NATIONAL MEETING
SUMMER / CHICAGO
2024 NAIC

Date: 7/25/2024

2024 Summer National Meeting
Chicago, Illinois

Statutory Accounting Principles (E) Working Group
Tuesday, August 13, 2024
9:00 - 11:00 AM CT

OVERVIEW AGENDA

HEARING AGENDA

NATIONAL MEETING
SUMMER / CHICAGO
2024 NAIC

OVERVIEW AGENDA

MEETING AGENDA

	Meeting Page Number	Attachment
3. SAPWG Meeting – Maintenance Agenda – Pending List—*Dale Bruggeman (OH)*		
• Ref #2022-14: NMTC Project Issue Paper	1	A
• Ref #2024-18: Clarifications to NMTC Project	1	B
• Ref #2023-24: CECL Issue Paper	2	C
• Ref #2024-15: ALM Derivatives	2	D
• Ref #2024-16: Repacks and Derivative Wrapper Investments	4	E
• Ref #2024-17: SSAP No. 108 – VM-01	8	F
• Ref #2024-19: ASU 2024-02, Codification Improvements	9	G
4. SAPWG Meeting – Consideration of Items on the Active Maintenance Agenda—*Dale Bruggeman (OH)*		
• Ref #2023-28: Collateral Loan Reporting	9	H
5. SAPWG Meeting – Any Other Matters Brought Before the Working Group —*Dale Bruggeman (OH)*		
• Review of U.S. GAAP Exposures	12	I
• Update on Valuation Manual Adoptions	12	J
• Update on the IMR Ad Hoc Subgroup	12	K
• Update on the Bond Project Implementation / Bond Small Group	13	None
• IAIS Audit and Accounting Working Group (AAWG Update)	13	None

- **Comment Deadline for Ref #2024-01 – Friday, September 6, 2024**
- **Comment Deadline for all other items – Friday, September 27, 2024**
- **Comment Deadline for Ref #2024-10 and #2024-15 – Friday, November 8, 2024**

Statutory Accounting Principles (E) Working Group
Hearing Agenda
August 13, 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 August 8. This regulator session was 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 discussion previewed 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. Spring National Meeting **(Attachment 1)**
2. May 15, 2024 **(Attachment 2)**

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 #2024-02: ASU 2023-01, Leases
2. Ref #2024-03: ASU 2023-08, Crypto Assets
3. Ref #2024-05: A-791 Paragraph 2c
4. Ref #2024-08: Consistency Revisions for Residuals
5. Ref #2024-09: SSAP No. 2R – Clarification
6. Ref #2024-14EP: Spring
7. Ref #2023-26: ASU 2023-06, Disclosure Improvements

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-02 (Jake)	**ASU 2023-01, Leases (Topic 842), Common Control Arrangements**	**3 – Agenda Item**	**Comments Received**	**IP – 11**

Summary:
On March 16, 2024, the Working Group exposed revisions to adopt, with modification, *Accounting Standard Update (ASU) 2023-01, Leases (Topic 842), Common Control Arrangements*. This ASU was issued as part of FASB's post-implementation review to address issues that have been found during the implementation of the new lease guidance from ASU 2016-02, Leases (Topic 842). As a reminder, ASU 2016-02 was rejected for statutory accounting and the operating lease treatment was retained.

ASU 2023-01 focuses on two issues that are both related to private company stakeholders' concerns about applying Topic 842 to related party arrangements between entities under common control. The first issue provides a practical expedient for private companies and not-for-profit entities that are not conduit bond obligors and the second issue involves the accounting for leasehold improvements associated with a lease between entities under common control.

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

Recommendation:
NAIC staff recommends the Working Group adopt, with modification, ASU 2023-01 in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* and *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Heath Care Facilities*, as illustrated in the agenda item.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-03 (Jake)	**ASU 2023-08, Accounting for and Disclosure of Crypto Assets**	**4 – Agenda item**	**No Comments**	**IP – 11**

Summary:
On March 16, 2024, the Working Group exposed revisions to adopt, with modification, *ASU 2023-08, Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60), Accounting for and Disclosure of Crypto Assets* in *SSAP No. 20—Nonadmitted Asset* and to also nullify *INT 21-01: Accounting for Cryptocurrencies*. This ASU establishes the accounting and reporting for crypto assets, which are defined in U.S. GAAP as assets that:

1. Meet the definition of intangible assets as defined in the Codification
2. Do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets
3. Are created or reside on a distributed ledger based on blockchain or similar technology
4. Are secured through cryptography
5. Are fungible
6. Are not created or issued by the reporting entity or its related parties.

ASU 2023-08 also clarified the disclosure of crypto assets in the financial statements, which note that crypto assets are to be reported at fair value, are reported separately from the other intangible assets, describe how they are to be disclosed in the income statement and statement of cash flows and includes a roll forward of activity and balances.

As background, on May 20, 2021, the Working Group adopted *INT 21-01: Accounting for Cryptocurrencies*, which established statutory accounting for crypto assets. At that time, NAIC staff had received several questions on the proper treatment of cryptocurrencies, and the Working Group adopted INT 21-01 to clearly establish that directly held cryptocurrencies do not meet the definition of an admitted asset. The INT established that directly held cryptocurrencies were not identified in the *Accounting Practices and Procedures Manual* (AP&P Manual) as an admitted asset, and do not meet the definition of any admitted asset that is defined in the AP&P Manual. Accordingly, by default they are a nonadmitted asset per *SSAP No. 4—Assets and Nonadmitted Assets*, paragraph 3, as they are not specifically identified in the AP&P Manual as an admitted asset. Additionally, a disclosure for crypto assets was added to the general interrogatories of the Annual Statement blanks and instructions.

This agenda item intends to incorporate the guidance that was adopted in INT 21-01 into SSAP No. 20.

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. 20—Nonadmitted Assets* which adopt with modification ASU 2023-08 to clarify that directly-held crypto assets are nonadmitted assets for statutory accounting and to define crypto assets using the definition from ASU 2023-08. NAIC staff also recommends that the Working Group nullify *INT 21-01, Accounting for Cryptocurrencies*, upon the adoption of this agenda item as the revisions to SSAP No. 20 also incorporate guidance and expand guidance which was previously in INT 21-01.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-05 (Robin)	**A-791 Paragraph 2c**	**5 – Agenda item**	**Comments Received**	**IP – 12**

Summary:
On March 16, 2024, the Working Group exposed revisions to Appendix-791, paragraph 2c's Question and Answer. This agenda item was developed in response to the Valuation Analysis (E) Working Group's (VAWG) referral to the Statutory Accounting Principles (E) Working Group which recommends making a clarifying edit to *Appendix A-791 Life and Health Reinsurance Agreements* (A-791), Section 2.c's Question and Answer by removing the first sentence, which reads, "Unlike individual life insurance where reserves held by the ceding insurer reflect a statutorily prescribed valuation premium above which reinsurance premium rates would be considered unreasonable, group term life has no such guide." The referral notes that:

> First, this sentence is unnecessary, as it is an aside in a discussion about group term life. More importantly, this statement is being misinterpreted as supporting the use of Commissioner's Standard Ordinary (CSO) rates as a "safe harbor," at or below which YRT rates would be automatically considered not to be excessive.
>
> The 791 section 2c QA guidance does not provide a safe harbor based on CSO. It indicates that if the YRT reinsurance premium is higher than the proportionate underlying direct premium for the risk reinsured, then the reinsurance premium is excessive. VAWG observes that the prudent mortality under the *Valuation Manual*, Section 20: Requirements for Principle-Based Reserves for Life Products (VM-20), may appropriately be either higher or lower than the CSO rate depending on the facts and circumstances.

The Working Group also notified the Valuation Analysis (E) Working Group, the Life Actuarial (A) Task Force and the Reinsurance (E) Task Force of the exposure.

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

Recommendation:
NAIC staff recommends that the Working Group adopt this SAP clarification, which removes the first sentence of the A-791, paragraph 2c's Question and Answer as it is unnecessary.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-08 (Julie)	**Consistency Revisions for Residuals**	**6 – Agenda item**	**No Comments**	**IP – 17**

Summary:
On March 16, 2024, the Working Group exposed revisions to incorporate consistency revisions for residual tranches and residual security interests. Over the last couple of years, a variety of revisions have been incorporated for residual interests. These began with revisions to clarify the reporting on Schedule BA (instead of Schedule D-1) along with the residual definition and guidance within each investment SSAP to highlight that residuals shall be captured on Schedule BA. Although these revisions were necessary to immediately address the reporting of residuals, the discussion that accompanied these revisions have noted that conforming revisions would be needed coinciding with the effective date of the principles-based bond definition guidance to have consistency of guidance location, terminology and definitions.

With the revisions to *SSAP No. 21R—Other Admitted Assets* to provide the accounting and reporting for residuals, all residuals, regardless of investment structure, shall follow the guidance detailed in SSAP No. 21R and be reported on Schedule BA.

To ensure consistency in definitions and guidance, this agenda item proposes to centralize residual guidance within SSAP No. 21R and use a consistent approach in the other investment SSAPs to exclude residuals from their scope and direct companies to SSAP No. 21R.

Interested Parties' Comments:
Interested parties support the proposed changes.

Recommendation:
NAIC staff recommend that the Working Group adopt the exposed revisions, to be effective January 1, 2025. These changes incorporate consistency revisions for residuals so that all SSAPs refer to SSAP No. 21R for the formal definition and accounting and reporting guidance. This adoption also includes revisions to *SSAP No. 26R—Bonds* (Effective 2025), *SSAP No. 30R—Unaffiliated Common Stock*, *SSAP No. 32R—Preferred Stock*, *SSAP No. 43R—Asset-Backed Securities* (Effective 2025), and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*. The effective date of January 1, 2025, is necessary to mirror the effective date of the SSAP No. 21 guidance.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-09 (Julie)	**SSAP No. 2R – Clarification**	**7 – Agenda item**	**No Comments**	**IP – 17**

Summary:
On March 16, 2024, the Working Group exposed revisions to *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments*. This agenda item has been developed to update the guidance in SSAP No. 2R to remove a lingering reference to items that have been removed from scope pursuant to the bond project (asset-backed securities) or from agenda item 2023-17 (mortgage loans and Schedule BA assets). The edits are focused on the guidance that addresses 'rolling' cash equivalents and short-term investments in which there is a continued reference to *SSAP No. 43R—Asset-Backed Securities* investments and 'other Invested assets.' This guidance has been revised to only reflect items in scope of SSAP No. 2R.

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

Recommendation:
NAIC staff recommend that the Working Group adopt the exposed revisions to *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* to eliminate lingering references that imply that asset-backed securities, mortgage loans, or other Schedule BA items are permitted to be reported as cash equivalents or short-term investments.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-14EP (Jason/Jake)	**Accounting Practices and Procedures Manual Editorial**	**8 – Agenda item**	**No Comments**	**IP – 19**

Summary:
On March 16, 2024, the Working Group exposed agenda item 2024-14EP. The editorial revisions remove the "Revised" and "R" previously intended to identify a substantively revised SSAP, from SSAP titles and SSAP references within the Manual. NAIC staff consider the "Revised" and "R" identifiers to no longer be useful.

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

Recommendation:
NAIC staff recommend that the Statutory Accounting Principles (E) Working Group adopt the exposed editorial revisions as illustrated within the agenda item.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-26 (Wil)	**ASU 2023-06, Disclosure Improvements**	**9 – Agenda item**	**No Comments**	**IP – 10**

Summary:
On March 16, 2024, the Working Group exposed revisions to adopt, with modification, *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*. Prior to this on Dec. 1, 2023, the Working Group deferred action on ASU 2023-06 to allow staff further time to consider whether certain aspects of ASU 2023-06 were applicable to statutory accounting. In October 2023, FASB issued ASU 2023-06 in response to a referral from SEC Release No. 33-10532, Disclosure Update and Simplification, issued August 17, 2018. The changes detailed in the ASU seek to clarify or improve disclosure and presentation requirements of a variety of topics. Many of the amendments allow users to more easily compare entities subject to the SEC's existing disclosures with those entities that were not previously subject to the SEC's requirements, while others represent miscellaneous clarifications or technical corrections of the current disclosure requirements. Two of the more significant items from the SEC referral is the requirement for companies to disclose their the weighted-average interest rate of debt and provide repurchase agreement (repo) counterparty risk disclosures. FASB elected to only require the weighted-average interest rate disclosure for publicly traded companies due to concerns regarding the complexity of the calculation for private companies.

