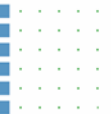




2025 SUMMER NATIONAL MEETING  
MINNEAPOLIS, MN



## Hearing Agenda

### Statutory Accounting Principles (E) Working Group Hearing Agenda August 11, 2025

#### ROLL CALL

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

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

Note: This meeting will be recorded for subsequent use.

The Statutory Accounting Principles (E) Working Group met in regulator-to-regulator session on July 10 and Aug. 5, 2025. These regulator-only sessions were pursuant to the NAIC Open Meetings Policy paragraph 3 (discussion of specific companies, entities or individuals) and paragraph 6 (consultations with NAIC staff related to NAIC technical guidance of the *Accounting Practices and Procedures Manual*). No actions were taken during these meetings, as the discussions involved financial statement reporting details, which involved specific company information and for NAIC staff to present the technical guidance captured within the Summer National Meeting agenda.

#### REVIEW AND ADOPTION OF MINUTES

1. Spring National Meeting (Attachment 1)
2. April 10, 2025 (joint call with LATF) (Attachment 2)
3. May 22, 2025 (Attachment 3)
4. June 2, 2025 (evote exposure) (Attachment 4)
5. June 5, 2025 (evote exposure) (Attachment 5)

**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 #2022-19: INT 23-01, Net Negative (Disallowed) IMR
2. Ref #2023-14: Hypothetical IMR
3. Ref #2025-03: Definition of IMR
4. Ref #2025-02: *ASU 2024-04, Induced Conversions of Convertible Debt Instruments*
5. Ref #2025-09: VM-22 Update Coordination
6. Ref #2025-10: *ASU 2023-07, Improvements to Reportable Segment Disclosures*
7. Ref #2025-11: ASU 2024-03 and ASU 2025-01, Reporting Comprehensive Income
8. Ref #2025-14: *ASU 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*
9. Ref #2025-15: *ASU 2025-02, SEC Updates*
10. Ref #2025-17EP: Editorial Process – May 2025

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2022-19 (Julie)	INT 23-01: Net Negative (Disallowed) IMR	6 - INT	ACLI Agreement	ACLI – 18

**Summary:**

On June 5, 2025, the Working Group exposed revisions to INT 23-01 to extend the effective date to Dec. 31, 2026. Revisions also clarify guidance and incorporate additional requirements to admit net negative IMR, as follows:

- Clarification on the adjusted capital & surplus calculation (from prior filed financials), with an additional cap to limit admittance to 10% of current unadjusted capital & surplus.
- New paragraph requiring completion of the data-captured template disclosures to admit net negative IMR.
- New paragraph requiring net negative IMR to be captured in the PBR calculation or AAT/CFT pursuant to VM-20, with a requirement to prepare a reconciliation to ensure that reserves are not overstated.
- Clarification on the derivative disclosure roll-forward and to ensure that the amount disclosed for “net negative disallowed IMR” reflects the total.
- Revised effective date guidance to December 31, 2026, with automatic nullification on January 1, 2027.

**ACLI Comments:**

We are especially grateful for the thoughtful and disciplined engagement and open dialogue facilitated through the IMR Ad Hoc Working Group. The consistent cadence of meetings and the willingness of regulators and industry participants to constructively work together has been instrumental in addressing the complexities surrounding the admittance of net negative IMR. This collaboration will not only enhance the clarity of the guidance by reflecting new developments since enactment in 1992 but also facilitate the collective and holistic incorporation into SSAP No. 7, Asset Valuation Reserve and Interest Maintenance Reserve. It will also help ensure the permanent solution achieves a balanced and practical approach to statutory reporting.

We support INT 23-01 as drafted and believe the extension period will allow sufficient time for the achievement of the aforementioned objectives. ACLI maintains its commitment to work constructively with the Ad Hoc Group and NAIC to modernize the IMR guidance and ensure the admittance of negative IMR best reflects economic statutory surplus, with appropriate safeguards, in a way that does not disincentivize prudent investment and asset liability management behavior.

Recommendation:

**NAIC staff recommend that the Working Group adopt the revised INT extending the effective date to December 31, 2026 with the additional requirements and clarifications as exposed. Although captured as a non-contested position, this item is proposed for a separate vote to ensure Working Group members support the extension.**

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-14 (Julie)	Hypothetical IMR	7 – Memo	Industry Agreement	IP – 4

Summary:

On March 24, 2025, the Working Group exposed a memo to detail the discussions and conclusions of the IMR ad hoc group with regards to hypothetical IMR. Ultimately, as detailed within, it identifies the merits and rationale for hypothetical IMR but identifies that the IMR ad hoc group reached an informal consensus that the practical limitations of applying the concept outweigh any potential benefit of retaining the concept. The IMR ad hoc group recommended that the memo be exposed to the full Working Group for comment. It is anticipated that this discussion and conclusion, and if supported, will be documented in the IMR issue paper and reflected in revisions incorporated under the broad IMR project captured under agenda item 2023-14.

Interested Parties' Comments:

This agenda item has been developed as a broad concept agenda item with the ultimate goal to incorporate accounting guidance for the asset valuation reserve (AVR) and the interest maintenance reserve (IMR) into SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve. Historically, this statement has included a brief overview of the AVR and IMR with the calculation and reporting guidance determined as directed by individual SSAPs or in accordance with the Annual Statement (A/S) Instructions for Life, Accident and Health / Fraternal Companies. As the SSAPs are highest in the statutory hierarchy as level 1, and the A/S instructions are level 3, the governing accounting concepts should be captured in the SSAPs.

It has also been noted that there are some disconnects between the SSAPs and the IMR/AVR guidance included in the Annual Statement Instructions. This is likely due to SSAP accounting revisions, such as with the measurement of preferred stock, not being carried to the specific IMR/AVR guidance in the Annual Statement. This agenda item, and the intent to ensure accounting concepts are in the SSAPs, intends to address those aspects and should help mitigate future disconnects with guidance going forward.

Lastly, it has also been identified that there are limited financial reporting cross-checks to the reporting within the AVR. Although the instructions are specific as to how reporting lines should map to the AVR, instances have been noted in which a company has reported on one specific line for the investment schedule and then did not carry those amounts to the appropriate AVR reporting category. Although these may be inadvertent reporting errors, as the RBC for life companies pulls from the AVR reporting, it is imperative that the reporting per the investment schedules be reflected properly in the AVR. As such, this agenda item also proposes cross-checks to ensure consistent and accurate reporting.

On March 24, 2025, the Working Group exposed a hypothetical IMR memorandum which details the discussions and recommended conclusion of the Interest Maintenance Reserve (IMR) ad hoc group to remove hypothetical IMR. This item was exposed at the full Working Group level to request feedback. It is anticipated that if supported, the concepts and conclusions within the memo will be included in the IMR issue paper and revised statutory accounting guidance.

Interested parties (including the American Council of Life Insurers, or ACLI) agree with the removal of hypothetical IMR, the findings of the work memorialized in the Hypothetical IMR Memo, and the concepts and conclusions therein to be included in the IMR issue paper and revised statutory accounting guidance. At some point, clarification of the accounting treatment for legacy hypothetical IMR balances will need to be addressed.

Recommendation:

**NAIC staff recommend that the Working Group direct the removal of hypothetical IMR as part of the broad IMR project and detail the concepts and conclusions from the IMR hypothetical memo within the corresponding IMR Issue Paper for historical retention purposes. Unless directed otherwise, this removal will occur with other revisions to incorporate IMR and AVR guidance in SSAP No. 7 and will have an effective date consistent with the broad SSAP No. 7 changes. (This broad agenda item (Ref #2023-14) will continue to stay open as the source reference for the broad IMR project.)**

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2025-03 (Julie)	IMR Definition	8 – Agenda Item 9 – ACLI Discussion Document	No Objection to NAIC Definition	IP – 6

Summary:

On March 24, 2025, the SAPWG exposed this agenda item with the proposed ACLI IMR definition along with a NAIC staff proposed IMR definition. The exposure was accompanied by the ACLI discussion document on IMR. This agenda item is considered a new SAP concept as the resulting definition will be included in the IMR Issue Paper and revised SSAP No. 7—*Asset Valuation Reserve and Interest Maintenance Reserve* in accordance with the intent to include accounting-related concepts for IMR in the SSAP and not the Annual Statement Instructions.

Interested Parties' Comments:

*NAIC staff notes that the Interested Parties' comment letter is mostly a duplication of the agenda item that includes NAIC staff discussion on the proposed revisions to the ACLI suggested definition. The full comment letter is included in the comment letter packet (Attachment 22) NAIC staff have only included the conclusion below.*

**Interested Parties Conclusion Comments:**

Interested parties (ACLI) have no objection to the NAIC's proposed definition of IMR for inclusion within SSAP No. 7. However, we make the following observations:

All agree that IMR itself does not meet the definition of an asset or liability but rather is a valuation adjustment needed to maintain consistency between insurance liabilities (the assumptions for which are often unchanged from origin), and the assets needed to support them (where the assumptions can essentially be revisited any time there are fixed income realizations).



While we have no objections to removing non-economic from the proposed definition, we note that the ACLI document included with the exposure is important for understanding this concept as it shows, with proper reinvestment, a company is in the same economic position (or possibly in a better economic position) pre and post trade in a changing interest rate environment – e.g., IMR, whether positive or negative, is essentially a “reclassification” of unrealized losses on the balance sheet). This is invaluable information for those looking to understand the theoretical underpinnings of IMR.

Further, while we agree that the primary purpose of IMR, when it was adopted, was to prevent selling investments when they were in a gain position, caused by a decrease in interest rates (allowing a surplus benefit) when the funds received from the sale had to be reinvested at the lower interest rates as they would still be needed to satisfy future policyholder obligations – the logical impetus being surplus would be misstated. We also note that when IMR was developed, it was noted that IMR should be symmetrical, as in a declining interest rate environment, the proceeds received from the sale would be reinvested at the higher interest rates that can still satisfy future policyholder obligations notwithstanding that the realized losses would show a reduction of surplus. The ACLI document is also invaluable in understanding this concept and provides concrete numerical examples.

While the aforementioned is theoretically correct supporting symmetrical treatment of gains and losses, we acknowledge there may be situations where the assumptions in the real world do not play out in strict accordance with this theory and understand its proposed removal from the definition. The ACLI document proves invaluable in reinforcing the theoretical understanding of IMR as a valuation adjustment for consistent valuation of assets and liabilities, and therefore why it is inappropriate to view of negative IMR as an “asset” that cannot be used to pay claims.

We raise these points so those looking to truly understand the concept of IMR, its theory, and its interaction with AAT and PBR, can very simply grasp these concepts (via the ACLI document) under the NAIC’s largely “amortized cost” framework.

Recommendation:

**NAIC staff recommend that the Working Group direct use of the NAIC staff proposed IMR definition as detailed in agenda item 2025-03 for inclusion in the IMR Issue Paper and forthcoming revisions to SSAP No. 7. With this direction, as both the issue paper and revised SSAP will be subject to exposure, further discussion and edits can still be considered with potential expansions for clarity. This direction will conclude discussion of this agenda item, with agenda item 2023-14 serving as the source for the broad IMR project.**

**The NAIC staff proposed definition is below. A small edit clarifies that the guidance reflects the “intent” of IMR. Tracking from the original ACLI proposed definition is detailed in the agenda item. As noted above, subsequent revisions may be considered, but the definition intends to reflect the broad focus of IMR.**

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

IMR intends to defer~~s~~ and amortize~~s~~ the recognition of realized gains or losses where investment activity essentially unlock unrealized gains/losses for either assets or liabilities. IMR is not intended to defer realized gains and losses compelled by liquidity pressures that fund cash outflows (e.g., such as excess withdrawals and collateral calls).

