a new SAP concept will be based on the action directed.)

Potential Actions:

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 within, 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.

Ref #	Title	Attachment #
2024-22 (Wil)	**ASU 2024-01, Scope Application of Profits Interest and Similar Awards**	**C – Form A**

<u>*Summary:*</u>
In March 2024, FASB issued *ASU 2024-01 Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards,* which includes amendments to Topics 718 to provide clarifications on the application of guidance on stock compensation in the form of profits interest. The primary changes made were the creation of application examples and amendments to certain language in the Scope and Scope Exceptions Section of Topic 718 to improve clarity and operability without changing the guidance.

Because profits interest holders only participate in future profits and/or equity appreciation and have no rights to the existing net assets of the partnership, it can be complex to determine whether a profits interest award should be accounted for as a share-based payment arrangement (Topic 718) or similar to a cash bonus or profit-sharing arrangement (Topic 710, Compensation—General, or other Topics).

For statutory accounting assessments, prior U.S. GAAP guidance related to share-based payments has been predominantly adopted with modification in *SSAP No. 104—Share-Based Payments*. Statutory accounting modifications to the U.S. GAAP guidance have mostly pertained to statutory terms and concepts. (For example, statutory reporting lines, nonadmittance of prepaid assets, etc.)

<u>Recommendation:</u>
NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions to adopt with modification *ASU 2024-01, Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards* within *SSAP No. 104—Share-Based Payments.* The proposed revisions to SSAP No. 104 are illustrated within the Form A.

Ref #	Title	Attachment #
2024-23 (Wil)	**Derivative Premium Clarifications**	**D – Form A**

<u>Summary:</u>
This agenda item was developed in response to two issues. First, NAIC staff noted during internal reviews of *SSAP No. 86—Derivatives* and the Annual Statement Instructions that the terminology used for derivative financing premium was inconsistent and that the guidance for derivative financing premiums could be clarified. Second, as part of the ongoing Interest Maintenance Reserve (IMR) Ad Hoc Group meetings NAIC staff learned that there is some confusion within industry regarding whether statutory accounting guidance allows derivative premium costs to be captured in the calculation of realized losses for the derivative transaction. NAIC staff noted that within SSAP No. 86 there are several sections which provide derivative specific accounting guidance, and within these sections the guidance is clear that companies are to amortize derivative premiums over the life of the derivative contract. With amortization of the derivative premium, the derivative premium costs would not be a component in determining realized losses at expiration. As noted within the Definitions section of SSAP No. 86, derivative premiums represent the cost to acquire or write a derivative contract and is not an "underlying" in a derivative contract. As SSAP No. 86 only allows for the change in value attributable to the derivative underlying to be capitalized to IMR as a realized loss and as derivative premium costs are NOT a component of the derivative underlying, the guidance is clear that derivative premium costs should not be included in losses capitalized into IMR. To ensure this is abundantly clear, revisions have been recommended to both the "Definitions" and "Derivative Premium" sections to add language which specifically states that derivative premium costs cannot be capitalized into IMR.

<u>Recommendation:</u>
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 to SSAP *No. 86—Derivatives* and the annual statement instructions to ensure consistent terminology for derivative financing premium and to further clarify that derivative premium costs are not to be capitalized to IMR. The proposed revisions to SSAP No. 86 and the annual statement instructions are illustrated within the Form A.

Ref #	Title	Attachment #
2024-24 (Robin)	**Medicare Part D – Prescription Payment Plan**	**E – Form A F – INT**

<u>Summary:</u>
This agenda item is drafted to develop statutory accounting guidance in response to changes to the Medicare Part D (Part D) prescription drug program which goes into effect in 2025. At a high level, the Medicare Prescription Payment Program (MP3) requires insurers to pay pharmacies at the point of sale the out-of-pocket costs of enrollees who have opted into MP3. The enrollees then have the remaining policy term to make installment payments to the insurer. (The policy term typically goes from January through December, so a cost incurred in March, would be repaid through installments ending in December.)