The ASU requires repo counterparty risk disclosures on the accrued interest incurred in securities borrowing or repurchase or resale transactions, separate presentation of the aggregate carrying amount of reverse repurchase agreements on the face of the balance sheet if that amount exceeds 10% of total assets, disclosure of amounts at risk with an individual counterparty if that amount exceeds more than 10% of stockholder's equity, and disclosure for reverse repurchase agreements that exceed 10% of total assets on whether there are any provisions in a reverse repurchase agreement to ensure that the market value of the underlying assets remains sufficient to protect against counterparty default and, if so, the nature of those provisions.

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

Recommendation:
NAIC staff recommends that the Working Group adopt, with modification, certain disclosures from *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative,* for statutory accounting within *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 86—Derivatives*. The disclosure revisions recommended by NAIC staff for adoption, as detailed within the Form A, are:

- Disclosures for unused commitments and lines of credit, disaggregated by short-term and long-term.
- Disclosure of the derivative cash flow accounting policy

In addition, NAIC staff recommend that the previously exposed revisions to adopt, with modification, certain disclosures from ASU 2023-06 within *No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* be removed from this agenda item and combined with agenda item 2024-04: Conforming Repurchase Agreements. Agenda item 2024-04 is intended to review and revise current statutory guidance for repos and secured lending, as such adoption of additional repo disclosures should be considered as a part of that project. These disclosure revisions, as detailed within the Form A, include:

- Disclosure of accrued interest from repos and securities borrowing, separate disclosure of significant (10% of admitted assets) reverse repos, and counterparty disclosures for significant (10% of adjusted capital and surplus) repos and reverse repos.

REVIEW of COMMENTS on EXPOSED ITEMS

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

1. Ref #2019-21: Principles-Based Bond Project - Issue Paper
2. Ref #2024-01: Bond Definition – Debt Securities Issued by Funds
3. Ref #2024-04: Conforming Repurchase Agreements
4. Ref #2024-06: Risk Transfer Analysis on Combination Reinsurance Contracts
5. Ref #2024-07: Reporting of Funds Withheld and Modified Co-Insurance Assets
6. Ref #2024-10: SSAP No. 56 – Book Value Separate Accounts
7. Ref #2024-11: ASU 2023-09, Improvements to Income Tax Disclosures
8. Ref #2024-12: Updates to SSAP No. 27
9. Ref #2022-12: Review of INT 03-02: *Modification to an Existing Intercompany Pooling Arrangement*

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2019-21 (Julie)	**Principles-Based Bond Project**	**10 – Issue Paper 11 – Q&A (Pending)**	**Comments Received**	**IP – 21**

Summary:
On May 15, 2024, the Working Group exposed updates to the draft issue paper for the principles-based bond project for a comment period ending June 21. The issue paper documents the discussions and decisions within the principles-based bond project and has been updated to reflect the final actions. Additionally, consistency edits and reorganization has been reflected as the authoritative SAP revisions have been adopted. (As a reminder, issue papers are not authoritative, and simply provide background and discussion elements for historical reference.) Changes from the prior exposed version are shown as tracked within the document.

Interested Parties' Comments:
Interested parties have the following three comments:

- Paragraph 32c – Editorial edits are needed to remove the following language which is included twice, "In contrast, an ABS Issuer has a primary purpose of raising debt capital……..These features support the entity's primary purpose of raising debt capital."

- Paragraphs 107, 110, 111, 113, & 115 – The example number cadence is off such that each needs to be reduced by 1 (e.g., in paragraph 107, Example 5 Rationale needs to be shown as Example 4 Rationale, etc.

- Paragraph 59 – SSAP No. 26 discusses that the practical expedient could only be used if less than 50% of the principal relies on sale or refinancing. The Issue Paper (paragraph 59) discusses that the practical expedient could only be used if contractual cash flows at origination are sufficient to cover all interest and at least 50% of the original principal. To avoid confusion, we suggest the following sentence be added to the Issue Paper, paragraph 59 as a last sentence: "That means, as discussed in SSAP 26, paragraph 9b, that the practical expedient can only be used if less than 50% of the principal relies upon sale or refinancing."

Recommendation:
NAIC staff recommends that the Working Group adopt the issue paper with modifications to reflect the interested parties' comments. Revisions to reflect the comments are shaded in yellow and captured on pages 11 (P32c), 21 (P59b), and 34-35 (P107-P115). In addition to these changes, in paragraph 36, the last sentence has been revised to be overly clear that the reporting entity shall assess structures when acquired, based on what was intended by the issuer at the time of origination.

The other tracked changes are not new and just reflect the edits that were exposed in May. Upon adoption, the issue paper will be publicly posted on the SAPWG website along with the other documents (SSAP adoptions and Blanks changes) related to the bond project.

(Note: The adopted issue paper will be impacted by the next topic, agenda item 2024-01. With adoption of the issue paper, it will not reflect the edits from agenda item 2024-01 but will be updated if the revisions from 2024-01 are subsequently adopted.)

As a second action, NAIC staff recommend that the Working Group expose a Question-and-Answer Implementation Guide (Q&A) that addresses issues brought from industry to the Bond / AICPA small group. This Q&A details interpretations on how the SAP guidance should be applied to specific investment structures or investment characteristics.

The Q&A is planned for exposure until September 27 to allow for consideration at the Fall National Meeting.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-01 SSAP No. 26R (Julie)	**Bond Definition – Debt Securities Issued by Funds**	**12 – Agenda item**	**Comments Received**	**IP – 10**

Summary:
On March 16, 2024, the Working Group re-exposed revisions to both *SSAP No. 26R—Bonds* and the draft issue paper for the principles-based bond project, to clarify the guidance for debt securities issued by funds. The revisions intended to eliminate the rules-based provision, in which SEC registration for a fund is required, and instead permit debt securities issued by funds to be classified as issuer credit obligations if the fund represents an operating entity. The revisions included guidance to assist in determining whether a fund represents an operating entity, and the issue paper guidance continued to identify that collateralized fund obligations (CFOs) and other similar structures would be required to be assessed as asset-backed securities to determine if they qualify for bond reporting.

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

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

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

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

Interested parties reviewed the NAIC Staff proposal and support with the revised language and believe it will achieve the stated objective of greater consistency for debt issued by like funds.

Recommendation:
NAIC staff recommend that the Working Group expose language to clarify guidance for debt securities issued by funds for a shortened timeframe ending Friday, September 6, 2024. Based on the comments received, this agenda item could be considered for adoption via an evote. If needed, an interim call will be held to discuss comments received. Please note that although industry has communicated support for the 'revised language' the revised language was developed in the interim working with industry and was not formally exposed. This exposure is considered appropriate to ensure regulators and all industry representatives have time to review the revised language.

The proposed language is shown below. The revisions from the exposure are shaded. These revisions predominantly clarify that the SEC registration is a practical safe-harbor and should not be utilized as a proxy for other debt securities issued by funds. Other debt securities issued by funds must be classified in accordance with the issuer's primary purpose. If the primary purpose is for raising debt capital, then it must be assessed as an ABS regardless of the amount of debt issued.

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

Proposed Revisions to *SSAP No. 26—Bonds*

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

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

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

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

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

Proposed Revisions to Draft Issue Paper:

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

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

contractual agreements. The hardwiring of debtholder protections allows for the issuance of higher amounts of debt securities to be issued than what would be possible for a fund representing an operating entity. These features support the entity's primary purpose of raising debt capital. Although some may consider CFOs or feeder funds to be similar to closed-end funds, that assessment is not supported for classification as an ICO. Instruments considered to reflect CFOs (and other like structures) are required to be assessed as ABS for inclusion as a bond reported on Schedule D-1. Paragraphs 27-28 also detail the assessment expected in classifying feeder funds, and the requirement to determine the source of the underlying cash flows in determining classification and if the structure qualifies for reporting as a bond on Schedule D-1.

(Note: If the above revisions are subsequently adopted, the adopted issue paper will be revised.)

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-04 (Julie)	**Conforming Repurchase Agreements**	**13 – Agenda item 14 – Sec. Lending & Repo Memo**	**No Comments**	**ACLI – 2 IP – 11**

Summary:
On March 16, 2024, the Working Group exposed this agenda item for comments, which had been developed in response to the January 2024 referral received from the Life Risk-Based Capital (E) Working Group (LRBCWG). The LRBCWG referral was sent for assistance to address an ACLI request to modify the treatment of repurchase agreements in the life risk-based capital (RBC) formula to converge with treatment for securities lending programs. As detailed within the ACLI-sponsored life RBC proposal, the request is to incorporate a concept of "conforming programs" for repurchase agreements, with the collateral attributed to these programs assigned a 0.2% (.0020) factor instead of a 1.26% (0.0126) factor.

Per the Statutory Accounting Principles (E) Working Group (SAPWG) referral response dated Feb. 8, 2024, it was identified that the statutory accounting and reporting for securities lending and repurchase agreements are currently different. As a result, the SAPWG requested that the LRBCWG defer consideration of the proposal until the SAPWG has time to assess the differences and consider converging revisions (if deemed appropriate) before modifying the RBC formula.

This agenda item identifies initial statutory differences between securities lending and repurchase agreements as well as other items that should be reviewed for potential clarification on the "conforming agreement" securities lending concept currently captured in the general interrogatories. These items are summarized as follows:

- Documentation of Securities Lending Collateral: Securities lending collateral is detailed in Schedule DL: Securities Lending Collateral Asset for 1) collateral that an entity has received and reinvested, and 2) collateral received that the entity has not reinvested but for which the entity has the ability to sell or repledge. This schedule currently does not include repurchase agreement collateral. As detailed within the ACLI proposal, the ACLI identifies that repurchase agreements and securities lending transactions are similar forms of short-term collateralized funding for life insurers, with counterparties reflecting the key difference between the two funding structures. With these similarities, consistent reporting of the collateral may be appropriate to ensure financial regulators receive comparable information regardless of the legal form of the agreement. Furthermore, a review of year-end 2022 data identified that securities associated with securities lending transactions are declining, whereas securities associated with repurchase agreements are increasing.

- Blanks Reporting Revisions: Blanks reporting revisions will be required to incorporate a new general interrogatory to capture repurchase collateral from conforming programs and for that data to be pulled directly into the RBC formula. Additionally, the current guidance on what reflects a "conforming program" for securities lending is captured in the RBC instructions. To ensure consistency in reporting, consideration should occur on incorporating the guidance into the annual statement instructions. This would ensure that financial statement preparers, who may not have the RBC instructions, have the guidelines to properly assess whether a program should be classified as conforming or nonconforming.

Assessment of Conforming Provisions: From a review of year-end 2022 financial statements, very few reporting entities reported any securities lending collateral as part of a nonconforming program. Although the instructions identify what is permitted as "acceptable collateral," from a review of the collateral reported on Schedule DL, reporting entities are classifying programs as conforming even though the reported Schedule DL collateral is outside the parameters of acceptable collateral. From initial assessments, it appears that there may be interpretation differences on whether the "acceptable collateral" requirement encompasses only the collateral received from the counterparty and not what the reporting entity currently holds due to reinvestment of the original collateral. From this information, clarification of the intent of the guidelines and what is conforming or nonconforming is proposed to be considered. It is also noted that the provisions to separate conforming and nonconforming programs in the RBC formula was incorporated before the great financial crisis, and significant changes to the accounting and reporting (Schedule DL) were incorporated because of how securities lending transactions impacted certain reporting entities during the crisis. For example, prior to Schedule DL, most of the security lending collateral was off-balance sheet, and now only collateral that an entity cannot sell or repledge is off-balance sheet. From a review of the detail, reporting entities are combining any off-balance sheet (which is limited) with what is captured on Schedule DL for inclusion in the "conforming program" securities lending general interrogatory.

ACLI Comments – April 17, 2024:
Interim Activity Note: The ACLI comments were received April 17, 2024, in advance of the Life RBC Working Group call to consider an RBC revision to incorporate a concept of conforming repos in the RBC instructions. During the April 19, 2024, Life RBC WG call, the accounting and reporting differences between securities lending and repo agreements were noted along with the SAPWG request to assess these differences and overall guidance for potential clarification and convergence prior to RBC revisions. The Life RBC WG agreed with this action and deferred consideration of the RBC changes. The NAIC has met with industry since then and the ACLI is working to provide additional responses to NAIC staff questions. Continued discussion in the interim is expected. The ACLI comments received April 17 are included below to ensure proper reflection for documentation purposes.