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2025-02 (Wil)	ASU 2024-04, Induced Conversions of Convertible Debt Instruments	10 – Agenda Item	No Comments	IP – 5

Summary:

On March 24, 2025, the Working Group exposed agenda item 2025-02 addressing *ASU 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20), Induced Conversions of Convertible Debt Instruments* which clarifies accounting for induced conversions of convertible debt under Subtopic 470-20. The ASU specifies that to qualify as an induced conversion, the inducement must offer at least the consideration originally provided under the instrument’s conversion terms. It aims to improve consistency in determining whether such conversions should follow induced conversion or debt extinguishment guidance.

ASU 2024-04 applies to debt issuers, not holders, of debt instruments that receive consideration for induced conversions. Current guidance in *SSAP No. 15—Debt and Holding Company Obligations* requires recognition of an expense for the fair value of the additional consideration issued to induce conversion, which is consistent with the measurement guidance of current U.S. GAAP. While most of the ASU’s provisions are not recommended for incorporation into statutory accounting, some of the language regarding recognition timing and acceptable forms of consideration are recommended for adoption. In addition, NAIC have included revisions to statutory guidance to require expense recognition when the inducement offer is accepted, rather than when issued. NAIC staff noted this change aligns with U.S. GAAP, would only slightly defer the recognition of the expense compared to the current requirement, and is not expected to have significant regulatory impact as such transactions are rare in the insurance industry.

Interested Parties’ Comments:

Interested parties have no comment on this item.

Recommendation:

**NAIC staff recommends the Working Group adopt with modification *ASU 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20), Induced Conversions of Convertible Debt Instruments* to *SSAP No. 15—Debt and Holding Company Obligations* for statutory accounting.** The revisions provide clarifications on induced conversions, including when the inducement shall be recognized as an expense by the issuer as well as the fair value measurement of that expense.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2025-09 (Robin)	VM-22 Update Coordination	11 – Agenda Item	No Comments	IP – 10

Summary:

On March 24, 2025, the Working Group exposed this agenda item as part of the coordination process between the *Accounting Practices and Procedures Manual* and the *Valuation Manual*. The exposure recommended minor consistency revisions to *SSAP No. 51—Life Contracts* to reflect updates to that the Life Actuarial (A) Task Force has

made to the *Valuation Manual* in VM-22 PBR: Requirements for Principle-Based Reserves for Non-Variable Annuities (VM-22). The revisions are to clearly reflect different reserving methodologies and include adding “and” “/or” in a few places and a specific reference to “variable annuities.”

Interested Parties’ Comments:

Interested parties have no comment on this item.

Recommendation:

NAIC staff recommend that the Statutory Accounting Principles (E) Working Group adopt revisions to add minor consistency revisions to *SSAP No. 51—Life Contracts* reflect updates to the *Valuation Manual* in VM-22 PBR: *Requirements for Principle-Based Reserves for Non-Variable Annuities*. The revisions are to clearly reflect different reserving methodologies in VM-22 principle-based reserve requirements and include adding “and” “/or” in a few places and a specific reference to “variable annuities.”

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2025-10 (Wil)	ASU 2023-07, Improvements to Reportable Segment Disclosures	12 – Agenda Item	No Comments	IP – 10

Summary:

On March 24, 2025, the Working Group exposed an agenda item with a recommendation to reject as not applicable ASU 2023-07, *Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures*. This ASU addresses segment guidance, which has previously been determined as not an applicable concept under statutory accounting concepts.

Interested Parties’ Comments:

Interested parties have no comment on this item.

Recommendation:

NAIC staff recommends that the Working Group adopt the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject ASU 2023-07, *Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures* as not applicable to statutory accounting.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2025-11 (Wil)	ASU 2024-03 and ASU 2025-01, Reporting Comprehensive Income	13 – Agenda Item	No Comments	IP – 10

Summary:

On March 24, 2025, the Working Group exposed an agenda item with a recommendation to reject as not applicable ASU 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40), Disaggregation of Income Statement Expenses* and ASU 2025-01, *Clarifying the*

*Effective Date of ASU 2024-03.* This ASU is specific to comprehensive income disclosures for public entities, which is not an applicable concept for statutory accounting purposes.

*Interested Parties' Comments:*

Interested parties have no comment on this item.

*Recommendation:*

NAIC staff recommends that the Working Group adopt the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2024-03, Disaggregation of Income Statement Expenses* and *ASU 2025-01, Clarifying the Effective Date of ASU 2024-03* as not applicable to statutory accounting.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2025-14 (Wil)	<i>ASU 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets</i>	14 – Agenda Item	No Comments	IP – 13

*Summary:*

On May 22, 2025, the Working Group exposed an agenda item with a recommendation to reject as not applicable *ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*. This item is not applicable as the ASU amends U.S. GAAP guidance on derecognition of nonfinancial assets, which is not a concept applicable to statutory accounting purposes.

*Interested Parties' Comments:*

Interested parties have no comment on this item.

*Recommendation:*

NAIC staff recommends that the Working Group adopt the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* as not applicable to statutory accounting.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2025-15 (Wil)	ASU 2025-02, SEC Updates	15 – Agenda Item	No Comments	IP – 13

*Summary:*

On May 22, 2025, the Working Group exposed an agenda item with a recommendation to reject as not applicable *ASU 2025-02, Liabilities (Topic 405), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 122*. This ASU is not applicable as it eliminates SEC guidance which was rejected for statutory accounting purposes.

Interested Parties' Comments:

Interested parties have no comment on this item.

Recommendation:

NAIC staff recommends that the Working Group adopt the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2025-02, Liabilities (Topic 405)*, *Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 122* as not applicable to statutory accounting. This guidance is not applicable as it eliminates SEC guidance which was rejected for statutory accounting purposes.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2025-17EP (Julie)	Editorial Process – May 2025	16 – Agenda Item	No Comments	IP – 13

Summary:

This agenda item was exposed on May 22, 2025 and proposes editorial revisions to three SSAPs and one interpretation. The tracked changes showing the revisions are reflected in the agenda item, with a brief overview of each item below:

- **SSAP No. 26—Bonds:** Update Disclosure 40.f. to Match Schedule D, Part 1A Maturity categories. Schedule D, Part 1A has maturity categories of 10-20 years and over 20 years. The disclosure in SSAP No. 26 only goes up to an after 10-year category.
- **SSAP No. 41—Surplus Notes:** Remove remaining reference to a “CRP” designation in paragraph 11. Whether the designation is required from a Credit Rating Provider or from the SVO is contingent on the Purposes and Procedures Manual of the NAIC Investment Analysis Office.
- **SSAP No. 56—Separate Accounts:** Delete Disclosure 32.d. The disclosure is no longer applicable with previously adopted revisions.
- **INT 22-01: Freddie Mac When Issued K-Deal (WI Trust) Certificates:** Remove old SSAP No. 43R—Loan-Backed and Structured Security terminology

Interested Parties' Comments:

Interested parties have no comment on this item.

Recommendation:

NAIC staff recommend that the Working Group adopt the editorial revisions as illustrated within the Form A.

**REVIEW of COMMENTS on EXPOSED ITEMS**

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

1. Ref #2024-05: Appendix A-791
2. Ref #2024-06: Risk Transfer Analysis of Combination Reinsurance Contracts
3. Ref #2025-01: Sale Leaseback Clarification
4. Ref #2025-13: Residential Mortgage Loans Held in Statutory Trusts
5. Ref #2025-16: Status Section Updates

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-05 (Robin)	Appendix A-791	17 – Agenda Item	No Comments Received	None

**Summary:**

On June 2, 2025, the Working Group re-exposed this agenda item proposed to delete a sentence in A-791, paragraph 2c in the QA. This agenda item was developed in response to the December 2023 Valuation Analysis (E) Working Group’s referral to the Statutory Accounting Principles (E) Working Group. This referral recommended a clarifying edit to Appendix A-791 Life and Health Reinsurance Agreements (A-791), Section 2.c’s Question and Answer to remove the first sentence. 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.

**Re-exposed revision to A-791, Life and Health Reinsurance Agreements, paragraph 2c QA are shown tracked:**

2. No insurer shall, for reinsurance ceded, reduce any liability or establish any asset in any statutory financial statement if, by the terms of the reinsurance agreement, in substance or effect, any of the following conditions exist:
  - c. The ceding insurer is required to reimburse the reinsurer for negative experience under the reinsurance agreement, except that neither offsetting experience refunds against current and prior years’ losses under the agreement nor payment by the ceding insurer of an amount equal to the current and prior years’ losses under the agreement upon voluntary termination of in force reinsurance by the ceding insurer shall be considered such a reimbursement to the reinsurer for negative experience. Voluntary termination does not include situations where termination occurs because of unreasonable provisions which allow the reinsurer to reduce its risk under the agreement. An example of such a provision is the right of the reinsurer to increase reinsurance premiums or risk and expense charges to excessive levels forcing the ceding company to prematurely terminate the reinsurance treaty;

**A-791, Life and Health Reinsurance Agreements, paragraph 2c's, Question and Answer):**

**Q – If group term life business is reinsured under a YRT reinsurance agreement (which includes risk-limiting features such as with an experience refund provision which offsets refunds against current and/or prior years' losses (i.e., a "loss carryforward" provision), under what circumstances would any provisions of the reinsurance agreement be considered "unreasonable provisions which allow the reinsurer to reduce its risk under the agreement" thereby violating subsection 2.c.?**

**A –** ~~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.~~ So long as the reinsurer cannot charge premiums in excess of the premium received by the ceding insurer under the provisions of the YRT reinsurance agreement, such provisions would not be considered unreasonable. Any provision in the YRT reinsurance agreement which allows the reinsurer to charge reinsurance premiums in excess of the proportionate premium received by the ceding insurer would be considered unreasonable. The revisions to this QA regarding group term life yearly renewable term agreements is-are effective for contracts in effect as of January 1, 2021.

Comments:

No comments were received.

Recommendation:

NAIC staff recommend that the Working Group adopt the exposed revisions. This item has been exposed multiple times and no letters were received during the most recent exposure. The ACLI previously indicated that they did not object to the language if agenda item 20204-06 was resolved.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-06 (Robin)	Risk Transfer Analysis of Combination Reinsurance Contracts	18 – Agenda Item	Comments Received	ACLI – 20

Summary:

On June 2, 2025, the Working Group exposed by email vote revisions to SSAP No. 61—*Life, Deposit-Type and Accident and Health Reinsurance and the QA of Appendix A-791, Life and Health Reinsurance Agreements* to address risk transfer on combination reinsurance contracts with interdependent contract features. The revisions to SSAP No. 61 have been revised and expanded from the prior exposures. The revisions to A-791 have not been previously exposed.

The Working Group's exposure provides that contracts with interdependent features must be analyzed in the aggregate for risk transfer and also stresses compliance with existing A-791 requirements including that contract(s) cannot 1) potentially deprive the ceding insurer of surplus at the reinsurer's option or automatically upon the occurrence of some event (A-791, paragraph 2b); 2) potentially require payments to the reinsurer for amounts other than the income realized from the reinsured policies (A-791, paragraph 2e), nor; 3) contain any of the other conditions prohibited by Appendix A-791 related to risk transfer.