Interpretation (INT) 05-05: Accounting for Revenues Under Medicare Part D Coverage provides high-level accounting guidance on the current Part D program. INT 05-05 includes some basic guidance, but primarily provides guidance by referring to existing statements for specific aspects of the program.

A unique aspect of the updated program is having the insurer pay the pharmacy at the point of sale and seek reimbursement from enrollees. Most of the existing statutory accounting guidance on amounts recoverable from enrollees contemplates premium receivables or amounts due from a governmental payor.

Statutory accounting questions include 1) where to report the initial point of sale payment to the pharmacy and the related installment receivables, 2) how to account for the prescription drug point of sale payments, and 3) when to write-off and or nonadmit overdue amounts.

The program does not change the Part D enrollee's total out of pocket costs. If a participant fails to pay the amount, they are billed by the Part D sponsor, their participation in the program may be terminated following a required two-month grace period. The Part D plan sponsor is not permitted to terminate the individual's enrollment in the Part D plan due to failure to pay MP3 bills. Part D plan sponsors must also have a reinstatement process in place to allow individuals to resume participation in the MP3 in the same plan year.

Part D sponsors are required to treat any unsettled balances owed by enrollees under the MP3 as plan losses; Centers for Medicare & Medicaid Services (CMS) considers these unsettled balances as part of the plan's administrative costs. The other costs of Costs of implementing the MP3 program and program collections are included in the administrative expenses of the Part D plan and are not included in the claim expenses or claim adjustment expenses. CMS requires several reporting requirements and ongoing monitoring.

CMS has specific guidance on the treatment of unsettled balances in the medical loss ratio (MLR). MLR is the share of revenue used for incurred claims and quality improvement activities, rather than the share of revenue used for administrative costs and profit. Therefore, excluding unsettled balances from the numerator of the MLR calculation is consistent with the statutory direction to treat unsettled balances as plan losses and CMS' approach to other administrative expenses incurred by Part D sponsors.

The CMS guidance notes that unsettled balances are included in the denominator of the MLR calculation. The Act requires Part D sponsors to treat any unsettled balances owed by participants under the MP3 as plan losses and allows Part D sponsors to include unsettled balances assumed as losses in their premium bids. Consequently, Part D sponsors will receive revenue covering these assumed losses through their direct subsidy and premium payments, which should be included in the denominator of the MLR.

Health insurance industry trades, America's Health Insurance Plans (AHIP) and Blue Cross Blue Shield Association (BCBSA) have also coordinated with NAIC staff and submitted information on the programs and recommendations which are included in the Hearing comments.

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and take the actions listed below:

1. Expose the draft interpretation *INT 24-02: Medicare Part D Prescription Payment Program* and expose minor edits to *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage* as illustrated in the agenda item. The edits to INT 05-05 adds reference the new INT 24-02 regarding Medicare Part D prescription payment plans.
2. Send notice of the exposure to the Health Insurance (B) Committee and Health Risk Based Capital (E) Working Group
3. Direct NAIC staff to coordinate with Blanks (E) Working Group to develop a annual statement blanks proposal in the interim and to develop disclosures for future inclusion in relevant SSAPs. Preliminary

recommendations would include the list below, but more research on CMS reporting may also identify other relevant items:

a. Amounts recoverable on Medicare Part D installments due from enrollees.
b. Aging of Medicare Part D installments due from enrollees more than 90 days overdue in categories similar to what is used for premium receivables.
c. Information nonadmitted Medicare Part D installments due from enrollees.
d. Information on write-offs of Medicare Part D installments due from enrollees.