The American Council of Life Insurers (ACLI) appreciates the opportunity to respond to SAPWG's March 16th exposure of its report on conforming repurchase agreements (repo). The exposure requests that industry address three issues:

1. Inconsistent reporting of reinvested asset detail between conforming securities lending and conforming repo
2. While the RBC Instructions provide guidance on the criteria to establish conforming securities lending and repo programs, similar guidance should be provided in the Annual Instructions
3. Regulators are unsure about whether the limitations on "acceptable collateral" apply to:
    a. Securities being lent by the insurer
    b. Cash or cash equivalents received by the insurer
    c. Assets within the reinvestment pool
    d. Some combination of the 3 categories above

Below are ACLI's responses to each of these three issues.

Reinvested Asset Detail

NAIC staff are correct in pointing out that, while reinvested assets for conforming securities lending programs are listed CUSIP-by-CUSIP in Schedule DL, ACLI is not proposing a similarly detailed asset listing for conforming repo programs. Instead, ACLI believes that the following disclosures should provide regulators sufficient comfort in the integrity of the reinvested assets:

1. Reinvested assets must conform to the Investment Guidelines established within the conforming repo program
2. Reinvestment assets must be dedicated and sufficient to satisfy a potential run-off of the repo liability. As a demonstration, both the book value and fair (market) value of the reinvested assets for conforming repo programs are reported in Footnote 5F(10) of Quarterly/Annual Statements. A full listing of the nine Footnotes related to conforming repo programs is listed as Appendix 1.

ACLI believes that these disclosures provide regulators with a more fulsome overview of the integrity of reinvested assets than a simple CUSIP-by-CUSIP asset listing.

Annual Statement Instructions

In the 2024-04 exposure, NAIC staff proposes that guidelines for conforming securities lending and conforming repo programs should appear in the Annual Statement Instructions as well as the RBC Instructions. In Appendix 2, ACLI proposes expanded Annual Statement Instructions incorporating guidelines for conforming securities lending and conforming repurchase agreement programs.

Scope of "Acceptable Collateral"

It can often be difficult to define the scope of the word "collateral." ACLI would like to clarify that the restrictive limitations on "acceptable collateral" apply *only* to the collateral received by an insurer when the insurer posts securities to the counterparty. "Acceptable collateral" limitations should *not* be applied to either securities lent or to assets in the reinvestment pool:

1. Securities lent are subject to restrictions in the binding written legal agreement between borrower and insurer
2. Assets in the reinvestment pool or portfolio are subject to restrictions in the Investment Guidelines

Securities lent, as well as assets in the reinvest pool, typically have a broader range of asset types than cash within "acceptable collateral." It should not be surprising, therefore, that assets in conforming securities lending reinvestment portfolios can fall outside the restrictive asset classes within "acceptable collateral."

Thank you once again for the consideration of our comments and we look forward to further discussion on this topic at a future meeting of SAPWG.

Interested Parties' Comments:

Interested parties support the ACLI comment letter submitted on April 17, 2024. We look forward to continuing to work with the statutory accounting staff on this topic.

Recommendation:

NAIC staff has developed a memo that walks through the accounting and reporting for securities lending and repo agreements with noted questions. NAIC staff has noted inconsistencies in application of these transactions across companies, particularly when the components are identified as restricted and how they flow through RBC and recommends clarification to the guidance to mitigate inconsistencies. **NAIC staff recommend exposure of this memo with a request for feedback on the documented processes and the noted questions. NAIC staff has met**

with industry representatives in the interim and suggests continued interim discussion with the ACLI and other industry representatives on these transactions and appropriate accounting/reporting.

In addition, NAIC staff recommend that the previously exposed revisions to in agenda item 2023-06: ASU 2023-06 to adopt, with modification, certain disclosures from ASU 2023-06 within *No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* be combined with agenda item 2024-04: Conforming Repurchase Agreements for future review.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-06 (Robin)	**Risk Transfer Analysis on Combination Reinsurance Contracts**	**15 – Agenda item**	**Comments Received**	**CT – 6 IP – 12**

Summary:
On March 16, 2024, the Working Group exposed agenda item 2024-06 to address the risk transfer aspect of a December 2023 referral by the Valuation Analysis (E) Working Group (VAWG). The exposed *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* revisions were narrowly focused on risk transfer and incorporated guidance noting that interdependent contract features such as a shared experience refund must be analyzed in the aggregate when determining risk transfer. The Working Group exposure was based on existing guidance that is in both U.S. GAAP and in *SSAP No. 62R—Property and Casualty Reinsurance Exhibit A – Implementation Questions and Answers,* question 10 **which provides guidance on interdependent contract features noting that contracts with interdependent features must be analyzed in the aggregate for risk transfer.** In addition, a reference to A-791, paragraph 6 which requires that the reinsurance contract include provisions that the agreement shall constitute the entire agreement between the parties with respect to the business being reinsured thereunder and that there are no understandings between the parties other than as expressed in the agreement was proposed to be added to existing YRT guidance.

The referral, excerpted below, included risk transfer concerns regarding interdependent contract features which had been analyzed separately instead of in the aggregate for risk transfer. It also raised several concerns regarding the classification of reinsurance contracts and the size of the reinsurance credit taken. The referral noted that **(bolding added for emphasis)**:

> VAWG has identified that issues arise when evaluating reinsurance for risk transfer in accordance with *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*, when treaties involve more than one type of reinsurance, and there is **interdependence of the types of reinsurance, including but not limited to an experience refund that is based on the aggregate experience**. In such cases, VAWG regulators find that these types of reinsurance must be evaluated together and cannot be evaluated separately for the purpose of risk transfer. For example, where a treaty includes coinsurance and YRT with an **aggregate experience refund and the inability to independently recapture the separate types of reinsurance**, **it is not adequate to separately review the coinsurance and YRT pieces of the transaction for risk transfer**. The treaty as a whole is non-proportional. **This complexity is not immediately apparent to the regulatory reviewer, and it is important that this issue be raised broadly, so that individual state regulators are aware. In**dividual regulators are encouraged to contact VAWG if they would like additional perspective when reviewing such treaties.
>
> Generally, VAWG regulators observe that **some companies are reporting an overstated reserve credit due to a bifurcated risk transfer analysis.** Specifically, some companies reported a proportional reserve credit for a coinsurance component, despite in aggregate the reinsurer only being exposed to loss in tail scenarios. From an actuarial perspective, there is consensus among VAWG members that it is not

appropriate for a ceding company to take a proportional reserve credit that reflects the transfer of all actuarial risks when not all actuarial risks are transferred.

VAWG recommends that SAPWG discuss this issue, to 1**) increase familiarity with the issue and 2) consider whether any clarifications to risk transfer requirements is appropriate**

As noted in the referral above, regulators have observed reinsurance transactions that combine both coinsurance and YRT, with interdependent features including an aggregate experience refund and recapture provisions that allow for recapture by the cedant, but only if both components are recaptured simultaneously.

VAWG observed that some insurers have assessed these components under A-791 as if they were separate agreements, concluding that the requirements for risk transfer are met for each. Reserve credit was then taken on each component; a proportional credit for the quota share on the coinsured policies, and a YRT credit for the YRT component. Note that YRT contracts ordinarily cover a percentage of the one-year mortality risk for the net amount at risk on a policy. A simple way to describe net amount at risk is the difference between the policy reserve held and the face value of the policy.

Claire Thinking, Inc. Comments:
Thank you for the opportunity to provide comments to the NAIC's Statutory Accounting Practices Working Group regarding Exposure 2024-06. Please note that my comments only reflect my own opinion and not necessarily those of my past or present employer or of any professional organization.

Regarding Exposure 2024-06, I agree that a reinsurance agreement that is comprised of interdependent reinsurance arrangements (such as coinsurance and YRT) needs to be evaluated as a single agreement to determine risk transfer compliance. One of the primary intentions of Appendix A-791 of the *Accounting Practices and Procedures Manual* is to require, in order to qualify for reinsurance credit, that there generally not be a possibility that a ceding company's surplus could be adversely impacted by the performance of the ceded business. If a coinsurance agreement on its own would comply with Appendix A-791, but the reinsurance agreement it is part of obligates the ceding company to cede business under a YRT reinsurance arrangement, then that obligation needs to be considered in evaluating compliance with Appendix A-791.

In the drafting of the Life and Health Reinsurance Agreements Model Regulation and Appendix A-791, insurance regulators were primarily concerned about reinsurance agreements that provided surplus relief to the ceding company. These teams of insurance regulators believed that surplus relief should not be recognized if it was not permanent, thus the idea that the ceding company's surplus should not be adversely impacted at any future time by the ceded business. This includes the payment of any risk charge, which can only be paid from the income of the ceded policies and not from the surplus of the ceding company.

The Summary of Exposure 2024-06 frequently mentions experience refunds. The existence of an experience refund (which actually should benefit the ceding company) is generally not the concern. Rather, an experience refund may be typical of the types of reinsurance agreements that combine coinsurance with YRT reinsurance and charge YRT reinsurance premiums that are higher than what they would be otherwise, with the "excess" expected to be returned to the ceding company as part of an experience refund but which would provide a buffer to the reinsurer for at least some of the losses in the case that actual experience is sufficiently adverse. Such a reinsurance agreement should be evaluated in its entirety to determine if this buffer can result in a reduction of the ceding company's surplus. It should not matter whether a potential reduction of the ceding company's surplus is due to the coinsurance premiums exceeding policy premiums or due to YRT reinsurance premiums exceeding policy charges for the mortality risk, since the two reinsurance arrangements are connected.

In summary, the determination of a reinsurance agreement's compliance with Appendix A-791 of the NAIC Accounting Practices and Procedures Manual should include consideration of all obligations of the ceding company under the reinsurance agreement.

Interested Parties' Comments:
Overview
While the exposed language is characterized as a clarification, it is unclear that the proposed changes are strictly clarifications as there is confusion regarding the potential interpretation and resulting implications of these changes. Specifically, interested parties are concerned that the exposed language could lead to broader interpretive changes by regulators, auditors, and companies than is currently intended, which could cause confusion and inconsistency in approach across the industry. Interested parties suggest that further discussion between industry participants, the NAIC, and regulators on this important topic would ensure mutual understanding of intent.

Comments
Reinsurance agreements that combine coinsurance and yearly renewable term (YRT) coverage are not uncommon in the industry and have been historically interpreted (at least by some regulators and audit firms) as appropriately providing quota share credit on the coinsured policies and a YRT credit for the YRT component. We believe it would be in the interest of both regulators and the industry to fully understand the impact that the adoption of the exposed changes would have at the industry level before proceeding further with these changes.

The exposure states that "the substance of this interdependent agreement design is more akin to the risk transferred under a nonproportional reinsurance agreement. This is because in aggregate, proportionate amounts of the risk are not transferred." We believe that the determination of a contract being proportional or non-proportional should continue to be based on a careful consideration of the specific contractual terms of the reinsurance agreement(s) in question and the resulting reinsurance coverage provided to the ceding entity rather than the adoption of any automatic and universal conclusion for all combination coinsurance / YRT arrangements. Such belief is supported by the currently codified statutory guidance. SSAP 61R separately defines coinsurance, modified coinsurance, YRT and non-proportional reinsurance arrangements and provides applicable risk transfer guidance for each. Specifically, a non-proportional reinsurance arrangement is defined as follows:

> These arrangements provide for financial protection to the ceding entity for aggregate losses rather than providing indemnification for an individual policy basis as described in the preceding three reinsurance arrangements [i.e., coinsurance, modified coinsurance and YRT]. Catastrophic and stop loss reinsurance are written on an annual basis to protect the ceding entity from excessive aggregate losses. Usually, the coverage does not extend over the life of the underlying policy nor is there any requirement on the ceding entity to renew the arrangement.

The combination of coinsurance and YRT arrangements should not be automatically deemed non-proportional as many of these arrangements provide indemnification for losses on an individual policy basis, consistent with the current definition of proportional reinsurance under SSAP 61R. For many such arrangements, each component individually and in combination provides coverage over the life of the underlying policies and offers indemnification on an individual policy basis; and neither the coinsurance nor the YRT component, whether considered independently or in combination, constitutes a non-proportional arrangement.

In addition, the exposure states that "taking a full proportional reserve credit on the coinsured component is not reflective of the actual risk being transferred." While interested parties agree that combination arrangements can be structured in ways that do not meet statutory risk transfer requirements, we believe that combination arrangements can also be structured to meet these requirements and taking a full proportional reserve credit on the coinsured component would be considered appropriate.