The exposed A-791 QA language also focuses on not having the potential for payments out of surplus at the reinsurer's option or automatically upon the occurrence of some event, meaning that in all cases there would be an established liability to absorb any possible payments and notes that the YRT premium simply being at or below the valuation net premium does not ensure that payments from surplus are not possible.

SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance exposed revisions are illustrated below:

### Transfer of Risk

17. Reinsurance agreements must transfer risk from the ceding entity to the reinsurer in order to receive the reinsurance accounting treatment discussed in this statement.

a. If the terms of the agreement violate the risk transfer criteria contained herein, (i.e., limits or diminishes the transfer of risk by the ceding entity to the reinsurer), the agreement shall follow the guidance for Deposit Accounting. In addition, any contractual feature that delays timely reimbursement violates the conditions of reinsurance accounting.

a.b. For purposes of evaluating whether a reinsurance agreement/contract (for this paragraph "contract") transfers risk under statutory accounting, the determination of what constitutes a contract is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract. Multiple contracts, whether on one or multiple blocks of policies, must be evaluated together for risk transfer purposes where considerations to be exchanged under one contract depend on the performance of the other contract(s) whether they are entered into together, or separately, directly or indirectly, that achieve one overall planned effect. For contracts that contemplate reinsurance on both a YRT and coinsurance basis, where there are interdependent features such as a combined experience refund or an inability to independently recapture, each of the YRT and coinsurance reinsurance components satisfying risk transfer requirements on their respective bases is necessary but not sufficient for the contract as a whole to satisfy risk transfer. When evaluated in its entirety, such contract(s) cannot 1) potentially deprive the ceding insurer of surplus at the reinsurer's option or automatically upon the occurrence of some event; 2) potentially require payments to the reinsurer for amounts other than the income realized from the reinsured policies, nor; 3) contain any of the other conditions prohibited by Appendix A-791 related to risk transfer.

18. This paragraph applies to all life, deposit-type and accident and health reinsurance agreements except for yearly renewable term reinsurance agreements and non-proportional reinsurance agreements such as stop loss and catastrophe reinsurance. All reinsurance agreements covering products that transfer significant risk shall follow the guidance for reinsurance accounting contained in this statement. All reinsurance contracts covering products that do not provide for sufficient transfer of risk shall follow the guidance for Deposit Accounting.

19. Yearly renewable term (YRT) reinsurance agreements that transfer a proportionate share of mortality or morbidity risk inherent in the business being reinsured and do not contain 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., shall follow the guidance for reinsurance accounting, including paragraphs 55-57 of this statement that apply to indemnity reinsurance. Contracts that fail to meet the requirements for reinsurance accounting shall follow the guidance for Deposit Accounting. For all treaties entered into on or after January 1, 2003, the deferral guidance in paragraph 3 of A-791 shall also apply to YRT agreements. YRT agreements shall follow the requirements of A-791, paragraph 6, regarding the entire agreement and the effective date of agreements. Since YRT agreements only transfer the mortality or morbidity risks to the reinsurer, the recognition of income shall be reflected on a net of tax basis, as gains emerge based on the mortality or morbidity experience. See paragraph 17.b. for additional requirements if a YRT agreement has interdependent contract features with reinsurance on a different basis (such as coinsurance).

**(Note that the exposed A-791 revisions are shown in the recommendation section).**



Background/History:

The agenda item was developed to address the VAWG referral, excerpted below, which noted risk transfer concerns regarding interdependent contract features which had been analyzed for risk transfer separately instead of in the aggregate. 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. 61—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**. Individual 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.

Prior discussions:

In **March 2024**, the Working Group exposed revisions *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* to address the risk transfer aspect from the VAWG referral. The SSAP No. 61 revisions were narrowly focused and incorporated guidance noting that interdependent contract features such as shared experience refunds must be analyzed in the aggregate when determining risk transfer.

At the **2024 Summer National Meeting**, the Working Group reviewed two letters and re-exposed the prior revisions to allow for further discussion. One that was in support of the exposed revisions (Claire Thinking) and

comments from interested parties' / ACLI that requested further discussion. 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.

On December 17, 2024, the Statutory Accounting Principles (E) Working Group received a preliminary overview of the comments received from the August 2024 re-exposure.

On April 10, 2025, the Statutory Accounting Principles (E) Working Group and the Life Actuarial (A) Task Force held a joint meeting. The meeting discussed this agenda item and agenda item 2024-05: A-791 Paragraph 2.c.; heard a presentation from the American Council of Life Insurers (ACLI) on statutory risk transfer considerations and heard a presentation on combined coinsurance funds withheld YRT agreements from the LATF chair.

*American Council of Life Insurers (ACLI) Comments:*

ACLI also values the thoughtful discussions and your consideration of our feedback and recommendations. Throughout this process, we have collectively sought to understand our respective concerns – regulatory concerns with combination reinsurance agreements and ACLI concerns with the SAPWG exposures on this topic – to arrive at a mutual understanding about how combination reinsurance agreements could achieve risk transfer.

The original draft of the SAPWG 2024-06 exposure suggested that all combination reinsurance agreements are non-proportional. Through our dialog, we concluded that, while this would be true for some combination agreements, it would not be true for others. We also concluded that:

1. Each agreement must be evaluated individually with each component (i.e., the coinsurance component and the YRT component) evaluated against its respective requirements under SSAP No. 61, and then
2. Collectively as a contract to ensure no deprivation of ceding insurer surplus could occur (rather than applying a likelihood of loss standard).

In contemplating the evolution of thought noted above, we respectfully recommend that any final guidance be made to apply on a prospective basis only. We note that the proposal for prospective application of any new guidance is not intended to shield in force transactions that are clearly in violation of risk transfer rules (e.g., those having automatic recapture provisions), and we would support language to that effect.

We additionally suggest revisions to the proposed SSAP No. 61 and Appendix, A-791 language as documented in the attached version of the exposure. We note it would be helpful for the historical record to document the evolution of thought which led to the contemplated changes reflected in the exposure. This will help regulators, companies, and auditors better understand the intent behind the proposed changes to SSAP No. 61 and Appendix A-791 should any ambiguity in the interpretation of the new language persist. We have included footnotes in the attached version of the exposure for this purpose.

In summary we request SAPWG adopt any changes to existing guidance prospectively; make the changes to the proposed language to SSAP No. 61 and Appendix A-791; include the proposed footnotes documenting the "historical record"; and re-expose such changes to allow time for stakeholders to evaluate the final proposed revisions to ensure no unintended consequences arise.

Recommendation:

**NAIC staff recommend that the Working Group:**

1. **Adopt the exposed revisions to SSAP No. 61 with the editorial paragraph break revision which does not change the exposed wording as discussed below, with a Working Group specified effective date.**
2. **Adopt the exposed revisions to A-791 without the ACLI proposed revisions as discussed below.**
3. **NAIC staff does not recommend incorporating the ACLI proposed footnotes to the body of the agenda item.**

**Summary of key comments and proposed actions:**

1. **SSAP No. 61, exposure: NAIC staff recommend adopting the exposed revisions to SSAP No. 61 with the editorial paragraph break revision.** The ACLI only proposed an editorial paragraph break to divide the exposed revisions in paragraph 17b into two paragraphs. NAIC staff concur with dividing paragraph 17b into paragraph 17b and 17c. This division does not change the exposed language and improves readability. ACLI comments support the exposed language and the approach of evaluating interdependent contracts individually and in aggregate.
2. **Effective date: NAIC staff requests Working Group feedback on a year-end 2025 effective date.**  
The ACLI comments requests a prospective application, which would essentially grandfather existing contracts, NAIC staff view grandfathering as problematic. The original VAWG referral raised concerns with existing contracts and the application of current guidance in SSAP No. 61 and A-791. As the proposed edits are consistent with the application of existing concepts, they qualify as SAP clarifications and can be effective upon adoption. However, if a specific effective date is desired, then NAIC staff recommend an effective date of December 31, 2025. Discussions on this item began in Spring 2024 based on a 2023 referral. Potential effective language on the SSAP No. 61 effective date is shown below.

94. The disclosure for compliance with Model #787 or AG 48 shall be effective for reporting periods ending on or after December 31, 2015. The revisions adopted in November 2018 to expand liquidity disclosures are effective year-end 2019, concurrent with the inclusion of data-captured financial statement disclosures. The disclosures captured in paragraphs 78-84 which help to identify certain reinsurance contract features are effective for reporting periods ending on or after December 31, 2020. [Clarifications of existing guidance adopted in August 2025 regarding risk transfer on interdependent reinsurance agreements in paragraphs 17 and 19 are required to be applied to existing contracts as of the year-end 2025 financial statements and new contracts thereafter.](#)

3. **A-791 QA exposure: NAIC Staff recommend adopting the revisions as exposed the A-791 QA (see below) Appendix A-791, *Life and Health Reinsurance Agreements* exposed revisions to the first Q&A. NAIC staff does not recommend incorporating any of ACLI proposed revisions to the A-791 QA guidance.**
- Appendix A-791, *Life and Health Reinsurance Agreements* exposed revisions to the first Q&A

**Q – Aside from assumption reinsurance, what other types of reinsurance are exempt from the accounting requirements?**

**A – Yearly renewable term (YRT) and certain nonproportional reinsurance arrangements, such as stop loss and catastrophe reinsurance are exempt because these do not normally provide significant surplus relief and therefore are outside the scope of this Appendix. If a catastrophe arrangement takes a reserve credit for actual losses beyond the attachment**

point or the unearned premium reserve (UPR) of the current year's premium, there will most likely be no regulatory concern.

Similarly, if a YRT treaty provides incidental reserve credits for the ceding insurer's net amount at risk for the year with no other allowance to enhance surplus, there will most likely be no regulatory concern. For purposes of this exemption, a treaty labeled as YRT does not meet the intended definition of YRT if the surplus relief in the first year is greater than that provided by a YRT treaty with zero first year reinsurance premium and no additional allowance from the reinsurer.

For contracts that contemplate reinsurance on both a YRT and coinsurance basis, where there are interdependent features such as a combined experience refund or an inability to independently recapture, risk transfer can only occur if there is no potential for payments out of surplus at the reinsurer's option or automatically upon the occurrence of some event, meaning that in all cases there would be an established liability to absorb any possible payments. The YRT premium simply being at or below the valuation net premium does not ensure that payments from surplus are not possible.

Additional pertinent information applicable to all YRT treaties and to non-proportional reinsurance arrangements is contained in paragraphs 19 and 20 of SSAP No. 61.

**NAIC staff does not recommend incorporating any of ACLI proposed revisions to the A-791 QA guidance. The ACLI proposed revisions are shown as shaded tracked text below.** The proposed ACLI revisions would narrow the scope of the proposed guidance to focus more on YRT or YRT premiums.

The exposed guidance is focusing on combination reinsurance contracts with interdependent features and that the reinsurance cannot result in the deprivation of surplus. The deprivation of surplus is required to be evaluated under A-791. However, the ACLI proposed revision would change the scope of how that deprivation of surplus is evaluated to be narrower and have more focus on YRT premium. The ACLI proposed revision of changing "does" to "may" implies that in some cases it is sufficient to only compare whether the YRT premiums exceed the valuation net premium which is incorrect.

The ACLI redline version is included in the comment letter attachment and is shown below. The ACLI comment letter reflected the exposed revisions as accepted and their proposed tracked revisions.