Ref #	Title	Attachment #
2024-25 (Jake)	**SSAP No. 16 ASU Clarification**	**G – Form A**

<u>*Summary:*</u>
This agenda item was developed when staff noted instances in SSAP No. 16 where the FASB ASC Topic has been referenced directly instead of the ASU. When guidance is adopted by FASB, it is issued through an accounting standards update which formally adopts the guidance into the FASB Accounting Codification. The Working Group will then address the guidance in the ASU, which is the guidance at a moment in time instead of the actual ASC, which represents guidance that will change over time as other ASUs are adopted. As the guidance stands now, a new ASU could be issued that impacts the ASC sections that are referenced in the SSAP, thereby changing statutory accounting guidance without the Working Group addressing and considering the issue. This agenda item proposes to add the effective ASUs to each of these references where it is missing in SSAP No. 16.

<u>*Recommendation:*</u>
NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions to *SSAP No. 16—Electronic Data Processing Equipment and Software* to clarify the references to ASC sections in the SSAP. The proposed revisions to SSAP No. 16 are illustrated within the Form A.

Ref #	Title	Attachment #
2024-26EP (Julie)	**Fall 2024 Editorial Revisions**	**H – Form A**

<u>*Summary:*</u>
The disclosure in SSAP No. 26, paragraph 39e is an existing disclosure (pre-bond-definition revisions). However, the pre-bond-definition version of the disclosure included direction for disclosure by Schedule D broad reporting categories, with categories listed in the SSAP. These reporting categories were removed from the adopted revised SSAP No. 26 disclosure effective Jan. 1, 2025. Although this disclosure is satisfied by the completion of Schedule D-1-1 and D-1-2 for statutory accounting purposes, comments have been made that the adopted revised language could require a listing of all bonds in the audited financial statements. As such, editorial revisions have been proposed to reinstate the prior language for "receiving bond treatment" (as adopted, revised *SSAP No. 43—Asset-Back Securities*, paragraph 44m points to this SSAP No. 26 disclosure for ABS items), and to include reference to reporting categories. A listing of the reporting categories is not deemed necessary within the SSAP.

<u>*Recommendation:*</u>
NAIC staff recommend that the Statutory Accounting Principles (E) Working Group move this agenda item to the active listing, categorize as a SAP Clarification, and expose editorial revisions as illustrated within for a shortened comment period ending December 9, 2024. It is anticipated that this item will be considered during the December 17 SAPWG virtual meeting.

B. Any Other Matters

a. Review of U.S. GAAP Exposures (Jason – Attachment I)

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.*

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

The IMR Ad Hoc group has met regularly since their first meeting in Oct. 2023. Since the Summer National Meeting, the discussions have focused on IMR from reinsurance transactions. The reinsurance discussion is complex, and after assessing application/interpretation of existing guidance, the group has directed a reassessment of guidance. With this approach, it is intended that principles for accounting/reporting of IMR in response to reinsurance transactions (including for the cedent, assuming entity and in the event of recapture) will be established for application.

c. Update on the Bond Project Implementation / Bond Small Group – (Julie)

The Bond Small Group has currently concluded their regular meetings. The group addressed the items presented and referred the question-and-answer guide to the Working Group. The group may resume future discussions as necessary based on issues or questions raised.

d. Use of 3rd Party Vendors / Checklists to Determine Bond Definition Compliance / Classification

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

Julie Gann and Maggie Chang (NAIC) monitor IAIS discussions. There have been no significant discussions since the Summer National Meeting. Beginning in November 2024, it is anticipated that NAIC staff will be involved in reviewing comments received on the exposed IAIS climate risk materials and proposing revisions to the application paper.

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.

f. Update on Reinsurance Exposures (Robin)

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

g. December 17 Meeting

The Working Group has scheduled a meeting for December 17th for items with a November 8th and December 9th comment deadlines.

Comment Deadlines:

- **Comment Deadline for Ref #2024-26EP – Monday, December 9, 2024**

- **Comment Deadline for all other items – Friday, January 31, 2025**

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/11-17-24 Fall National Meeting/Meeting/0 - 11-2024 SAPWG Meeting Agenda.docx