Any risk transfer assessment of combination coinsurance / YRT arrangements should be conducted in the context of applicable SAP guidance and based on the facts and circumstances of the relevant reinsurance agreement(s). SAP guidance should be applied both individually to each of the coinsurance and YRT components of the agreement(s) and, in addition, an overall assessment of the combined agreement should be performed consistent with the requirement that "the agreement shall constitute the entire agreement between the parties with respect to the business

being reinsured thereunder[.]" Interested parties agree that if any individual component of a combination coinsurance / YRT arrangement does not pass statutory risk transfer, then the aggregate transaction would not pass statutory risk transfer regardless of how it is structured. This overall assessment should include, among other things, an evaluation of (i) the coinsured business to ensure that all significant risks inherent in the reinsured business are transferred, and (ii) the YRT arrangement to ensure that the agreement does not violate any of the conditions described in Appendix A-791, paragraphs 2.b., 2.c., 2.d., 2.h., 2.i., 2.j. or 2.k.

Interested parties agree that transactions that inappropriately preclude any possibility of reinsurance losses being incurred as a result of excessive YRT premiums would be of concern from a statutory risk transfer perspective. In evaluating whether this is the case, YRT premium levels should be assessed using statutory principles as any resulting reserve credit will also have been established using statutory principles. In applying statutory principles, statutory valuation assumptions can serve as an acceptable benchmark. More specifically:

- YRT reinsurance results in the assumption of mortality risk for the lifetime of the underlying business. In such a context, the statutory valuation framework already defines a reasonably prudent valuation mortality basis for direct writers when reserving for such risks. As such, this same valuation mortality basis should also serve as a reasonable and prudent benchmark for reinsurers to consider when committing to the assumption of mortality risk for the lifetime of the underlying business.

- The determination of reserve credit relates to the underlying statutory reserves that are held by the ceding entity and determined based on statutory principles and assumptions. It would be inconsistent to determine a reserve credit using GAAP principles and assumptions in relation to underlying reserves that are computed using statutory principles and assumptions.

The exposure also states that SSAP 61R, paragraph 36, notes that the reinsurance credit is only for the risk reinsured. The exposure references this as a reason that it is not appropriate for a ceding company to take a proportional reserve credit that reflects the transfer of all actuarial risks when not all actuarial risks are transferred. This is a misinterpretation of paragraph 36. That section of the paragraph refers to coinsurance and states "It [the credit] is, of course, only for the percentage of the risk that was reinsured." As such, paragraph 36 refers to the quota share of risk and does not imply that coinsurance agreements satisfying risk transfer requirements could be subject to "partial risk transfer". Historically, risk transfer testing for life insurance, accident and health insurance, and annuity contracts has been performed on a pass/fail basis where companies evaluate the contractual terms of their reinsurance agreements and assess the substance of the transaction based upon SAP risk transfer guidance. Once the risk transfer assessment has been completed, full reserve credit is established for contracts deemed to have successfully satisfied risk transfer. For agreements not successfully demonstrating risk transfer, deposit accounting is utilized. No framework currently exists for assessing an appropriate level of partial reserve credit.

Summary Conclusion
There are established differences in the approach to evaluating risk transfer under SAP and GAAP. It is recognized that there are life reinsurance contracts that satisfy SAP risk transfer rules for life reinsurance but are not considered to have transferred the reasonable possibility of a significant loss to the reinsurer, as required under GAAP. Different types of reinsurance (i.e., coinsurance, YRT, and non-proportional) follow different risk transfer rules under SAP. Applying GAAP standards when evaluating risk transfer / reserve credit for life reinsurance is not appropriate as statutory life reserves are based on prudent assumptions, correspondingly reserve credit should be established on a consistent basis.

A substantive change from pass/fail risk transfer assessment and full reserve credit recognition to a separate assessment of partial reserve credit requires significant changes to SAP, is inconsistent with the current risk transfer assessment framework and would need to be tested further to understand resulting consequences (i.e., intended and unintended).

Interested parties do not believe that the SAPWG exposure pertaining to risk transfer represents a clarification but instead is a significant departure from the currently accepted practices for evaluating risk transfer for life reinsurance

contracts under SAP guidance. Therefore, if the exposure remains unchanged, the resulting consequences could be material, and insurers may not be able to unilaterally renegotiate existing agreements even if they desired to do so. Thus, in addition to the broader concerns with the proposal, retroactively changing the historical accounting treatment for existing reinsurance agreements would be inappropriate.

Additional discussion between interested parties, the NAIC, and regulators on this important topic would be greatly beneficial.

We note there are several concurrent efforts at the NAIC related to reinsurance. We suggest the NAIC take a broader view to address these concerns, and ensure coordination of the efforts at LATF, SAPWG, and other NAIC groups working on these issues. Such an approach avoids duplication of work, promotes consistency, and ensures concerns are addressed and understood broadly.

Recommendation:

NAIC staff recommends that the Working Group discuss the comments received which are summarized below. After discussion, NAIC staff recommends re-exposing the agenda item until September 27 to allow for discussion at the Fall National Meeting with a request for 1) more detail on the extent existing contracts would be impacted and 2) specific language regarding the concept that interdependent contract features should be analyzed in aggregate. It is also recommended that the Working Group direct NAIC staff to forward the comments received to the Valuation Analysis (E) Working Group, Life Actuarial (A) Task Force and the Reinsurance (E) Task Force.

NAIC staff notes that the exposed revisions to *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*, are narrowly focused on noting that interdependent contract features need to be analyzed in aggregate in determining risk transfer.

a. The exposed guidance is consistent with existing guidance in SSAP No. 61R / A-791 which requires the entirety of a contract to be evaluated for risk transfer. The exposed revisions are also consistent with the guidance currently in SSAP No. 62R, Exhibit A Implementation Questions and Answers, question 10 and guidance that is existing in U.S. GAAP.

b. As the exposed revisions are already consistent with current risk transfer requirements, the Working Group could direct a different action such as the development of an implementation guide, etc.

c. The revisions also add reference to A-791, paragraph 6 guidance in the YRT guidance paragraph. Note that combination contracts continue to be allowed, the edits simply stress that contract features cannot be ignored when evaluating risk transfer.

d. Staff also notes that the Valuation Manual treatment of reinsurance is more akin to modelling in that the reserve is calculated before and after the effects of reinsurance. The work of VAWG continues to identify reinsurance concerns.

Comment Letter Discussion Points:

The Working Group received two comment letters, with key points summarized below:

1. Sheldon Summers, Claire Thinking, is a former CA regulatory actuary who worked on the development of Model 791, noting that his comments were his own. Key points were:

- Agreement with the exposure that a reinsurance agreement which is comprised of interdependent reinsurance arrangements (such as coinsurance and YRT) needs to be evaluated as a single agreement to determine risk transfer compliance with Appendix A-791 of the NAIC *Accounting Practices and Procedures Manual.*

- Intent of Appendix A-791 was that reinsurance credits should not include a possibility of negative surplus impact to the ceding entity from the ceded business. Surplus relief should not be recognized if it is not permanent.

- If a coinsurance agreement on its own would comply with Appendix A-791, but the reinsurance agreement it is part of obligates the ceding company to cede business under a YRT reinsurance arrangement, then that obligation needs to be considered in evaluating compliance with Appendix A-791. The determination of a reinsurance agreement's compliance with Appendix A-791 of the NAIC Accounting Practices and Procedures Manual should include consideration of all obligations of the ceding company under the reinsurance agreement.

- The existence of an experience refund is generally not the concern. Rather, an experience refund may be typical of the types of reinsurance agreements that combine coinsurance with YRT reinsurance and charge YRT reinsurance premiums that are higher than what they would be otherwise, with the "excess" expected to be returned to the ceding company as part of an experience refund but would provide a buffer to the reinsurer for at least some of the losses in the case that actual experience is sufficiently adverse. **Such a reinsurance agreement should be evaluated in its entirety to determine if this buffer can result in a reduction of the ceding company's surplus. Since the two reinsurance arrangements are connected,** it should not matter whether a potential reduction of the ceding company's surplus is due to the coinsurance premiums exceeding policy premiums or due to YRT reinsurance premiums exceeding policy charges for the mortality risk**.**

2. Interested Parties' Comments Key Points:

- Opposed to adoption and request further study and discussion to better understand the impact. They also suggest coordination of the efforts at LATF, SAPWG, and other NAIC groups working on these issues.

- Agree that transactions that inappropriately preclude any possibility of reinsurance losses being incurred as a result of excessive YRT premiums would be of concern for statutory risk transfer.

- Agree that if any individual component of a combination coinsurance / YRT arrangement does not pass statutory risk transfer, then the aggregate transaction would not pass statutory risk transfer regardless of how it is structured.

- Reinsurance agreements that combine coinsurance and yearly renewable term (YRT) coverage are not uncommon and have been historically interpreted (at least by some regulators and audit firms) as providing quota share credit on the coinsured policies and a YRT credit for the YRT component.

The following interested parties' comments were focused on other aspects of the referral and the agenda item discussion, and not on the exposed language which is regarding risk transfer analysis.

- Classification a combination reinsurance contract for purposes of determining credit.

The VAWG referral also raised questions regarding the resulting reinsurance credit and contract classification when there is combination coverage (YRT and Coinsurance) in the same agreement, that is whether the resulting coverage is proportional or non-proportional. **No language on this topic was exposed for comment.**

- While interested parties agree that combination arrangements can be structured in ways that do not meet statutory risk transfer requirements, combination arrangements can also be structured to meet these requirements and therefore allowing full proportional reserve credit on the coinsured component.

- The interested partes commented that combination of coinsurance and YRT arrangements should not be automatically deemed non-proportional.

- The determination of reserve credit relates to the underlying statutory reserves that are held by the ceding entity and determined based on statutory principles and assumptions. It would be inconsistent to determine a reserve credit using GAAP principles and assumptions.

- A substantive change from pass/fail risk transfer assessment and full reserve credit recognition to a separate assessment of partial reserve credit requires significant changes to SAP, is inconsistent with the current risk transfer assessment framework and would need to be tested further (i.e., intended and unintended).

- The agenda item in discussing the VAWG referral notes that it is not appropriate for a ceding company to take a proportional reserve credit that reflects the transfer of all actuarial risks when not all actuarial risks are transferred. The interested parties note that paragraph 36 refers to the quota share of risk and does not imply that coinsurance agreements satisfying risk transfer requirements could be subject to "partial risk transfer". Historically, risk transfer testing for life insurance, accident and health insurance, and annuity contracts has been performed on a pass/fail basis based upon SAP risk transfer guidance. Risk transfer analysis can result in full reserve credit for pass contracts and depositing accounting for failed contracts. No framework currently exists for assessing an appropriate level of partial reserve credit.

- Experience Refund / YRT issues:

The VAWG referral and the agenda item discussed differences in risk transfer requirements under SSAP No. 61R/ A-791 regarding YRT which is not subject to all aspects of A-791 and coinsurance which is subject to all aspects of A-791. **No language on this topic was exposed for comment.**

- Interested parties agree that transactions that inappropriately preclude any possibility of reinsurance losses being incurred as a result of excessive YRT premiums would be of concern from a statutory risk transfer perspective. In evaluating whether this is the case, YRT premium levels should be assessed using statutory principles as any resulting reserve credit will also have been established using statutory principles. Statutory valuation assumptions can serve as an acceptable benchmark.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-07 (Jake)	**Reporting of Funds Withheld and Modco Assets**	**16 – Agenda item**	**Comments Received**	**IP – 15**

Summary:
On March 16, 2024, the Working Group exposed a concept agenda item with the intent to develop future revisions to annual statement Schedules S and F to address the reporting of assets subject to funds withheld and modified coinsurance (modco) arrangements. The initial recommendation is to add a new part to the reinsurance Schedule S in the Life/Fraternal and Health annual statement blanks and Schedule F in the Property/Casualty and Title annual statement blanks. The new part would be similar in structure to Schedule DL and would include all assets held under a funds withheld arrangement and would include a separate signifier for modco assets.