The excerpt below includes exposed revisions with **the ACLI proposed revisions to the A-791 QA exposure shown as shaded text.**

**Q– Aside from assumption reinsurance, what other types of reinsurance are exempt from the accounting requirements?**

A – Yearly renewable term (YRT) and certain nonproportional reinsurance arrangements, such as stop loss and catastrophe reinsurance are exempt because these do not normally provide significant surplus relief and therefore are outside the scope of this Appendix. If a catastrophe arrangement takes a reserve credit for actual losses beyond the attachment point or the unearned premium reserve (UPR) of the current year's premium, there will most likely be no regulatory concern.

Similarly, if a YRT treaty provides incidental reserve credits for the ceding insurer's net amount at risk for the year with no other allowance to enhance surplus, there will most likely be no

regulatory concern. For purposes of this exemption, a treaty labeled as YRT does not meet the intended definition of YRT if the surplus relief in the first year is greater than that provided by a YRT treaty with zero first year reinsurance premium and no additional allowance from the reinsurer.

Combination reinsurance transactions should be assessed for risk transfer purposes, taking into consideration the specific terms of these agreements by evaluating each type of reinsurance against its specific requirements and further evaluating the contract as a whole to ensure there is no potential for deprivation of the ceding insurer's surplus. For contracts that contemplate reinsurance on both a YRT and coinsurance basis, where there are interdependent features such as a combined experience refund or an inability to independently recapture, risk transfer can only occur if there is no potential for payments for the ceding insurer to make YRT premium payments out of surplus at the reinsurer's option or automatically upon the occurrence of some event, meaning that in all cases there would be an established liability or realized income to absorb any possible YRT premium payments. The YRT premium simply being at or below the valuation net premium does may not ensure that payments from surplus are not possible.

Additional pertinent information applicable to all YRT treaties and to non-proportional reinsurance arrangements is contained in paragraphs 19 and 20 of SSAP No. 61.

#### 4. **Form A footnotes: NAIC staff recommend adopting the Form A without incorporating the two proposed ACLI footnotes.**

The ACLI proposed two new footnotes in the body of the form A for the "historical record" which would not change the exposed guidance. The Form A is not authoritative, but NAIC staff does not recommend incorporating the two footnotes (excerpted below).

Page 2 footnote - VAWG's original referral was that they saw proportional reserve credit being taken for nonproportional coverage and concerns about taking too large of a reinsurance credit has not changed. NAIC staff also has concerns with implying that VAWG's original referral was somehow in error.

Page 3 footnote - **NAIC staff does not support** adding the page 3 footnote, as it says what is required to evaluate risk transfer but only includes a subset of the criteria listed in Paragraph 17. NAIC staff is concerned that the footnote might be perceived as narrowing the proposed authoritative language.

#### **ACLI proposed footnotes.**

Page 2

<sup>1</sup>New ACLI footnote: Subsequent discussions have yielded a more nuanced view of this statement such that it is acknowledged that not all combination agreements are nonproportional. Combination reinsurance transactions should be assessed for risk transfer purposes, taking into consideration the specific terms of these agreements by evaluating each type of reinsurance against its specific requirements and further evaluating the contract as a whole to ensure there is no potential for deprivation of the ceding insurer's surplus (rather than applying a likelihood of loss standard).

<sup>2</sup> [New ACLI Footnote: Combination reinsurance transactions should be assessed for risk transfer purposes, taking into consideration the specific terms of these agreements by evaluating each type of reinsurance against its specific requirements and further evaluating the contract as a whole to ensure there is no potential for deprivation of the ceding insurer's surplus.](#)

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2025-01 (Jake)	Sales Lease Clarification	19 – Agenda Item	Comments Received	IP – 5 NAMIC/APCIA - 1

Summary:

On March 24, 2025, the Working Group exposed revisions to clarify that sale leasebacks with restrictions on access to the cash do not qualify for sale leaseback accounting and must be accounted for by the seller using the financing method. This agenda item was drafted in response to a question NAIC staff received on a sales leaseback transaction that included a significant restriction on the cash received as part of the sale of the assets, and if such a transaction would meet the definition of a sale leaseback in accordance with *SSAP No. 22—Leases*. In the transaction, the company was able to sell the nonadmitted asset to an unaffiliated party, but as a part of the transaction, the cash the seller received was to be held in such a manner that the selling insurance company would not be able access the cash until the leaseback was fully paid off years in the future. This agenda item intends to provide guidance that sales leaseback accounting would not be applicable in situations in which the selling insurer is restricted from readily accessing the sales proceeds. In such instances the financing method would be required.

Interested Parties' Comments:

Interested parties agree that transactions involving cash or assets received by a seller that have restrictions as to use, do not meet the definition of a sale for sale leaseback accounting and should be recorded as a financing arrangement. Because the cash and assets received are not available to meet policyholder obligations, such assets may be considered nonadmitted in accordance with *SSAP No. 4 – Assets and Nonadmitted Asset*.

National Association of Mutual Insurance Companies (NAMIC) and American Property and Casualty Insurance Association (APCIA) Comments:

The Trades appreciate the work that the NAIC staff has done on this issue to make it clear what type of transaction should fall under *SSAP No. 22 – Leases*. We are neutral on the edits that clarify that sale leasebacks with restrictions on access to cash do not qualify for the sale leaseback accounting method and must be accounted for by the seller using the financing method.

To make it clear that this edit does not overrule the guidance found in INT 01-31: regarding collateral pledged for their performance under a contract and for easier flow of reading, the Trades suggest the below edits. First, make the proposed clarification the new number (34) as opposed to a new subsection (c). This edit makes it clear to the reader that this type of transaction does not fall under the sale-leaseback accounting method. Second, the insertion of a footnote at the end of the new number (34), referencing that nothing in the edit is meant to negate any guidance found in INT 01-31. (Revisions proposed by trades, shown shaded below)

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

- a. A normal leaseback is a lessee-lessor relationship that involves active use of the property by the seller-lessee in consideration for payment of rent, including contingent rentals that are based on future operations of the seller-lessee. The phrase active use of the property by the seller-lessee refers to use of the property during the lease term in the seller-lessee's trade or business, provided that subleasing of the leased property is minor.
- b. Admitted assets, if the buyer-lessor is a related party, or either admitted or nonadmitted assets if the buyer-lessor is not a related party. For purposes of this paragraph, related parties include those identified in SSAP No. 25 and entities created for the purpose of buying and leasing nonadmitted assets for the reporting entity and/or its affiliates.

34. A sale where the cash received by the seller has access restrictions does not meet the definition of a sale for sale leaseback accounting and shall be recorded as a financing arrangement as described in paragraph 39.<sup>1</sup>

**Trades proposed FOOTNOTE <sup>1</sup>** Nothing in this section shall be construed to negate the guidance found in INT 01-31 regarding collateral pledged for their performance under a contract.

We believe the above edits support the goal of the proposed changes to SSAP No. 22 and make it clear that there is no intent to open or change other guidance regarding collateral

Recommendation:

**NAIC staff recommends that the Working Group expose expanded revisions to SSAP No. 22—Leases, as illustrated below, which clarify that sale leasebacks with restrictions on access to the cash do not qualify for sale leaseback accounting and must be accounted for by the seller using the financing method. These have been modified from the prior exposed version to be clearer. NAIC staff does not recommend exposing the footnote proposed by the joint trades.**

**Proposed for August 2025 exposure – New Revisions from the Prior Exposure are Shaded:**

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

- a. A normal leaseback is a lessee-lessor relationship that involves active use of the property by the seller-lessee in consideration for payment of rent, including contingent rentals that are based on future operations of the seller-lessee. The phrase active use of the property by the seller-lessee refers to use of the property during the lease term in the seller-lessee's trade or business, provided that subleasing of the leased property is minor.
- b. Admitted assets, if the buyer-lessor is a related party, or either admitted or nonadmitted assets if the buyer-lessor is not a related party. For purposes of this paragraph, related parties include those identified in SSAP No. 25 and entities created for the purpose of buying and leasing nonadmitted assets for the reporting entity and/or its affiliates.
- c. When cash or assets received by the seller have restrictions as to the use of the cash or sale of the assets, the cash and assets received are not considered available to meet policyholder obligations and are nonadmitted in accordance with SSAP No. 4—Assets and Nonadmitted Assets. Such transactions ~~A sale where the cash received by the seller has access restrictions does~~ do not meet the definition of a sale for sale leaseback accounting and shall be recorded as a financing arrangement as described in paragraph 39.



39. A sale-leaseback transaction that does not qualify for sale-leaseback accounting nor the deposit method shall be accounted for by the financing method. Under this method the seller-lessee shall not derecognize the transferred asset and shall account for any amounts received as a financial liability and the buyer-lessor shall not recognize the transferred asset and shall account for the amounts paid as a receivable. A sales-leaseback transaction where the cash or assets received as part of the sale are subject to restrictions as described in paragraph 34.c. would not qualify for sales-leaseback accounting and shall be accounted for using the financing method.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2025-13 (Wil)	Residential Mortgage Loans Held in Statutory Trusts	20 – Agenda Item	Comments Received	IP – 15

Summary:

On May 22, 2025, The Working Group exposed this agenda item and proposed revisions to SSAP No. 37—*Mortgage Loans* in response to interested parties’ comments on agenda item 2024-21: Investment Subsidiaries. Comments from interested parties noted that a significant part of the increase in investment subsidiaries is primarily due to increased usage of Delaware Statutory Trusts (DSTs). DSTs are distinct from common-law trusts as they are established under Delaware statutory trust laws, which allows for significant flexibility in structuring the trust. While holding real estate investments within a DST provides a number of structural and tax advantages, one of the most notable benefits is that it enables insurance companies to bypass the requirement of obtaining individual state lending licenses for each state where they hold residential mortgage investments.

The initial revisions exposed on May 22, 2025, for SSAP No. 37 provide accounting guidance for qualifying trust structures, regardless of the state of domicile, that hold residential mortgage loans with reporting of these items on Schedule B – Mortgage Loans. For a statutory trust to be considered qualifying it must meet six criteria; trust must be domiciled in either a U.S. state or territory, insurer must hold 100% beneficial ownership interest of the trust, may only hold certain assets (cash and cash equivalents, real estate received through foreclosure, and residential mortgage loans), may not engage in restricted activities, all cash flows from mortgage loans must flow directly through the trust to the insurer, and the trust must maintain certain documentation requirements. Statutory trusts which meet all six of the criteria are to be considered qualifying and the mortgage loans held within would be reported individually on Schedule B as if directly held by the insurer. Effectively all activity and balances within a qualifying statutory trust are to be reported as if directly held by the insurer. The proposed revisions would also establish several new disclosures for qualifying statutory trusts which would include a description of the trust, summary of assets and liabilities held within trust, disclosure of material litigation and/or regulator reviews, disclosure of financing transactions, and a summary of mortgage loans held in trust disaggregated by loan standing.

Interested Parties’ Comments:

Interested parties agree with reporting residential mortgage loans (RMLs) owned through a trust directly on Schedule B. The trust is created for the purposes of operational efficiency, with all the risks and rewards of the beneficial ownership interest in the assets belonging to the insurer. Therefore, look-through treatment, as if these are transactions of the reporting entity, seems most appropriate for this type of RML investment structure.

We are grateful for the time that NAIC staff has spent with us going over our questions and comments. We have summarized some of the most significant discussion points between the NAIC staff and interested parties below:



1. Regarding ownership of the trust's assets, title to the RMLs is held by the trustee on behalf of the trust. The books and records of the trust then allocate a beneficial interest in each loan to a specific series. Same goes for any other assets of the trust. Some updates will be needed to the current Exposure Draft to reflect how these structures operate from a legal perspective.
2. Interested parties believe that the same requirements that apply to RMLs directly held and accounted for under SSAP No. 37 – *Mortgage Loans* should apply to the RMLs owned through a trust. As stated above, since all the risks and rewards related to ownership of the RMLs pass through to the insurer, this makes the most sense from a reporting perspective. Therefore, second lien loans should be allowed and RML participations of less than 100% should be allowed as well, consistent with SSAP No. 37.
3. The trust should be allowed to pledge the RMLs for the benefit of the insurer. Suggested language was discussed to make this clear in the Exposure Draft.
4. The Exposure Draft included a request for input on the appropriate reporting for foreclosed real estate that becomes an asset of the trust. Interested parties believe that any real estate assets, cash, or other assets related to investing in the RMLs such as receivables as well as liabilities, should be reported as if held directly by the insurer since the insurer gets all the risks and rewards of ownership. We also understand that it may be common for the trust to set up an LLC to own foreclosed real estate. If that is the case, since SSAP No. 40 – *Real Estate Investments* allows for single, wholly-owned real estate held in an LLC to be directly reported on Schedule A, we believe the same look-through provision would apply here and the insurer would report the real estate as directly owned.
5. We suggest changing the name from statutory trust to a qualifying trust. A trust can be a statutory trust or a common law trust. We understand that a statutory trust can have series whereas common law trusts do not, but both types can be used to hold RMLs on behalf of the insurer.
6. Interested parties question whether disclosure of fees paid to the servicer is a critical disclosure. We have received feedback that this information is confidential and could impact competitive market practices among servicers. Since such disclosure is not required for RMLs/CMLs directly owned and managed by a third-party servicer, we suggest that this disclosure be removed. In addition, the last sentence of paragraph 2 b (iv) implies that the loans will not be disclosed individually as it states "the detail must contain at a minimum, the same information as would be required were the mortgage loans to be individually reported on Schedule B." If the ultimate decision is to report the loans individually on Schedule B, then this sentence should be removed.
7. In item 27.b., interested parties believe the materiality qualifier should apply to both parts of the disclosure (litigation and state or federal regulatory review).
8. Interested parties suggest adding a code to the residential mortgage loan sections of Schedule B to note loans that are held in statutory trusts so that directly held loans versus loans held in trust are easily identifiable by the regulators.
9. Interested parties also suggest adding guidance in the Exposure Draft for RMLs held in trusts that do not meet the proposed criteria, so that it is clearer how those investments should be accounted for and reported.

Recommendation:

NAIC staff recommend that the Working Group expose an updated draft of revisions to expand the scope of SSAP No. 37—*Mortgage* to include qualifying investment trusts holding residential mortgage loans to be reported Schedule B – Mortgage. Key revisions include:

- Proposed updates to permit qualifying statutory trusts to hold cash and cash equivalents, and real estate obtained through foreclosure, along with clarification on the applicability of SSAP No. 2 and SSAP No. 40.
- Replacement of the restriction to first-lien mortgages as well as the requirement to hold the entire loan with broader language permitting any single residential mortgage loan eligible under SSAP No. 37 to be held in a qualifying statutory trust.
- Additional criteria for a qualifying statutory trust series which requires the qualifying trust to maintain separate and distinct records from the overall statutory trust and other series
- Clarification that an insurer may pledge qualifying statutory trust assets as collateral; however, assets encumbered or pledged to a third party by action of the statutory trust itself are nonadmitted.
- Eliminated management fee disclosure and added language elsewhere clarifying that statutory trust activities are subject to related party and affiliate disclosure requirements.
- New requirement to disclose a summary of assets and liabilities held within qualifying statutory trusts. Since such balances are to be reported as if directly held by the insurer, this disclosure is intended to provide regulators with a high-level overview of the balances held within the trust(s).

NAIC staff met with industry representatives during the interim and considered feedback from those discussions as well as the submitted comment letter. NAIC staff agreed with industry on many of the recommended revisions and incorporated those into this exposure draft. (These would include all comment letter recommendations except for recommendations 4 and 5)

However, NAIC staff did not incorporate some of the recommendations made by industry, specifically: (1) expanding qualifying trust guidance to allow both statutory and common law trust structures; (2) permitting qualifying trusts to hold foreclosed real estate within wholly owned LLCs; and (3) allowing qualifying trusts to receive “other assets” as proceeds from RMLs. NAIC staff believe these changes would significantly broaden the scope of what was intended to be a narrowly focused project and would introduce additional complexity and increase regulatory challenges.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2025-16 (Robin)	Status Section Updates	21 – Agenda Item	Comments Received	IP – 13

Summary:

On May 22, 2025, the Working Group exposed this agenda item to update the Status Section on the cover page of the statements of statutory accounting principles (SSAPs). The two primary revisions are: 1) to change

“substantively” revised to “conceptually” revised in the status section and to remove the issue paper references in the status section.

*Interested Parties’ Comments:*

Interested parties note that previously the use of the term “substantive” meant that a new SSAP would be issued and “nonsubstantive” meant that the SSAP would be updated. Before adopting the new terms, we recommend that there be a better description of what the new terms mean in the context of new guidance versus updates to existing guidance.

*Recommendation:*

**NAIC staff recommend that the Working Group adopt this agenda item and the revisions detailed within the Form A to be incorporated in the 2026 publication. The revisions will better match previously adopted terminology in the policy statement and streamline the status section of the SSAPs. The proposed revisions do not change any accounting guidance. Additional background information below provides more information regarding the terminology revisions adopted in 2021. As the terminology revisions were previously adopted, NAIC staff are not proposing additional revisions at this time but would be willing to discuss with interested parties if future revisions are needed to the policy statements in response to the 2021 terminology revisions.**

**Background:** The revisions are consistency revisions to the status section which match terminology updates that were adopted in agenda item 2021-14: Policy Statement Terminology Change – Substantive & Nonsubstantive. Agenda item 2021-14 was developed pursuant to a referral from the Financial Condition (E) Committee, which noted that discussions had highlighted that the statutory accounting terminology of “substantive” and “nonsubstantive” to describe statutory accounting revisions being considered by the Statutory Accounting Principles (E) Working Group to the Accounting Practices and Procedures Manual (AP&P Manual) could be misunderstood by users that are not familiar with the specific definitions and intended application of those terms.”

The new proposed status section revisions on the face of the SSAPs will better match the revisions previously made under the 2021 policy statement change. The removal of the issue paper reference is primarily to streamline the first page of the SSAPs. References to the issue papers will be maintained at the end of the SSAPs, typically in the effective date section regarding the revisions documented in the issue papers, so historical tracking will be maintained.

**The comment letters are included in Attachment 22: Comment Letters (37 pages)**

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/08-11-25 Summer National Meeting/Hearing/00 - 08-11-25 - SAPWG Hearing Agenda.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2025/08-11-25%20Summer%20National%20Meeting/Hearing/00-08-11-25-SAPWG%20Hearing%20Agenda.docx)

## Draft Pending Adoption

### Attachment 1

Attachment One

Accounting Practices and Procedures (E) Task Force  
3/25/25

Draft: 4/4/25

Statutory Accounting Principles (E) Working Group  
Indianapolis, Indiana  
March 24, 2025

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met in Indianapolis, IN, March 24, 2025. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kevin Clark, Vice Chair (IA); Todrick Burks (AL); Kim Hudson (CA); William Arfanis and Michael Estabrook (CT); Rylynn Brown (DE); Cindy Andersen (IL); Melissa Gibson and Shantell Taylor (LA); Steve Mayhew and Kristin Hynes (MI); Doug Bartlett (NH); Bob Kasinow (NY); Diana Sherman (PA); Jamie Walker (TX); Doug Stolte and Jennifer Blizzard (VA); and Amy Malm (WI). Also participating were Bill Carmello (NY) and Rachel Hemphill (TX).

1. Adopted its Feb. 25, 2025; Dec. 17, 2024; and 2024 Fall National Meeting Minutes

The Working Group met March 18 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) and paragraph 6 (consultations with NAIC staff related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings, to discuss its Spring National Meeting agenda. No action was taken at the meeting.

The Working Group met Feb. 25, 2025, and took the following action: 1) extended the comment period for the Current Expected Credit Losses (CECL) issue paper to May 2 (Ref #2023-23); 2) adopted proposed annual statement instructions to clarify that held debt securities that are sold to a special purpose vehicle (SPV) and then reacquired reflecting the addition of derivative or other components shall be reported as a disposal and reacquisition in the investment schedules (Ref #2024-16), and communicated support for the adoption of the related proposal (2024-21BWG) exposed by the Blanks (E) Working Group; 3) adopted with modification *Accounting Standards Update (ASU) 2024-01, Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards* within SSAP No. 104—*Share-Based Payments* (Ref #2024-22); 4) adopted revisions to SSAP No. 16—*Electronic Data Processing Equipment and Software* to clarify the references to the U.S. generally accepted accounting principles (GAAP) Accounting Standards Codification (ASC) (Ref #2024-25); 5) adopted *Issue Paper 170—Tax Credits Project* to detail the revisions and discussion for the adopted revisions to SSAP No. 93—*Investments in Tax Credit Structures* and SSAP No. 94—*State and Federal Tax Credits* along with minor edits (Ref #2022-14); 6) adopted exposed revisions to SSAP No. 56—*Separate Accounts*, with an effective date of Jan. 1, 2026, with early adoption permitted (Ref #2024-10); 7) adopted revisions to SSAP No. 86—*Derivatives* related to financing premium (Ref #2024-23); 8) re-exposed the revised *Interpretation (INT) 24-02: Medicare Part D Prescription Payment Plan* and the previously exposed minor edits to *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage* for a shortened public comment period ending March 5, and directed NAIC staff to continue with blanks proposals on this topic with the goal of incorporation into the 2025 Annual Statement Instructions (Ref #2024-24); 9) adopted revisions to capture issue papers in Level 5 of the statutory hierarchy (Ref #2024-27); and 10) adopted revisions to SSAP No. 41—*Surplus Notes* (Ref# 2024-28).

On Feb. 18, the Working Group held a joint meeting with the Life Actuarial (A) Task Force in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) and paragraph 6 (consultations with NAIC staff related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings, to discuss reinsurance transactions at certain companies and preparation for future meetings. No action was taken at the meeting.

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During its Dec. 17, 2024, meeting, the Working Group took the following actions: 1) exposed revisions to SSAP No. 56 (Ref #2024-10); 2) discussed the continued development of accounting guidance for the deferral of realized gains and losses for non-accounting effective hedges captured in SSAP No. 86 (Ref #2024-15); 3) adopted exposed editorial changes (Ref #2024-26EP); 4) deferred action to allow for a future discussion at a joint meeting with the Life Actuarial (A) Task Force along with agenda item 2024-06 (Ref #2024-05); 5) deferred for future discussion (Ref #2024-06); 6) exposed proposed revisions to capture issue papers in Level 5 of the statutory hierarchy pursuant to the direction from the 2024 Fall National Meeting (Ref #2024-27); 7) exposed changes to incorporate revisions to SSAP No. 41 and incorporate changes to clarify the reporting categories in the annual statement instructions, including a corresponding blanks proposal for concurrent exposure of the annual statement instructions revisions (Ref #2024-28); 8) exposed clarifications in the investment acquisition and disposal schedules by sponsoring a blanks proposal to ensure that a debt security sold to an SPV and reacquired with derivative components is shown as a disposal and an acquisition in the investment schedules (Ref #2024-16).