As background, during 2023, as a result of rising interest rates, the Statutory Accounting Principles (E) Working Group addressed the issue of net negative (disallowed) interest maintenance reserve for statutory accounting with *Interpretation (INT) 23-01 Net Negative (Disallowed) Interest Maintenance Reserve,* as a short-term solution. Later in 2023, the IMR Ad Hoc Group was formed to find a more permanent solution to address IMR for statutory accounting. During the IMR Ad Hoc Group's review process and discussions, it was noted that there were issues

with identifying assets that are subject to funds withheld or modified coinsurance (modco) arrangements within the financial statements and reporting schedules. The intent of this agenda item is to make it easier to identify assets that are subject to a funds withheld or modco arrangement through updated reporting in the financials. This agenda item does not intend to change statutory accounting for these arrangements.

Although this issue of clarity of reporting of funds withheld and modco assets came from the IMR project, which is focused on life insurance, funds withheld and modco also exist for property/casualty insurance, so this agenda item proposes to add this updated reporting to all the annual statement blanks.

Interested Parties' Comments:
Interested parties acknowledge the importance of transparency in financial reporting with respect to assets backing funds withheld and modco reinsurance transactions and regulators' preference to be able to understand the assets supporting these contracts. We look forward to working with the Working Group as it further refines its proposal.

Having reviewed the exposure, interested parties have several comments that relate to the effort. These include: a) sensitivities concerning the potential exposure of competitive information, b) the impracticability of providing such information in commonplace cases where specifically identifiable assets require are not ring-fenced as part of a funds held arrangement, and c) any new asset schedule would considerable resources, which are currently constrained by the bond definition project.

Granularity of reporting may expose proprietary competitive information
While we support giving regulators the information they need to regulate properly, there are issues of commercial sensitivity with having funds withheld and modco assets made public. Concerns have been expressed about the level of granularity that will be required. Investment strategy is a critical component of reinsurance pricing, which is considered proprietary, and the level of reporting could force companies to share this information publicly. Requiring public disclosure of such proprietary information may reduce the availability of funds withheld collateralized deals in the marketplace. Interested parties urge the Working Group to consider other non-public alternatives which would provide regulators with the information they require while maintaining the confidentiality of proprietary competitive information.

Identifying specific assets under Funds Withheld arrangements without trust accounts is not truly possible
The proposal to report assets held under funds withheld arrangements is also problematic for funds that are not held in trust accounts. Interested parties note that for property casualty companies in particular, many funds withheld arrangements do not require funds to be held in trust accounts. Rather, the funds are maintained by the insurer in their own cash or short-term investment accounts and are allowed to be co-mingled with other cash or invested assets of the insurer. The agreements that govern such funds withheld may specify an interest rate that is applied to the funds withheld for purposes of crediting the funds with interest, but there is no specific invested asset associated with the funds held. Therefore, it would not be possible to identify and report specific assets deemed to be the "funds withheld" under these arrangements.

In addition, interested parties note that for property casualty insurers, the amounts of funds held under reinsurance treaties are already reported in Schedule F Part 3 Column 20 of the annual statement by individual reinsurance treaty. We believe the current reporting in Column 20 was designed to accommodate both funds held agreements with and without trust accounts. For those arrangement where a trust account is used, regulators can easily confirm the invested assets held in the trust accounting during a financial examination.

A new asset schedule will require significant time, effort, and cost to build
A new schedule will increase the complexity of asset reporting requirements. To facilitate the required reporting, commercial annual statement reporting vendors will need to build the new schedule into their software. Beyond that, many companies note additional work may be required to modify their investment and/or accounting systems to populate the proposed new schedules with the assets associated with funds withheld or modco agreements. Others may not have the ability to make changes to their investment and/or accounting systems and would need to create manual processes including appropriate controls to meet the reporting obligations. Allocation processes may need

to be established for situations where an asset is backing more than one agreement. This will all require significant time, effort, and cost. Additionally, in a significant part of the industry, the staff and vendor resources that would be involved in implementing the necessary changes for the funds withheld and modco asset schedule are currently heavily involved in the new Bond Definition project that is set to be effective reporting year 2025. Having both issues active at the same time would cause significant resource strain across the industry.

Finally, we note there are several concurrent efforts at the NAIC related to reinsurance. We suggest the NAIC take a broader view to address these concerns and ensure coordination of the efforts at LATF, the Working Group, and other NAIC groups working on these issues. Such an approach avoids duplication of work, promotes consistency, and ensures concerns are addressed and understood broadly.

We recognize the importance of this issue and want to be helpful and work collaboratively to address the Working Group's objectives of having full visibility of investments, specifically in funds withheld and modco agreements.

Recommendation:

NAIC staff recommend that the Working Group expose the draft of the new reporting schedules, which add a new part to the reinsurance Schedule S in the Life/Fraternal and Health annual statement blanks and Schedule F in the Property/Casualty and Title annual statement blanks and direct NAIC staff to continue working with interest parties on this proposal.

The Life RBC formula reflects a reduction in RBC charges for modco and funds withheld assets. This reduction is by asset type and often by asset designation. The fair value of the assets withheld is also reported in the reinsurance Schedules S and F as collateral. Accordingly, to accomplish both things, asset-by-asset identification is necessary. Therefore, some of the submitted comments regarding not being able to identify assets withheld which are not held in trust would indicate a disconnect. Comments are requested regarding if the assets cannot be identified, then how are the numbers determined for the life risk-based capital charge reductions reported and the collateral fair value.

This item is planned for exposure until September 27 to allow for consideration at the Fall National Meeting.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-10 (Julie)	**SSAP No. 56 – Book Value Separate Accounts**	**17 – Agenda item**	**No Comments**	**IP – 18**

Summary:

On March 16, 2024, the Working Group exposed an agenda item to expand the guidance in *SSAP No. 56—Separate Accounts* to further address situations and provide consistent accounting guidelines for when assets are reported at a measurement method other than fair value. The guidance in SSAP No. 56 predominantly focuses on separate account products in which the policyholder bears the investment risk. In those situations, the assets in the separate account are reported at fair value. SSAP No. 56 provides limited guidance for assets supporting fund accumulation contracts (GICs), which do not participate in underlying portfolio experience, with a fixed interest rate guarantee, purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer, with direction that these assets shall be recorded as if they were held in the general account. This measurement method is generally referred to as "book value."

NAIC staff are aware that there has been an increase in assets reported at "book value" within the separate account. These have been approved under state prescribed practices and/or interpretations that the reference for fund accumulation contracts captures pension risk transfer (PRT) or registered indexed-linked annuities (RILA) and other

similar general-account type products that have been approved by the state of domicile for reporting in the separate account.

The guidance in SSAP No. 56 focuses on the accounting and reporting for both the separate account and general account, with specific focus on what is captured within each account as well as transfers between the two accounts. As the focus is on fair value separate account assets, there is not guidance that details how transfers should occur between the general and separate accounts when the assets will be retained and reported at "book value." Particularly, the guidance does not address whether assets should be disposed / recognized at fair value when transferring between accounts, with subsequent reporting at the general account measurement guidance or whether the assets should be transferred at the "book value" that is reported in the existing account. The process has the potential to impact recognition of gains / losses and IMR, so it should be clearly detailed to ensure consistent reporting.

Interested Parties' Comments:
Interested parties is currently working with NAIC staff and the IMR Ad Hoc Group on this agenda item.

Recommendation:
NAIC staff recommends that the Working Group expose draft revisions to *SSAP No. 56—Separate Accounts* to allow for initial review and consideration of potential changes to update measurement method guidance and specify the process to transfer assets for cash between the general and book-value separate accounts. In addition to the proposed revisions, there are NAIC staff questions shaded in the document requesting additional information from regulators and industry. These questions focus predominantly on seed money and other asset transfers not captured in the proposed guidance.

This item is proposed for exposure until November 8 to allow more time for review and comment generation. Discussion of the comments is anticipated in the interim prior to the 2025 Spring National Meeting.

As detailed in the updated recommendation within the agenda item, the IMR Ad Hoc group considered asset transfers between the general and separate account, as those transfers could generate IMR. With these discussions, it was noted that there are inconsistencies in practice as to how those transfers occur. ACLI representatives participating in the IMR Ad Hoc group presented three methods that are used, referred to as the market value offsetting method, the market value SSAP No. 25 method, and the book value method. With this discussion, the ACLI informed that if consistency in the process for transfers is desired, they would prefer the market value offsetting method. This method has the following three broad concepts:

1) The selling account transfers the asset at fair value, with a realized gain or loss and allocation to IMR.

2) The purchasing account records the asset at book value, with an adjustment to IMR for the difference between the fair value and book value.

3) This method has offsetting IMR impacts between the general account and the book value separate account, with a zero net impact to surplus.

Per the discussion at the IMR Ad Hoc Group, it was recommended that this discussion move to the full Working Group to consider the ACLI suggested methods as well as edits to SSAP No. 56.

The revisions to SSAP No. 56 incorporate a new section to SSAP No. 56 to specifically detail the measurement of separate account assets and a new section to provide guidance for asset transfers between the general and separate account. With these changes, a variety of revisions have been proposed to clarify the guidance, predominantly focused on the areas in which IMR is addressed in the standard.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-11 (Wil)	**ASU 2023-09, Improvements to Income Tax Disclosures**	**18 – Agenda item**	**No Comments**	**IP – 18**

Summary:
On March 16, 2024, the Working Group exposed revisions to adopt, with modification, *Accounting Standards Update (ASU) 2023-09, Improvements to Income Tax Disclosures*.

Interested Parties' Comments:
Interested parties appreciate the Working Group's partnership on the proposal, including various meetings to discuss potential changes to the proposed language. Through these meetings we have provided detailed responses so have only included here a summary of our concerns:

- One of the main changes in ASU 2023-09 is an expanded rate reconciliation, applicable to only public filers. Requiring expanded rate reconciliation disclosures to all insurance companies expands the scope of ASU 2023-09 and will create an additional burden for non-public insurance companies.

- Under paragraph 4 of SSAP No. 101, state income taxes are not accounted for under SSAP No. 101. They are instead accounted for under SSAP 5R and included in taxes, licenses, and fees above the line. During the drafting process of SSAP No. 101 state taxes were intentionally not recorded as part of income tax expense in the statutory financial statements because of the immateriality of this type of tax to insurance companies. Given that insurance companies primarily pay premium taxes in lieu of state income taxes (all but nine states have exempted insurance companies from state income tax), state tax income tax disclosures will have limited value from a statutory reporting perspective. Of the states that charge income tax, several have provisions that significantly reduce the net tax impact, including premium tax credits. State tax disclosures will therefore likely require additional guidance regarding what to report (e.g., before or after any credits for premium tax paid, consideration for mixed group and combined reporting).

- ASU 2023-09 was in part adopted to provide additional foreign tax information to investors to enable them to "understand an entity's exposure to potential changes in jurisdictional tax legislation" over worldwide income. These additional disclosures were also intended to help investors identify where companies operate in low-tax or no-tax jurisdictions. Foreign subsidiaries and affiliates are not consolidated into statutory statements, so tax jurisdiction information would not be as applicable as it would in consolidated GAAP group reporting. Moreover, Schedule Y already provides regulators with subsidiary information, including the jurisdiction such subsidiaries operate. Material foreign tax amounts will be limited to few insurers who have branches, which are fully taxable in the jurisdictions where they operate as well as in the U.S., with foreign tax credits offsetting the U.S. tax due. This dual taxation results in branches generally having tax rates of at least 21% even if the branch operates in a low or no tax jurisdiction.

Overall, ASU 2023-09 was driven by the investor community, whose disclosure wants and needs are not the same as the regulator focusing on solvency. The current statutory tax footnote provides extensive disclosures, some redundant to those in ASU 2023-09, with a goal of enabling regulators to assess the financial stability of the entity (as it relates to tax). Interested parties thus believe the additional disclosures and requirements under the new ASU 2023-09 would provide limited benefits to the regulators.

Interested parties suggest rejecting adoption of ASU 2023-09 and all modifications to SSAP No. 101, except for the deletion of SSAP No. 101, paragraph 23b. Interested parties agree the disclosure is no longer necessary given revisions to the Internal Revenue Code.

Recommendation:

NAIC staff recommends that the Working Group expose revisions to reject *ASU 2023-09, Improvements to Income Tax Disclosures* in *SSAP No. 101—Income Taxes*, and revisions to remove the disclosure detailed in SSAP No. 101, paragraph 23b. This item is planned for exposure until September 27 to allow for consideration at the Fall National Meeting.

This item is planned for exposure until September 27 to allow for consideration at the Fall National Meeting.

Based on the comments from interested parties, shown above, NAIC staffs' recommendation has been changed from adopt with modification to reject for statutory accounting purposes. NAIC staff agreed with interested parties' comments that the additions from the ASU are duplicative of existing statutory income tax disclosures. NAIC staff still recommends the adoption of one change from the ASU, the deletion of SSAP No. 101, paragraph 23b, as both staff and interested parties agree this disclosure is no longer relevant.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-12 (Wil)	**Updates to SSAP No. 27**	**19 – Agenda item**	**No Comments**	**IP – 19**

Summary:

On March 16, 2024, the Working Group exposed revisions to remove references to FAS 105 from SSAP No. 27 and amend the annual statement instructions to clarify its scope and requirements.

During February 2024, it came to NAIC staffs' attention that *SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures Risk and Financial Instruments with Concentrations of Credit Risk* references *FASB Statement No. 105, Disclosure of Information about Financial Instruments with Off-Balance-Sheet* (FAS 105) which was superseded by *FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities* (FAS 133). Additionally, NAIC staff noted that the annual statement instructions only provide disclosures for derivative Swaps, Futures, and Options, however the guidance in SSAP No. 27 is intended to be applicable to all derivative instruments and financial instruments, except those specifically carved out in FAS 105 paragraphs 14 and 15.

NAIC staff suggest amending SSAP No. 27 to specifically list the financial instruments excluded from the SSAP rather than referencing FAS 105, which is significantly out of date as it was superseded by FAS 133 prior to the creation of the Accounting Standards Codification which in turn superseded FAS 133. Staff also suggests updating the annual statement instructions to add an "Other" derivatives category and disclosure examples and instructions for non-derivative financial instruments with off-balance sheet credit risks.

Interested Parties' Comments:

Interested parties note that Note 14 of the annual statement already requires disclosures regarding an insurer's commitments to provide any type of future funding as well as an insurer's guarantees of the performance of other parties. These disclosures are already very lengthy and detailed. It would seem repetitive to have to include most of the information in Note 16 again.

We recommend that the Working Group evaluate the current disclosure requirements under Note 14 to determine if there is information that should be provided in addition to what is already disclosed instead of having insurers duplicate the information in two different notes.

Recommendation:
NAIC staff recommends that the Working Group defer this agenda item while staff continues to work with industry on this agenda item.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2022-12 (Robin)	**Review of INT 03-02: Modification to an Existing Intercompany Pooling Arrangement**	**20 – Agenda item 21 – INT 03-02**	**No Comments**	**IP – 8**

Summary:
On March 16, 2024, the Working Group deferred action of this agenda item, which was originally introduced in 2022 and proposed to nullify *INT 03-02: Modification to an Existing Intercompany Pooling Arrangement.* The INT was proposed to be nullified as it is inconsistent with *SSAP No. 25—Affiliates and Other Related Parties* guidance regarding economic and non-economic transactions between related parties. The guidance in INT 03-02 can result with, in essence, unrecognized gains (dividends) or losses by allowing the use of the statutory book valuation when using assets (such as bonds) to make payments to affiliates for modifications to existing intercompany reinsurance pooling agreements. Treatment of transfers of assets between affiliates should be consistent for all intercompany transactions and there is not a compelling need to be different when valuing assets for intercompany reinsurance pooling transactions. At the 2023 Fall National Meeting the item was deferred to allow time for more illustrations and discussions with interested parties.

Among the concerns about INT 03-02 noted by NAIC staff was that it was not an interpretation of SSAP No. 25 but included guidance that was not consistent with SSAP No. 25. NAIC staff also received concerns that the guidance was being misapplied to other intercompany reinsurance transactions which were not pools.

Interested Parties' Comments:
The Working Group exposed its intent to nullify INT 03-02, and exposed revisions to *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 63—Underwriting Pools* to address transfers of assets when modifying intercompany pooling agreements. The exposed revisions were based on interested parties' comments with minor edits proposed by NAIC staff.

The exposed Revisions to SSAP No. 25 and SSAP No. 63 are illustrated below.

SSAP No. 25—Affiliates and Other Related Parties

4. If a company transfers assets or liabilities to effectuate a modification to an existing intercompany pooling arrangement, the transaction, including the transfer of assets, shall be accounted for and valued in accordance with the guidance in *SSAP No. 63—Underwriting Pools.* The guidance in SSAP No. 63 regarding the transfers of assets or liabilities to effectuate a modification of an intercompany pooling arrangements shall not be applied or analogized to other transactions involving transfers of assets and liabilities.

SSAP No. 63—Underwriting Pools (only impacted paragraph are reflected.)

1. This statement establishes statutory accounting principles for underwriting pools and associations, including intercompany pooling arrangements.

8. Insurance groups that utilize intercompany pooling arrangements often modify these arrangements from time to time for various business reasons. These business reasons commonly include mergers,

acquisitions, dispositions, or a restructuring of the group's legal entity structure. In order to effectuate a relatively simple modification, such as changing pooling participation percentages without changing the pool participants, companies often simply amend the existing pooling agreement. Alternatively, in order to effectuate a more complex modification, such as changing (by adding or removing) the number of pool participants, a company may commute the existing pooling agreement and execute a new pooling agreement(s). In conjunction with executing the appropriate intercompany pooling agreements, a transfer of assets and liabilities amongst the impacted affiliates may also be required in order to implement the new pooling agreement(s). The following subparagraphs provide guidance specific to modifications of intercompany pooling arrangements and shall not be applied to an analogous transaction or event.

a. The appropriate valuation basis to be used for assets and liabilities that are transferred among affiliates in conjunction with the execution of a new intercompany pooling agreement(s) that serves to substantively modify an existing intercompany pooling arrangement is statutory book value for assets and statutory value for liabilities.

b. The net amount of the assets and liabilities being moved among entities as a result of a modification to an intercompany pooling shall be used to settle the intercompany payable/receivable (i.e., the assets that are transferred in conjunction with the modification) to minimize the amount of assets transferred in the modification.

12. Note that other applicable reinsurance guidance from *SSAP No. 61R—Life, Deposit Type and Accident and Health Reinsurance* or *SSAP No. 62R—Property and Casualty Reinsurance*, depending on the type of business, applies to intercompany pooling arrangements and voluntary and involuntary pools. This includes the SSAP No. 62R guidance in paragraphs 33 through 39 regarding retroactive reinsurance.

New disclosure in paragraph 13

13.i For modifications to an existing intercompany pooling arrangement that involve the transfer of assets with fair values that differ from cost or amortized cost, the statement value and fair value of assets received or transferred by the reporting entity.

Interested parties agree with and support adoption of the proposed changes. For purposes of clarity, we recommend that the wording following the comma in the new disclosure in paragraph 13 of SSAP No. 63 be moved to the beginning of the sentence to read as follows: The statement value and fair value of assets received or transferred by the reporting entity for modifications to an existing intercompany pooling arrangement that involved the transfer of assets with fair value that differ from costs or amortized cost.

Recommendation:

NAIC staff recommends that the Working Group adopt the exposed revisions to SSAP No. 63 with a modification to paragraph 13i, which is similar to the edit suggested by interested parties modified to note disclosure should reflect the fair values that differ from statement value, as illustrated below. With this adoption, INT 03-02 would also be nullified.

SSAP No. 63 modified disclosure in paragraph 13i for adoption consideration

13.i The statement value and fair value of assets received or transferred by the reporting entity for modifications to an existing intercompany pooling arrangement that involved the transfer of assets with fair value that differ from statement value.

The comment letters are included in Attachment 22 (22 pages).

Statutory Accounting Principles (E) Working Group
Meeting Agenda
August 13, 2024

A. Consideration of Maintenance Agenda – Pending List

1. Ref #2022-14: NMTC Project Issue Paper
2. Ref #2024-18: Clarifications to NMTC Project
3. Ref #2023-24: CECL Issue Paper
4. Ref #2024-15: ALM Derivatives
5. Ref #2024-16: Repacks and Derivative Wrapper Investments
6. Ref #2024-17: SSAP No. 108 – VM-01
7. Ref #2024-19: ASU 2024-02, Codification Improvements

Ref #	Title	Attachment #
2022-14 (Wil)	**New Market Tax Credit Project**	**A – Issue Paper**

Summary:
On March 16, 2024, the Working Group adopted agenda item 2022-14: New Market Tax Credits which revised *SSAP No. 93—Low Income Housing Tax Credit Property Investments* and *SSAP No. 94R—Transferable and Non-Transferable State Tax Credits*. This issue paper documents the discussions and decisions within the New Market Tax Credit project and has been updated to reflect the final actions. Additionally, consistency edits and reorganization has been reflected as the authoritative SAP revisions have been adopted. (As a reminder, issue papers are not authoritative, and simply provide background and discussion elements for historical reference.)

Recommendation:
NAIC staff recommends that the Working Group expose the draft issue paper. This item is proposed for exposure until September 27 to allow for consideration at the Fall National Meeting.

As part of the New Market Tax Credit Project, the Working Group directed NAIC staff to work with industry and draft revisions to the annual statement and instructions. We are pleased to inform the Working Group that the agenda item addressing these changes, #2024-11BWG, was adopted by the Blanks (E) Working Group on August 7.

Ref #	Title	Attachment #
2024-18 (Wil)	**Clarifications to NMTC Project**	**B – Form A**

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 2022-014, 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.

Recommendation:

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

This item is planned for exposure until September 27 to allow for consideration at the Fall National Meeting.

Ref #	Title	Attachment #
2023-24 (Wil)	**Current Expected Credit Losses**	**C – Issue Paper**

Summary:

On January 10, 2024, the Working Group adopted agenda item 2023-24: Current Expected Credit Losses (CECL) which rejects *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments* and five other related ASUs. At the direction of the Working Group, this issue paper was drafted to maintain pre-CECL Generally Accepted Accounting Principles impairment and OTTI guidance for historical purposes.

Recommendation:

NAIC staff recommends that the Working Group expose the draft issue paper. This item is proposed for exposure until September 27 to allow for consideration at the Fall National Meeting.

Ref #	Title	Attachment #
2024-15 (Julie)	**ALM Derivatives**	**D – Form A**

Summary:

This agenda item has been developed to consider new statutory accounting guidance for interest-rate hedging derivatives that do not qualify as effective hedges under *SSAP No. 86—Derivatives*, but that are used for asset-liability management (ALM). Specifically, industry has proposed two assessment metrics for macro-hedges, the "ALM Risk Reduction Approach," which is a hedging approach to reduce mismatches between identified assets and liabilities and the "ALM Target Management Approach," which is a hedging approach to keep an asset portfolio aligned with a liability target. These programs do not qualify for effective hedge treatment under SSAP No. 86 (or any accounting regime) as they reflect macro-hedges.

This agenda item originated from discussions at the IMR Ad Hoc Group, noting that full Working Group discussion is needed on this topic. Industry has communicated that these hedging derivatives, although not accounting effective under SSAP No. 86, are economically effective (meaning effective in achieving the hedge intent). With this industry assessment, and their interpretation of the Annual Statement Instructions, the fair value fluctuations reported as unrealized gains and losses while the derivative is open have been allocated by some life entities to the interest maintenance reserve (IMR) upon derivative termination. This approach essentially reverses the surplus impact from the unrealized position and defers the realized impact from these derivative structures through the IMR formula with subsequent amortization into income over time.

INT 23-01: Net Negative (Disallowed) IMR, allows losses for interest-rate hedging derivatives that do not qualify for "hedge accounting" under SSAP No. 86 to continue to be allocated to IMR (and admitted if IMR is net negative) if the company has historically followed the same process for interest-rate hedging derivatives that were terminated in a gain position. The guidance does not permit entities to allocate current derivative losses to IMR without evidence illustrating the historical treatment for gains. This INT was established to provide limited-time exception guidance while IMR is further discussed and is effective through Dec. 31, 2025, with automatic nullification on Jan. 1, 2026. The treatment of the gains and losses from these non-accounting effective hedges is a key element in the long-term guidance for clarifying IMR.

SSAP No. 86 provides guidance on designations that hedge a variety of exposures, with assessments of effectiveness adopted from U.S. GAAP. Derivatives that qualify as "highly effective hedges" are permitted "hedge accounting treatment," which means that the measurement method of the derivative mirrors the measurement method of the hedged item. (This measurement method is different than US GAAP, which requires all derivatives to be at fair value. This different measurement method is necessary under SAP to prevent a measurement mismatch between the hedged item and derivative, which would result in surplus volatility for accounting effective hedges.) Derivatives that do not qualify as "highly effective hedges" under SSAP No. 86 are reported at fair value, which does mirror the measurement method under U.S. GAAP. Pursuant to the IMR Ad Hoc Group discussion, this item is focused on hedges that address interest-rate risk exposure used in macro-hedges, that would not qualify under the effective hedge requirements under SSAP No. 86.