Walker made a motion, seconded by Malm, to adopt the Working Group's Feb. 25, 2025 (Attachment One-A); Dec. 17, 2024 (Attachment One-B); and Nov. 17, 2024 (*see NAIC Proceedings – Fall 2024, Accounting Practices and Procedures (E) Task Force, Attachment One*) minutes. The motion passed unanimously.

## 2. Reviewed Comments on Exposed Items

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

### A. Ref #2023-28

Bruggeman directed the Working Group to agenda item *Ref #2023-28: Collateral Loan Reporting*. Julie Gann (NAIC) stated that on Nov. 17, 2024, the Working Group re-exposed the agenda item detailing proposed collateral loan reporting lines for Schedule BA and asset valuation reserve (AVR), allowing concurrent exposure with blanks proposal 2024-19BWG. She stated that comments from the Blanks (E) Working Group and the Statutory Accounting Principles (E) Working Group will be reviewed collectively. Gann stated that the exposure proposed Schedule BA reporting lines (and corresponding AVR lines) for collateral loans, separated by affiliated/unaffiliated, including mortgage loans, joint ventures, partnerships or limited liability companies (LLCs), residual interests, debt securities, real estate, and other collateral loans. She stated that the Blanks (E) Working Group has exposed revisions to the AVR and Schedule BA, receiving comments mainly about reporting changes, not statutory accounting revisions. She stated that NAIC staff recommend adopting this agenda item and supporting the Blanks exposure, which was revised based on comments received, with a comment deadline of April 29. She stated that the Blanks (E) Working Group plans to meet May 29 to consider adoption, effective Jan. 1, 2026. She stated that the goal is to allow risk-based capital (RBC) factors for granular reporting lines. She stated that a referral was sent to the Capital Adequacy (E) Task Force, which will update on the status and consider adoption. She stated that aggregate data from the 2024 note disclosure is available, but NAIC staff do not support deleting this note as it provides detailed investment information. She stated that NAIC staff's recommendation is to adopt the item, with no statutory accounting revisions, and support the blanks proposal.

Bruggeman stated that comments were incorporated into the March 6 blanks exposure because the exposure period had ended. He stated that although the blanks exposure remains open until the end of April, most comments received were already included and that this ensures that the majority of topics were addressed from the beginning of the incorporation process into the blanks side.

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Andrew Morse (Global Atlantic Financial Group—Global Atlantic), representing interested parties, stated that the interested parties appreciate that regulators considered and incorporated many of their comments into the current proposal and support the proposed changes on collateral and reporting, effective in 2026, similar to the 2024 temporary solution. He stated that they recognize the coordination needed between the Working Group, Blanks (E) Working Group, and Life Risk-Based Capital (E) Working Group and look forward to providing industry comments to help finalize these changes before 2026.

Hudson made a motion, seconded by Hynes, to adopt agenda item 2023-28 (Attachment One-D) with the proposed expansion of Schedule BA/AVR reporting lines for collateral loans, with communicated support to the Blanks (E) Working Group on the adoption of blanks proposal 2024-19BWG, with an effective date of Jan. 1, 2026, with the inclusion of certain modifications suggested by interested parties. The motion passed unanimously.

#### B. Ref #2024-07

Bruggeman directed the Working Group to agenda item *2024-07: Reporting of Funds Withheld and Modco Assets*. Jake Stultz (NAIC) stated that on Aug. 13, 2024, the Working Group exposed this agenda item. The agenda item proposes new parts for reinsurance Schedule S in life/fraternal and health annual statements and Schedule F in the property/casualty and title annual statements. He stated that this project originated from the work of the Interest Maintenance Reserve (IMR) Ad Hoc Group, which highlighted the lack of clarity regarding assets supporting funds withheld (FWH) and modified coinsurance (modco) arrangements. He stated that the agenda item was first exposed in March 2024 and discussed again at the 2024 Summer National Meeting and that the comment deadline was extended. He stated that this is the first discussion on the agenda item since the 2024 Summer National Meeting. He stated that the original exposure proposed new schedules: Part 8 for life/fraternal and health blanks and Part 7 for property and casualty and title blanks. He stated that three comments were received, recommending limiting disclosures to the life/fraternal blanks, where most modco and FWH assets exist. He stated that the updated draft follows the AVR schedule closely, and the American Property Casualty Insurance Association (APCIA) comments suggested removing Schedule F, Part 7 from property/casualty blanks. He stated that data from 2024 annual reporting showed 93% of modco and FWH assets are on life/fraternal blanks, justifying their removal from property/casualty, health, and title reporting. He stated that United Healthcare requested that reporting be excluded for scenarios where the investment risk is not passed. He stated that the goal is to understand assets supporting FWH and modco arrangements, with better clarity for RBC as a benefit. He stated the current draft includes all life/fraternal blanks modco and funds withheld assets. He stated that the recommendation is to expose the agenda item, including the new Schedule S, Part 8 for the life/fraternal blank, which closely follows the AVR schedule. He stated that minor wording updates were made after a call with the American Council of Life Insurers (ACLI). He stated that the goal is to be adopted for 2025 annual reporting, with no changes to statutory accounting, only reporting changes. The updated draft is consistent with the recommendations from interested parties and more closely aligns with AVR reporting. Stultz stated that while this exposure does not recommend including property and casualty, title, or health blanks, these could be added again in the future if deemed necessary.

Bruggeman stated that if this item is adopted by SAPWG at the next Blanks (E) Working Group meeting, the Statutory Accounting Principles (E) Working Group would do a modification first to make the two items consistent and then proceed with adopting the modified version on the blanks side.

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Clark stated that it sounds like the recommendation is to move forward without excluding scenarios where investment risk is not transferred. This means the schedule would not necessarily align with the RBC credit for FWH and modco. He asked whether there should be a subtotal or something similar to tie out to the life RBC adjustments if that is the route they are taking. He stated that one of the benefits considered was the ability to see the support for the RBC credit, and it seems this would not achieve that without creating a subtotal or something similar that would agree.

Bruggeman stated that those who do not have it will report a zero because there is no FWH or modco information.

Robin Marcotte (NAIC) stated that Clark is correct because this would detail all FWH on the life blank, and the RBC charge is for those that transfer investment risk. She stated that there would be some disconnect, but a large percentage of the life contracts do get the RBC credit.

Bruggeman stated that including a subtotal for transferring interest rate or credit makes sense and would ensure they get what they want from the perspective of all funds withheld and modco. He stated that if this approach is agreed upon, it could be included in the exposure and considered for a quick update vote or discussed in interim communication. Stultz said the staff could do this research.

Hudson asked whether the timing is anticipated to change for the Blanks (E) Working Group to vote on this. Gann stated that it would not change the timeline in that this group will discuss the issue May 22, and the Blanks (E) Working Group will discuss it May 29.

Shannon Jones (ACLI), representing interested parties, stated that interested parties understand the goal is to rely less on company records for RBC and increase financial reporting transparency, and they appreciate that the Working Group has taken their feedback into consideration for the updated exposure.

Jay Muska (APCIA) thanked the Working Group and NAIC staff for the conversations on the non-life side and stated support for removing it from Schedule F.

Clark made a motion, seconded by Walker, to expose agenda item 2024-07, which includes an updated draft of Schedule S, Part 8 for only the life/fraternal blank, with Schedule F, Part 7 removed from the proposal, and does not include a new Schedule S, Part 8, on the health blank. With the motion, NAIC staff were directed to try to incorporate subtotals that would support the life RBC adjustments. The updated draft is closely in line with the recommendations from interested parties. A corresponding Working Group-sponsored blanks proposal was exposed by the Blanks (E) Working Group March 6. The motion passed unanimously.

#### C. Ref #2024-20

Bruggeman directed the Working Group to agenda item 2024-20: *Restricted Asset Clarification*. Gann stated that this item originated due to inconsistencies in how companies report modco and FWH within the restricted asset disclosure (Note 5L). The proposal suggests minor revisions to *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures* and clarifies the blanks reporting in Note 5L. She stated that it includes information on whether a modco or FWH asset has been pledged and highlights differences between the restricted assets note and the general interrogatory. She stated that the item was exposed with minor revisions to SSAP No. 1, proposed blank changes, and language for a life RBC referral. She stated that interested parties commented on all aspects. She stated that the revisions to SSAP No. 1 are minor, changing "amount" to "book/

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adjusted carrying value (BACV)," which NAIC staff support. She stated that this item had not been previously exposed by the Blanks (E) Working Group but is currently exposed with a comment deadline of April 29, with adoption consideration in May. She stated that comments were also provided on the Life Risk-Based Capital (E) Working Group referral. She stated that NAIC staff recommend adopting this agenda item, supporting the blanks proposal to be considered May 29. She stated that, upon adoption, NAIC staff suggest sending a referral to the Life Risk-Based Capital (E) Working Group. She stated that the life RBC instructions already state that companies should not take credit for modco and FWH assets when they do not transfer the asset risk and that this proposal expands those instructions to clarify that if a modco or FWH asset is pledged on behalf of the ceding insurer, RBC credit should not be taken. She stated that it would be different if pledged on behalf of the reinsurer. NAIC staff considered interested parties' comments in the proposed instructions and worked with Life Risk-Based Capital (E) Working Group staff on drafting. She stated that the Life Risk-Based Capital (E) Working Group will decide on the actual revisions. She stated that the Working Group received a referral from the Financial Analysis (E) Working Group regarding modco and FWH assets affiliated with the reinsurer, which is not included in the current agenda item but is addressed in a new agenda item proposing quarterly Note 5L disclosures.

Hudson made a motion, seconded by Bartlett, to adopt the exposed revisions to SSAP No. 1, effective Dec. 31, 2025, with minor modifications to replace "amount" with "book/adjusted carrying value (BACV)" in paragraphs 23.b. and 23.c. (Attachment-One-E). The Blanks (E) Working Group exposed a corresponding Working Group-sponsored blanks proposal on March 6, with adoption consideration expected May 29. With the adoption, the Working Group directed a referral to the Life Risk-Based Capital (E) Working Group to clarify RBC reduction guidance for modco and FWH reinsurance agreements, including proposed new language in the instructions for "Modco or Funds Withheld Reinsurance Agreements" to clarify that RBC reduction is not permissible if any portion of the modco/FWH asset is pledged, preventing pro-rata reduction interpretations. The motion passed unanimously.

#### D. Ref #2024-21

Bruggeman directed the Working Group to agenda item *2024-21: Investment Subsidiaries*. Gann stated that this item was introduced at the 2024 Fall National Meeting because it was identified that there is a current reporting option on Schedule D, Part 6, Section 1 for investment subsidiaries that flow through for a look-through RBC, even though the concept of investment subsidiaries was eliminated from *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* in 2005. She stated that this lingering aspect was brought to the Working Group due to an uptick in the use of this classification. She stated that the agenda item had three potential considerations, and NAIC staff collaborated with interested parties to learn more about investment subsidiaries. She stated that NAIC staff found that most of the increase is due to holding residential mortgage loans through Delaware Statutory Trusts (DSTs). She stated that NAIC staff recommend deferring this agenda item and proposing a new agenda item to address residential mortgage loans held through DSTs, specifying accounting and reporting for these structures. She stated that companies usually report them in one of three ways: 1) on Schedule B; 2) or on Schedule BA with a look-through; or 3) using the investment subcategory. She stated that the aim is to have consistent reporting for similarly structured DSTs, and the goal is to address this by May or summer and then reopen this item to potentially eliminate the investment subsidiary reporting category. She stated that if other consistent structures are reported through the investment subsidiary and look-through RBC, they should be brought to the attention of NAIC staff. She stated that once the DST dynamic is addressed, NAIC staff will propose eliminating these categories.