If the Working Group wants to pursue accounting guidance for macro-hedges focused on hedging interest-rate risk that results with different treatment than what is detailed in SSAP No. 86, the resulting guidance is anticipated to detail:

1) The requirements for the interest-rate hedging derivatives, including effectiveness assessments.

2) The accounting for the derivatives and the resulting gains/losses (including amortization if those gains/losses are deferred from immediate recognition), and

3) Disclosure and reporting requirements for the derivatives.

If developing new guidance, it is anticipated that the concepts of *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees* will be followed to the extent possible, but there would need to be variations based on the specific intent and application of these derivatives. A key item to note is that SSAP No. 108 does not use IMR for the reporting of deferred derivative gains and losses and this approach will also be considered within the new guidance for consistency purposes.

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, classified as a new statutory accounting concept, with exposure of this agenda item to obtain comments from Working Group members, as well as interested regulators and interested parties on the potential to develop statutory guidance for macro-derivative programs that hedge interest rate risk for asset-liability matching purposes.

This item is proposed for exposure until November 8 to provide more time for review and comments. Discussion on this exposure is not planned at the Fall National Meeting. Discussion could occur via an interim call before the 2025 Spring National Meeting.

Initially, NAIC staff is requesting feedback on the following key concepts:

1) Do Working Group members support the development of statutory accounting guidance that would defer derivative gains/losses for structures that hedge interest rate risk with amortization over time into income? (These derivative programs would not qualify as accounting effective under SSAP No. 86 and are not captured within the specific variable annuity guarantee guidance in SSAP No. 108.)

2) If further development / consideration of guidance is supported, the following items are noted for discussion:

    a. Determination of effectiveness that permits the derivative program to qualify for the special accounting treatment.

    b. Discussion of whether net deferred losses (reported as assets) would be admissible, and if so, any admittance limitations.

    c. Macro-limits on admittable net deferred losses (reported as assets) and other "soft" assets. (For example, capturing IMR and derivative deferred net losses, and then perhaps considering other soft assets, such as DTAs, EDP equipment and software, goodwill, etc.)

    d. Timeframes over which deferred items are amortized into income.

    e. Extent of application across the industry. (NAIC staff notes that SSAP No. 108 is only applied by 9 entities, and from a review of the derivative disclosures for INT 23-01, only 14 entities captured derivative gains/losses in the IMR balance.)

NAIC staff requests direction to work with regulators and industry during the interim to continue discussions and in the consideration of guidance.

Ref #	Title	Attachment #
2024-16 (Julie)	**Repacks and Derivative Wrapper Investments**	**E – Form A**

Summary:
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 agenda item has been expanded to ensure that all debt security investments with derivative wrappers / components are captured.

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 makers 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.

For all of these structures, the derivative arrangements could be entered into separately and do not need to be entered into as a combined transaction, however, the noted benefits for entering into a combined structure include:

1) **Derivative Margin / Collateral Requirement:** There is no daily settling of a margin requirement at the derivative counterparty based on fair value changes in the derivative. **This is because the debt security in the structure serves as constant collateral, and any amount owed to the derivative counterparty would be taken first from debt instrument cash flows before payment is made to the investor. (The derivative counterparty is senior in priority.)** The repack structure limits the collateral obligation to the debt security in the structure, so there is no potential for the reporting entity to be obligated for more collateral beyond the linked debt security. This is a benefit of a repack in comparison to normal derivatives that do not have a collateral limit.

    - Although perceived as a benefit from the entity / investment maker as it reduces liquidity risk associated with margin calls, from a statutory accounting perspective, if the transactions were reported separately and the debt investment was pledged as collateral, the debt instrument would be identified as a restricted asset. If the repack is collectively reported as a debt instrument, there would be no identification that the debt instrument is restricted or encumbered as collateral to the derivative counterparty. This is because the restriction is at the SPV and not the reporting entity. Also, if separately engaging in derivative transactions, the derivative counterparty is known and reported. If a repack is collectively reported as a debt instrument, it is uncertain if the affiliation between the derivative counterparty and reporting entity would be known.

2) **Bond Reporting:** If these structures are accounted for as bonds, **reporting entities would determine measurement method and RBC impact based on the NAIC designation. Ultimately, this structure provides the reporting entity with a derivative arrangement, with no separate reporting or acknowledgement of the derivative instrument within the financial statements.**

    - From a statutory accounting perspective, if reporting is combined in a repack, derivatives would not be captured on Schedule DB and reporting entities would not be required to assess whether the derivative is effective under *SSAP No. 86—Derivatives*. (There is also a question on whether these arrangements would be captured in a reporting entity's derivative use plan filed with the domiciliary state.) Any obligation based on the performance of the derivative would not be reported in the investor's financials.

3) **RBC Impact:** By reporting as a bond investment, the reporting entity would incur a single RBC factor charge based on the NAIC designation on the debt security issued by the SPV.

    - From a statutory perspective, if the investment had been reported separately as a bond and a derivative, there would be RBC impacts for both components. The collateral pledged to the derivative counterparty (bond) would also be coded as a restricted asset. Whether the combined reporting results in a benefit to RBC depends on how the derivative would have been reported separately (at amortized cost or fair value) and whether the derivative is in a loss position. However, if reported separately, these components are captured in the RBC formula to reflect those dynamics.

The following identifies specific elements for discussion:

1) **Sale / Reacquisition:** A "credit repack" can be originated with a reporting entity's currently held debt security. In those situations, the insurer would sell the debt security to an SPV, that security would be combined with a derivative at the SPV, and the SPV would sell the restructured combined instrument back to the insurer.

From the discussions held, inconsistent interpretations may exist on whether the initial debt security should be reflected as disposed, with the reporting entity acquiring a new investment for the "repack." The discussions have referred to "substantially similar" U.S. GAAP guidance and have noted that the base investment (original debt security) has not changed, therefore the action did not warrant disposal / new acquisition reporting. If this interpretation was applied, the original debt security would still be shown on the financial statements, but with the repack the issuer, yield and NAIC designation have been impacted. If it is concluded that the revised instrument is substantially similar to what was originally held and did not require a disposal / reacquisition, it is likely that there would be no indication in the financial statements that the entity has entered into a new arrangement that combines a debt security and derivative instrument. NAIC staff does not agree with interpretations that the repack is substantially similar based on existing guidance in SSAP No. 103, paragraph 52, but this has been noted as part of the discussions. Under SSAP No. 103, to be considered substantially the same, an investment needs to have the same primary obligor, identical contractual interest rates and identical form and type to provide the same risks and rights. Under a repack, the issuer, yield and designation are impacted as follows, disallowing consideration that the instrument is substantially the same:

- The revised issuer is the SPV and the new instrument is a combined instrument of the debt instrument and the derivative.

- The fees for engaging in this instrument are built into the investment yield, resulting in a lower yield than what would have been received if the original debt instrument was still held.

- The NAIC designation (CRP rating) could also be impacted, as the revised instrument reflects the credit quality of both the original issuer and the derivative counterparty. From discussions, this is often a 1-level decrease in rating.

Not all repacks involve a previously held debt instrument. An entity may acquire a repack directly from the SPV rather than sell a currently owned debt security to the SPV. From the discussions, if this was to occur, it is believed that entities would report the acquired investment as a bond (under existing SSAP guidance), unless the structure is considered to be a structured note under paragraph 5.g. of *SSAP No. 86—Derivatives:*

> 5.g. "Structured Notes" in scope of this statement are instruments defined in *SSAP No. 26R—Bonds* (often in the form of debt instruments), in which the amount of principal repayment or return of original investment is contingent on an underlying variable/interest[1]. Structured notes that are "mortgage-referenced securities" are captured in *SSAP No. 43R—Loan-Backed and Structured Securities.*

There is also a question on whether all repacks should be considered structured notes. In a repack structure, if the debt security is liquidated early and there is an amount owed from the derivative performance, the SPV must first satisfy that amount to the derivative counterparty. This could result in a payment less than the principal amount

[1] The "structured notes" captured within scope of this statement is specific to instruments in which the terms of the agreement make it possible that the reporting entity could lose all or a portion of its original investment amount (for other than failure of the issuer to pay the contractual amounts due). These instruments incorporate both the credit risk of the issuer, as well as the risk of an underlying variable/interest (such as the performance of an equity index or the performance of an unrelated security). Securities that are labeled "principal-protected notes" are captured within scope of this statement if the "principal protection" involves only a portion of the principal and/or if the principal protection requires the reporting entity to meet qualifying conditions in order to be safeguarded from the risk of loss from the underlying linked variable. Securities that may have changing positive interest rates in response to a linked underlying variable or the passage of time, or that have the potential for increased principal repayments in response to a linked variable (such as U.S. Treasury Inflation-Indexed Securities) that do not incorporate risk of original investment/principal loss (outside of default risk) are not captured as structured notes in scope of this statement.

being remitted to the insurer holder. Although the repack designs differ based on the derivative instrument and intent, in some situations this is only driven by the early liquidation of the structure and not a component that comes into play if the structure is held to maturity. In those structures, the design would not be considered a structured note. However, in other designs, the repack may reflect a structured note regardless, and the structured note guidance should be followed.

2) **Derivative Obligation**: A credit repack investment ultimately could allow an insurer to enter into derivative arrangements that are not separately reported or assessed within the scope of SSAP No. 86, which is currently explicit that embedded derivatives shall not be separated from the host contract. If the derivative was to be separately reported, it would only qualify for amortized cost treatment if determined to be highly effective pursuant to SSAP No. 86, otherwise it would be reported at fair value.

From discussions of these investment / derivative designs, NAIC staff has the impression that these derivative arrangements would be reported at fair value if held separately from the debt instrument. (Discussions have indicated that they would be separately reported at fair value under U.S. GAAP.) By combining with the debt security, and if permitted to follow bond accounting, reporting entities would utilize an amortized cost measurement for the combined credit repack based on the NAIC designation pursuant to current guidance within SSAP No. 26 / SSAP No. 43.

Although it has been communicated that the derivative is designed to match the maturity duration of the debt instrument, if the investment was to be liquidated in advance of the maturity date, the obligation with the derivative counterparty must still be satisfied. If the derivative was in a liability position, upon liquidation of the debt instrument, the SPV would collect the proceeds from the debt instrument and first remit any amount owed to the derivative counterparty before providing the remaining balance to the reporting entity. Although it depends on the derivative arrangement, in some designs, the reporting entity could receive less than the stated principal amount of the bond. For these designs, unless the derivative was reported separately (or the repack was reported at fair value), the amount to be received at any point in time for the repack investment may be overstated due to the derivative impact. *(The inverse is also true, whereas if the derivative was in an asset position, the SPV would collect funds from the derivative counterparty and the reporting entity would receive an amount that exceeds the principal amount of the bond.)*

3) **Principles-Based Bond Definition Application**: The discussion with NAIC staff on credit repacks initially occurred due to questions on whether the repack is an issuer credit obligation (ICO) or an asset-backed security (ABS) under the principles-based bond definition. Initially, it was noted that a repack with a derivative that simply converted cash flows (fixed to floating or foreign currency), but which did not impact the timing or extent of cash flows could still potentially reflect an ICO obligation under the single-entity payer provision, assuming that the investment did not reflect a structured note. However, any design that was to alter the timing or amount of cash flows would result in an ABS classification. For example, if the repack altered the timing of cash flows so instead of periodic interest in line with the debt security terms, all interest payments were accumulated at the SPV and provided at maturity, this would require an ABS classification. If classified as an ABS, it was noted that there would be no substantive credit enhancement (as the structure simply passes through cash flows) and the structure would fail to qualify as a bond. However, after further assessment of these structures, NAIC staff recommends explicit guidance for the accounting of these combined debt / derivative structures. From discussions on these investments, a key driver is getting the combined structure classified as a Schedule D investment. From information shared, a vast array of different derivative structures could be combined with the debt security to form a combined item, with many different cashflow desired outcomes.

Ultimately, NAIC staff believes the issue goes further than bond classification as ICO or ABS. As such, this agenda item proposes SSAP guidance / interpretation to address all situations in which a debt security may be wrapped or combined with a derivative structure to ensure consistent and transparent reporting as well as information to the regulators on these investment transactions. NAIC staff believes the potential for these structures originates from the existing SSAP No. 86 guidance that indicates that embedded derivatives shall not be separated from the host contract and accounted for separately as a derivative instrument. NAIC staff notes that this SSAP No. 86 guidance

allows these investment structures to be reported in ways that were perhaps not intended when that embedded derivative guidance was originally established.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing as a new SAP concept and expose proposed edits to *SSAP No. 86—Derivatives*, to establish guidance that requires separate accounting and reporting of derivatives that are captured in debt security structures. This is a change from existing guidance that explicitly precludes the separation of embedded derivatives. In addition to these changes, minor revisions are also proposed to *SSAP No. 26—Bonds* and to the annual statement instructions to clarify application guidance. NAIC staff will also draft an issue paper to document these revisions.

This item is planned for exposure until September 27 to allow for consideration at the Fall National Meeting.

From initial discussions with banks / investment makers, guidance to separate the derivative from the debt security is believed to be preferred over a conclusion that would preclude bond treatment for the combined structure. With the proposal, debt security repack structures will be treated similarly to investments where the bond and derivative are not combined. (Ultimately, there would be no capital benefit or detriment due to the structure.) Additionally, this proposal will allow transparency as to the derivatives being used and ensure compliance with the reporting entity's derivative use plan. (If this proposed guidance is not supported, the combined repack, which represents a debt structure, would need to be assessed under the bond definition. This may require more detailed guidance to assess different types of derivative structures to determine whether the repack should qualify as a bond or as a non-bond debt security.)

NAIC staff has not proposed revisions to SSAP No. 103 as the existing guidance is clear that a sale of a debt security which is subsequently or simultaneously reacquired as a credit repack would not meet the criteria of substantially the same. This is because a credit repack generally has a revised issuer, yield and NAIC designation to reflect the additional derivative risk. As noted, minor revisions have been proposed to the annual statement instructions to clarify that the sale of a security that is reacquired with different terms shall be reported as a sale on Schedule D-Part 4 and a new acquisition on Schedule D-Part 3.

Ref #	Title	Attachment #
2024-17 (Julie)	**SSAP No. 108 – VM-01**	**F – Form A**

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

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

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

This item is planned for exposure until September 27 to allow for consideration at the Fall National Meeting.

Ref #	Title	Attachment #
2024-19 (Wil)	**ASU 2024-02, Codification Improvements**	**G – Form A**

Summary:
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.

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

This item is planned for exposure until September 27 to allow for consideration at the Fall National Meeting.

B. Consideration of Items on the Active Maintenance Agenda

1. Ref #2023-28: Collateral Loan Reporting

Ref #	Title	Attachment #
2023-28 (Julie)	**Collateral Loan Reporting**	**H – Form A**

Summary:
The Working Group has had many discussions on collateral loans within the last couple of years. Most recently, on May 15, the Working Group took two key actions:

1) Directed NAIC staff to prepare a memo to the Blanks (E) Working Group to incorporate an instructional change to the AVR instructions that allows collateral loans backed by mortgages to flow through AVR as an "Other Invested Asset with Underlying Characteristics of Mortgage Loans" as an interim step while further consideration occurs on the reporting of collateral loans and how collateral loans should flow through AVR. This action was contingent on RBC revisions, which were adopted by the Life Risk-Based Capital (E) Working Group on June 18, 2024. As such, this correspondence to the Blanks (E) Working Group was provided and received by the BWG on August 7.

2) Directed NAIC staff to proceed with sponsoring a blanks proposal for the reporting of collateral loans considering interested parties' comments. NAIC staff notes that specific comments were not received on whether certain collateral loans should flow through AVR, so NAIC staff will be working in the interim with regulators and RBC staff to develop a proposal for initial consideration.

Recommendation:
As detail of all collateral types will be collected in the data-captured disclosure, NAIC staff proposes only limited reporting lines on Schedule BA reporting lines focusing on categories for which look-through to underlying collateral for AVR and RBC purposes is warranted. The proposed categories shown below reflect where separate reporting and AVR/RBC consideration has been suggested. With the receipt of the 2024 data-captured disclosure, an assessment will occur to determine whether additional Schedule BA reporting lines should be considered based on the extent certain types of investments are backed by collateral loans. **NAIC staff recommend exposure of this agenda item with a request for comments on the following potential Schedule BA collateral loan reporting lines. With exposure, NAIC staff recommends sponsoring a blanks proposal to begin detailing the revisions to Schedule BA and AVR that would occur with these changes. As the resulting AVR and RBC factors would be contingent on the actions of the Capital Adequacy (E) Task Force (and its RBC Working Groups), NAIC staff recommend Working Group direction to notify those groups of this action.**

(Although the effective date of revisions is always contingent on the direction of the Working Group, it is currently anticipated that a Jan. 1, 2026, effective date would be considered. This would allow the revisions to begin at the start of a statutory filing year. Revisions would need to be adopted by August 2025 to meet that timeframe.)

This item is proposed for exposure until September 27 to allow for consideration at the Fall National Meeting.

Proposed Schedule BA Revisions:

(The existing collateral loan line will be deleted.)

Collateral Loans – Reported by Collateral that Secures the Loan

Backed by Mortgage Loans
Unaffiliated.....
Affiliated.....

(Collateral loans backed by mortgage loans that would be in scope of SSAP No. 37 if held directly.)

Backed by Investments in Joint Ventures, Partnerships or Limited Liability Companies
Unaffiliated.....
Affiliated.....

(Collateral loans backed by an investment that would be in scope of SSAP No. 48 if held directly.)

Backed by Residual Interests
Unaffiliated.....
Affiliated.....

(Collateral loans backed by an investment that would be in SSAP No. 21 as a residual if held directly.)

Backed by Debt Securities
Unaffiliated.....
Affiliated.....

(Collateral loans backed by an investment that would be assessed under SSAP No. 26 for bond reporting. This classification does not require confirmation that the debt security would qualify as a bond.)

Backed by Real Estate
Unaffiliated.....
Affiliated.....

(Collateral loans backed by an investment that would be captured in scope of SSAP No. 40 if held directly.)
Collateral Loans – All Other
Unaffiliated.....
Affiliated.....

(Collateral loans not captured in the specific reporting lines.)

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

- Fair Value of Collateral Backing the Collateral Loan
- Percentage of Collateral to the Collateral Loan

Proposed AVR Revisions:
This exposure suggests a new category within the AVR Reporting Schedule to capture collateral loans. This is currently proposed to be a new category inserted after "residuals" (AVR lines 81-93) and before "All Other Investments" (AVR lines 94-99). The following illustrates the simple proposed addition to the schedule.

The following elements are requested for feedback during the exposure:

1) Should collateral loans backed by mortgage loans be included in the new collateral loan category, or should those continue to flow through the "Investments with the Underlying Characteristics of Mortgage Loans" permitted during the interim as the long-term resolution? If captured in the new collateral loan AVR category, to what extent should the underlying characteristic lines detailing quality / past due / foreclosure status (AVR lines 38-64) be duplicated?

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

	RESIDUAL TRANCHES OR INTERESTS
81	Fixed Income Instruments – Unaffiliated.....
82	Fixed Income Instruments – Affiliated .....
83	Common Stock – Unaffiliated.....
84	Common Stock – Affiliated .....
85	Preferred Stock – Unaffiliated.....
86	Preferred Stock – Affiliated .....
87	Real Estate – Unaffiliated .....
88	Real Estate – Affiliated .....
89	Mortgage Loans – Unaffiliated .....
90	Mortgage Loans – Affiliated .....
91	Other – Unaffiliated .....
92	Other – Affiliated .....
93	Total Residual Tranches or Interests (Sum of Lines 81 through 92)

COLLATERAL LOANS
Backed by Mortgage Loans – Unaffiliated
Backed by Mortgage Loans - Affiliated
Backed by SSAP No. 48 Investments – Unaffiliated
Backed by SSAP No. 48 Investments - Affiliated
Backed by Residuals – Unaffiliated
Backed by Residuals – Affiliated
Backed by Debt Securities – Unaffiliated
Backed by Debt Securities – Affiliated
Backed by Real Estate – Unaffiliated
Backed by Real Estate - Affiliated
All Other – Unaffiliated
All Other – Affiliated

(Renumbering will Occur Based on the Resulting Lines)

ALL OTHER INVESTMENTS

94	NAIC 1 Working Capital Finance Investments
95	NAIC 2 Working Capital Finance Investments
96	Other Invested Assets - Schedule BA .....
97	Other Short-Term Invested Assets - Schedule DA
98	Total All Other (Sum of Lines 94, 95, 96 and 97)
99	Total Other Invested Assets - Schedules BA & DA (Sum of Lines 29, 37, 64, 70, 74, 80, 93 and 98)

C. 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 Valuation Manual Adoptions (Robin – Attachment J)

The attachment summarizes the revisions the Life Actuarial (A) Task Force reported as adopted updates to the *Valuation Manual* for the following year. No items were identified that require Working Group coordination under the *NAIC Policy Statement on Coordination with the Valuation Manual*.

c. Update on the IMR Ad Hoc Subgroup – (Julie – Attachment K)

The IMR Ad Hoc group has met regularly since their first meeting in Oct. 2023. Since the Spring National Meeting, the discussions have focused on 1) IMR from "economic effective" derivatives (derivatives that do not qualify as accounting effective under *SSAP No. 86—Derivatives*), 2) IMR from asset transfers for cash between the general account and separate account, and 3) IMR from reinsurance transactions.

As a result of these discussions the group has elected to move the derivative discussion and the separate account transfer discussion to the full Working Group. These discussions are moving towards the establishment of new statutory accounting guidance, which goes beyond ad hoc discussions and should occur within the Working Group / Committee structure. The group anticipates further discussion on IMR from reinsurance transactions as well as overall concepts on the admittance of net negative IMR.

As an additional note, preliminary assessments have occurred to review how companies treated the admitted negative IMR in cash flow testing (CFT). From this limited review, companies are not consistently reflecting negative IMR in CFT. Information was shared with the Chief Financial Regulators on examples of the correct, incorrect and potential misreporting that has been noted to assist with review of domiciliary companies. Regulators are requested to contact NAIC staff with any questions.

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

The adopted statutory accounting and reporting revisions related to the principles-based bond definition are effective January 1, 2025. An NAIC provided self-study educational program is available to all participants without a course fee for 2024. (A course fee is expected for non-regulators in 2025.) The course is designed to begin any Monday, and anyone wanting to register must do so no later than the Wednesday prior to the Monday for which they would like to start the course. (There is no participation limit for any week, but those trying to enroll after the Wednesday timeframe will receive notice that the course is not available.) The course is required to be completed within the week and is estimated to take approximately 3 hours of time. The link to enroll can be found on the NAIC Education & Training website.

A small group comprised predominantly of regulators and AICPA representatives with a few interested parties was formed to discuss application questions of the bond definition on specific investment designs or characteristics. The discussions of this small group have resulted with a proposed Question & Implementation Guide that was exposed for comment earlier under the Hearing agenda. As deemed necessary, further discussions may expand the Q&A.

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

Julie Gann and Maggie Chang (NAIC) monitor IAIS discussions, including the following:

- Climate Risk Disclosure Subgroup – The activities of this Subgroup have currently concluded. The IAIS has released a draft application paper on public disclosure and supervisory reporting on climate risk and draft supporting materials on macroprudential and group supervisory issues and climate risk. Feedback on these materials is invited by September 30, 2024. A public background session will be held on Aug. 27. The documents and link to register for the public stakeholder session are available on the IAIS website:

  https://www.iaisweb.org/2024/07/public-consultation-on-climate-risk-supervisory-guidance/

- Accounting and Auditing Working Group - The AAWG met in Washington DC May 21-22, with NAIC staff (Maggie Chang) attending in-person. Items discussed included a post first year implementation update and the impact to financial soundness indicators from *IFRS 17: Insurance Contracts*, a presentation on the topic of independent audit oversight, as well as various international monitoring and other jurisdictional updates. The next AAWG meeting is Sept. 4-5 in Zurich. NAIC staff will participate virtually.

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

Comment Deadline: The timeframe until the Fall National Meeting is shorter than normal. All items unless otherwise noted have been proposed for a comment deadline of September 27 to allow for discussion at the Fall National Meeting. Ref # 2024-01 has a shortened comment deadline of September 6 to allow for interim discussion. Ref # 2024-10 and Ref #2024-15 have a comment deadline of November 8 with discussion planned in the interim before the 2025 Spring National Meeting.