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Angelica Sanchez (New York Life Insurance Company) and Rose Albrizio (Equitable) represented interested parties. Sanchez stated that interested parties support further exploring the DST concept and its use for residential mortgages. She stated that these trusts provide significant operational efficiency and cost-effectiveness for investing in residential mortgages, which has been beneficial given the recent interest rate increases, and they are happy to work on any accounting or reporting guidance to provide clarity and consistency for these investments. Sanchez stated that they have concerns about the complete elimination of investment subsidiaries, and while they learned a lot about DST, it does not mean that no other entity types are using the investment subsidiary concept. She stated that they need to understand where others may be using common stock subsidiaries for holding certain investments. She stated that some law firms have informed them that the concept of an investment subsidiary comes from state insurance investment statutes based on an NAIC model act and that removing this concept might create unintended consequences that could contradict state law. She stated that it would be prudent to further investigate the use of investment subsidiaries and ensure transparency and that insurers are willing to provide asset listings if required.

Bruggeman stated that further research is needed to address concerns about deletion and its connection to state investment law or model regulations.

The Working Group deferred this item to allow for further consideration of DSTs holding residential mortgage loans and whether specific statutory accounting parameters and guidance should be established. In addition, further research is needed to better understand existing legal references.

#### E. Ref #2024-24

Bruggeman directed the Working Group to agenda item *2024-24: Medicare Part D – Prescription Payment Program*. Marcotte stated that on Feb. 25, the Working Group exposed additional revisions to tentative *INT 24-02: Medicare Part D Prescription Payment Plans* (Attachment One-F) and re-exposed minor edits to *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage* (Attachment One-G) for a shortened comment period ending March 5 to allow for discussion at the Spring National Meeting. She stated that the Working Group directed NAIC staff to continue with blanks proposals on this topic for incorporation into the 2025 annual statement instructions. Marcotte stated that the Feb. 25 revisions were primarily terminology changes that did not alter the key provisions of the November 2024 exposure.

Marcotte stated that the Medicare Prescription Payment Plan (MPPP), effective Jan. 1, 2025, offers Part D enrollees the option to pay out-of-pocket Part D prescription drug costs through monthly payments over the plan year instead of at the pharmacy counter. Marcotte stated that INT 24-02 was developed with input from health industry representatives. The key INT 24-02 components include admitted asset treatment for receivables from MPPP participants less than 90 days overdue, nonadmittance of recoverables more than 90 days overdue, impairment analysis for MPPP recoverables, and reporting uncollectible receivables as Medicare prescription claims expense. Marcotte stated that NAIC staff recommend adoption of the exposed minor edits to INT 05-05 and recommend adoption of the exposed revisions to INT 24-02 with the addition of almost all the March 5 modifications suggested by the Blue Cross Blue Shield Association (BCBSA) and AHIP. She stated that the majority of the AHIP and BCBSA proposed revisions are minor wording clarifications. She stated that the revisions to paragraph 23 clarify differences in the medical loss ratio between the federal calculation and statutory accounting. Marcotte stated that NAIC staff proposed a correction to the illustration in scenario 2 to change an amount from negative to positive. She stated that the proposed revisions do not change the key accounting components. She stated that all revisions have been discussed with representatives of the BCBSA and AHIP.

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Tom Finnell (AHIP) and Carl Labus (BCBSA) spoke on the joint comment letter from AHIP and the BCBSA. Finnell mentioned that they brought this issue to NAIC staff's attention last summer. He noted that it was a new program without analogous existing statutory accounting guidance. From the first draft, interested parties agreed with the basic concepts NAIC staff proposed. He also highlighted that members brought forward many terminology suggestions and that interested parties appreciate the NAIC staff's assistance with the drafting process.

Walker made a motion, seconded by Sherman, to adopt the exposed minor edits to INT 05-05: *Accounting for Revenues Under Medicare Part D Coverage* and adopted the exposed revisions to INT 24-02: *Medicare Part D Prescription Payment Plans* with the addition of almost all of the modifications suggested by BCBSA and AHIP as recommended by NAIC staff (Attachment One- H). The motion passed unanimously.

#### F. Ref #2024-04

Bruggeman directed the Working Group to agenda item *2024-04: Conforming Repurchase Agreement Assets*. Gann stated that this item originated from the Life Risk-Based Capital (E) Working Group due to a proposal to expand the conforming concept for securities lending to repurchase agreements. She stated that NAIC staff identified different accounting treatments and initiated a project to investigate. She stated that, at the 2024 Summer National Meeting, the Working Group exposed this agenda item along with a memorandum detailing accounting and reporting guidance for securities lending and repurchase agreements. She stated that various questions were identified regarding the current application of the guidance and that the full comment letter from interested parties addresses each issue and question. Gann stated that, through this process, certain aspects of the guidance in SSAP No. 103—*Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* were found to not be consistently applied, raising overall application questions. She stated that there are also questions about existing applications. She stated that NAIC staff are asking the Working Group to direct development and revisions to statutory accounting for securities lending and repurchase agreements. Gann stated that NAIC staff may propose separating this guidance from SSAP No. 103 into a new standard, with references to the original guidance. She stated that NAIC staff have a list of items to address on the agenda and that it is open to all related concepts. She stated that NAIC staff would like to streamline the guidance as it has been about 10 years since extensive repurchase disclosures were incorporated and that there may be opportunities to scale back some of these disclosures.

Bruggeman stated that this came from an RBC referral to have a similar result from repurchase versus securities lending. He stated that through the course of this discussion and research, NAIC staff identified some differences. He stated that newer information has become known over the last 10 years. He stated that this is not urgent; however, the Working Group needs to make sure to get those things consistent, and if there is a need in the future, they can do that. He stated that the Working Group should address this as time allows.

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

#### G. Ref #2024-15

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Bruggeman directed the Working Group to agenda item 2024-15: *ALM Derivatives*. Gann stated that this agenda item addresses asset-liability matching (ALM) derivatives. She stated that it was exposed at the 2024 Summer National Meeting, and comments were initially considered during the Dec. 17, 2024, meeting. She stated that due to the complexity of the topic and the extent of the comments, the Working Group deferred any action, including directing NAIC staff, to allow more time for consideration. Gann stated that the project involves reviewing IMR, where it was identified that derivative gains and losses from non-accounting effective hedges were being reclassified to IMR. She stated that these items are reported at fair value during their life, but companies reverse the fair value change at termination and amortize it through IMR. Gann stated that the IMR Ad Hoc Group's discussions suggested establishing statutory accounting guidance for these economically effective hedges. Gann stated that data from the 2024 IMR disclosure showed that 35% of the net negative IMR balance comes from derivative losses taken to IMR, with only a few companies doing this. She stated that the guidance in *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve* stated that derivative losses cannot be admitted to IMR unless derivative gains have historically been admitted and that more companies have expressed interest in using a deferral account for these non-accounting effective hedges. Gann stated that NAIC staff seek feedback from the Working Group on moving forward with a project to establish guidance for these hedges. She stated that NAIC staff are not asking the Working Group to decide on admission but to review the derivative gains and losses. She stated that initial feedback indicates regulator support for removing these from IMR and that, at a minimum, the accounting guidance would ensure these derivative gains and losses are no longer included in the IMR balance. Gann stated that developing this guidance will be complex. She said NAIC staff request industry assistance in specifying hedge effectiveness and other parameters and that Working Group support is crucial for this project. Gann stated that this agenda item is somewhat akin to *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees*, which also has a deferral option for limited derivative activity.

Bruggeman stated that the general direction is to pull these out of how they roll through IMR so the Working Group can see them on their own and then decide if there is any net asset involved, how to interpret that, or how to go through the process from that perspective so that it is on its own rather than being buried in the gain/loss of a bond.

Carmello stated support for removing it from IMR as it will simplify the IMR process. He stated that he assumes the guardrails will be similar and that the Working Group will need to work on hedge effectiveness and related aspects.

Clark stated his support for moving forward with this project.

The Working Group directed NAIC staff to proceed with developing statutory accounting guidance, working closely with Working Group members and industry representatives.

### 3. Considered Maintenance Agenda—Pending Listing

Hudson made a motion, seconded by Malm, to expose the following statutory accounting principle (SAP) concepts and clarifications to statutory accounting guidance for a public comment period ending June 6, except for agenda items 2024-07, 2025-04, 2025-05, 2025-06, 2025-07 and 2025-08, which have a comment period ending May 2. The motion incorporated updates to include the industry discussion document with the exposure of agenda item 2025-03: *IMR Definition* and to receive the Financial Analysis (E) Working Group referral within agenda item 2025-05. The motion passed unanimously.

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#### A. Agenda Item 2025-01

Bruggeman directed the Working Group to agenda item *2025-01: Sale Lease Clarification*. Stultz stated that NAIC staff received a question about a sale leaseback transaction where the cash received from the sale was significantly restricted, preventing the selling insurance company from accessing it until the leaseback was fully paid off. He stated that this agenda item aims to clarify that sales leaseback accounting is not applicable when the selling insurer cannot readily access the sale proceeds, and the financing method should be used instead. Stultz stated that NAIC staff recommend that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *SSAP No. 22—Leases* to clarify that sale leasebacks with restrictions on access to the cash do not qualify for sale leaseback accounting and must be accounted for by the seller using the financing method.

#### B. Agenda Item 2025-02

Bruggeman directed the Working Group to agenda item *2025-02: ASU 2024-04, Induced Conversions of Convertible Debt Instruments*. Wil Oden (NAIC) stated that *Accounting Standards Update (ASU) 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20), Induced Conversions of Convertible Debt Instruments* aims to improve the relevance and consistency of induced conversion guidance for issuers of convertible debt instruments who have modified the conversion privileges to induce conversion. For issuers of convertible debt securities, guidance is provided in *SSAP No. 15—Debt and Holding Company Obligations*, which requires the issuer to recognize an expense for the fair value of additional consideration issued to induce conversion, consistent with U.S. GAAP. Oden stated that ASU 2024-04 provides guidance on the issuer's accounting provisions, not holders receiving consideration. Additionally, most of the ASU revisions refer to previously rejected areas for statutory accounting purposes. However, the ASU revisions related to recognizing accepted inducement offers and the types of property that can be received upon conversion are recommended for adoption by this agenda item. Oden stated that NAIC staff recommend adopting language related to accepted inducement offers and types of property received from convertible debt instruments. He stated that the agenda item also revises statutory guidance to require recognition of additional consideration when the debt holder accepts the offer rather than when the offer is issued, aligning with U.S. GAAP. He stated that these debt issuances are not expected to be prevalent in the insurance industry, and the timing of recognition is not expected to vary significantly. Oden stated that NAIC staff recommend the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *SSAP No. 15* to adopt with modification ASU 2024-04.

#### C. Agenda Item 2025-03

Bruggeman directed the Working Group to agenda item *2025-03: IMR Definition*. Gann stated that this agenda item presents the proposed IMR definition suggested by the ACLI for inclusion in *SSAP No. 7—Asset Valuation and Interest Maintenance Reserve*. She stated that it focuses on the specific IMR definition, separate from agenda item *2023-14: Hypothetical IMR Memo*, which addresses broader revisions to *SSAP No. 7* and the removal of accounting-related guidance from the annual statement instructions. Gann stated that the IMR Ad Hoc Group, formed in October 2023, has been working on IMR and AVR issues.

Gann stated that the materials have two different proposed IMR definitions, which are both being considered for exposure. The ACLI proposed one definition NAIC staff proposed one definition with modifications to the ACLI definition. Gann stated that NAIC staff's proposed modifications include removing the reference to derivatives from the IMR scope. Gann stated that references to economic and noneconomic are also proposed to be replaced

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with realized gains and losses to provide more plain English. Gann noted that the final paragraph in the ACLI's definition is also proposed for deletion as it is more a conclusion statement, and the Working Group has not yet decided on the admissibility of negative IMR and/or limitations. Gann stated that NAIC staff recommend that the Working Group move this item to the active listing as a new SAP concept and expose the proposed ACLI IMR definition along with the NAIC staff's proposed IMR definition. She stated that NAIC staff support this agenda item as a new SAP concept as the adopted definition will be included in the expanded SSAP No. 7, as part of the intent to include all accounting-related concepts for IMR in the SAP and not the annual statement instructions.

Bruggeman inquired if the ACLI discussion draft on the IMR definition should be included in the exposure. Gann stated that the exposure could definitely include the ACLI discussion document on the IMR definition. Bruggeman stated that it makes sense to include the ACLI discussion document with the exposure posting as it gives feedback from an industry perspective resulting from the IMR Ad Hoc Group's discussions.

#### D. Agenda Item 2025-04

Bruggeman directed the Working Group to agenda item *2025-04: Capital Structure Code*. Gann stated that this agenda item proposes deleting the "capital structure code" reporting column in Schedule D, Part 1, Section 1: Long-Term Bonds—Issuer Credit Obligations (Schedule D-1-1) and Schedule D, Part 1, Section 2: Asset-Backed Securities (Schedule D-1-2). She stated that it reflects a reporting change, not a statutory accounting change, and seeks feedback from regulators on the use of these codes and preferences for retaining, expanding, clarifying, or limiting their application. Gann stated that questions have arisen about the consistent allocation of codes across companies and their relevance with expanded reporting from the principles-based bond project. She stated that, originally added in 2015, the codes aimed to create a "Capital Structure Code Regulator Report," which has not been generated. She stated that the NAIC Securities Valuation Office (SVO) does not use company-reported Schedule D information for assessments but relies on external data feeds, legal agreements, and financial statements. Gann stated that NAIC staff recommend that the Working Group move this item to the active listing and expose, for a shortened comment deadline ending May 2, this agenda item with the proposal to delete the "capital structure code" reporting column in Schedule D-1-1 and Schedule D-1-2 for year-end 2025. She stated that this agenda item specifically requests information from regulators on the use of these reporting codes and if there is a preference to retain the codes and instead expand, clarify, and/or limit the application to specific reporting lines to improve consistency and usefulness. Gann stated that, although NAIC staff do not desire to remove any investment information being utilized by regulators, this agenda item is consistent with the intent of the Blanks (E) Working Group charge to review and eliminate data elements to ensure reporting meets the needs of regulators. She stated that by removing unnecessary or unused data elements, industry can focus on other elements that are more beneficial to the needs of regulators. Gann stated that if there is a desire to instead expand/clarify and/or limit the application to specific reporting lines, feedback is welcome on guidance to improve consistency in reporting and/or identify if there are certain reporting lines on Schedule D-1-1 or Schedule D-1-2 for which the code should be applicable.

#### E. Agenda Item 2025-05

Bruggeman directed the Working Group to agenda item *2025-05: Reinsurer Affiliated Assets*. Gann stated the agenda item proposes improved financial statement reporting for reinsurer-affiliated assets in response to the Jan. 7, 2025, referral from the Financial Analysis (E) Working Group. Gann stated that it recommends enhanced reporting or disclosures to identify whether investments held under modco or FWH arrangements are related to or affiliated with the reinsurer. The proposal from agenda item *2024-07: Modco Reporting* suggests capturing

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aggregate detail corresponding to AVR reporting, while agenda item 2024-20 proposes identifying held modco/FWH assets as restricted and capturing information by broad investment category. To proceed with the Financial Analysis (E) Working Group request, the agenda item recommends expanding restricted asset disclosures to identify related party or affiliated investments using existing related party investment codes. Additionally, it proposes requiring full restricted asset disclosure in all annual and quarterly financial statements, addressing notable swings in restricted assets not considered "significant" under current guidance. Gann stated that NAIC staff recommend that the Working Group receive the Financial Analysis (E) Working Group referral (Attachment One-I) and expose this agenda item for a shortened comment period ending May 2 while concurrently sponsoring a blanks proposal to expand the restricted asset reporting to capture information by investment schedule, of modco and FWH assets that are related to the reinsurer and to require the restricted asset disclosure in all quarterly and annual financial statements. She stated that to meet the needs of state insurance regulators, it is recommended that this item be planned for data capture with a year-end 2025 effective date. She stated that this effective date will require adoption of the agenda item and the corresponding blanks changes no later than May 2025. She stated that if it is not possible to adopt with that timeline, then the Working Group could still adopt a disclosure for year-end 2025, but it would not be data captured until year-end 2026.

Bruggeman stated that aiming to adopt everything before the end of May or mid-June may not be ideal due to the blanks process. He stated that he hopes the Working Group can achieve this for year-end, though the quarterly piece would not be ready until 2026.

#### F. Agenda Item 2025-06

Bruggeman directed the Working Group to agenda item *2025-06: AVR Line: Unrated Multi-Class Securities Acquired by Conversion*. Gann stated that NAIC staff received a question about what should be captured in the Default Component of the AVR—Basic Contribution, Reserve Objective, and Maximum Reserve Calculation, reporting line 8, “Unrated Multi-Class Securities Acquired by Conversion.” She stated that, after review, NAIC staff believe this historical line should not be retained in the AVR schedule, as no securities can be reported here under current statutory accounting concepts. She stated that this guidance dates to 1993, before the SVO incorporated the filing exempt concept. Gann stated that, with the principles-based bond definition, only qualifying debt securities are reported as bonds on Schedule D, Part 1 (Schedule D-1), and the AVR schedule, which cross-checks to Schedule D-1. She stated that an NAIC designation must be reported for all bond-qualifying securities. She stated that no entities used this AVR line in 2022 or 2023, but one company plans to report amounts for 2024, causing cross-check errors and questions about reserve factors. She stated that securities previously held in an asset-backed securities (ABS) structure should be reported according to the applicable SAP. Gann stated that this agenda item proposes removing this line from the AVR schedule, with no change to statutory accounting, and will be exposed separately by the Blanks (E) Working Group. Gann stated that NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions, for a shortened comment deadline ending May 2, to the life/fraternal annual statement blank and the, AVR: Default Component – Basic Contribution, Reserve Objective, and Maximum Reserve Calculation with a proposal for year-end 2025 to change reporting line 8 from “Unrated Multi-Class Securities Acquired by Conversion” to “intentionally left blank.” The recommendation to rename the reporting line rather than remove it is to avoid renumbering all lines in the AVR schedule.

Bruggeman stated changing the language to “intentionally left blank” was a good solution.

#### G. Agenda Item 2025-07

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Bruggeman directed the Working Group to agenda item *2025-07: Dividend General Interrogatory Update*. Stultz stated that NAIC staff received a question about disclosing a dividend made using non-related party corporate bonds. He stated that, while allowed under *SSAP No. 72—Surplus and Quasi-Reorganizations*, paragraph 13.i., the Life/Fraternal Annual Statement Blank, General Interrogatories, Part 2, No. 12 only includes lines for cash and stock dividends. He stated that this disclosure is not required in other annual statement blanks or by *SSAP No. 72*. Stultz stated that NAIC staff recommend removing this general interrogatory from the Life/Fraternal Annual Statement Blank. He stated that this agenda item will not change statutory accounting and will be exposed separately by the Blanks (E) Working Group. Stultz stated that NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions for a shortened comment deadline ending May 2 to the Life/Fraternal Annual Statement Blank, General Interrogatories, Part 2, No. 12 to remove this disclosure as it is not consistently included across all annual statement blanks. He stated that this agenda item will not result in statutory accounting revisions but is proposed to be effective for year-end 2025.

Bruggeman asked how that extra property dividend ended up there and whether it had been there for a long time or resulted from the merger of the life and fraternal blanks and requested that NAIC staff, as part of the exposure, research what drove the property dividend disclosure to be there.

#### H. Agenda Item 2025-08

Bruggeman directed the Working Group to agenda item *2025-08: Medicare Part D Prescription Payment Plan Disclosures*. Marcotte stated this agenda item was drafted to develop disclosures for the Medicare Part D Prescription Payment Plan (MPPP, with accounting guidance in INT 24-02). She stated that effective Jan. 1, 2025, MPPP requires all Medicare prescription drug plans (Part D plan sponsor), including standalone and Medicare Advantage plans with prescription drug coverage, to offer enrollees the option to pay out-of-pocket prescription drug costs through monthly payments over the plan year instead of upfront at the pharmacy. Marcotte stated that MPPP participants will pay \$0 at the pharmacy for covered Part D drugs, while the Part D plan sponsor pays the pharmacy the total out-of-pocket amount and their portion of the payment. She stated that the sponsor then bills the participant monthly for any cost-sharing incurred. Marcotte stated that NAIC staff recommend the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *SSAP No. 84—Health Care and Government Insured Plan Receivables* to add the disclosures as illustrated in the agenda item for a shortened comment period ending May 2. She stated that the disclosures are proposed for initial data capture in the year-end 2025 financial statement notes. She stated that this agenda item is proposed as a simultaneous exposure with the Blanks (E) Working Group (proposal 2025-04BWG) to allow for initial reporting at 2025 year-end. Marcotte stated that key points in the recommended disclosures are amounts reported before and after nonadmission, aging, and information on write-offs. She stated that, although NAIC staff considered adding line(s) for the MPPP receivables to the health care receivables exhibits in the annual statement blank, at this time, NAIC staff recommend putting the information in the existing health care receivables notes. Marcotte stated that this placement can be evaluated to determine if additional lines are recommended in the health care receivable exhibits as more information on the materiality of the new 2025 MPPP program becomes available.

Bruggeman stated that he assumed the blanks exposure had already occurred and that other blanks items, such as the one for the INT, will likely be exposed this week.

#### I. Agenda Item 2025-09

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Bruggeman directed the Working Group to agenda item *2025-09: VM-22 Update Coordination*. Marcotte stated that this agenda item recommends minor consistency revisions to *SSAP No. 51—Life Contracts* to align with updates made by the Life Actuarial (A) Task Force to *Valuation Manual (VM)-22 PBR: Requirements for Principle-Based Reserves for Non-Variable Annuities*. She stated that the revisions primarily add minor references and clarify different reserving methodologies, including adding “and”/“or” in a few places and a specific reference to “variable annuities.” Marcotte stated that NAIC staff recommend that the Working Group move this agenda item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions that add minor consistency revisions to *SSAP No. 51* to reflect updates to *VM-22*. She stated that the revisions are minor edits to clearly reflect the new *VM-22* principle-based reserve (PBR) requirements between the different methods of reserving.

Hemphill stated that these are minor clarifications and that prior references to principle-based annuity reserves only applied to variable annuities, but the types of annuities that PBR applies to is expanding and more types of are coming.

#### J. Agenda Item 2025-10

Bruggeman directed the Working Group to agenda item *2025-10: ASU 2023-07, Improvements to Reportable Segment Disclosures*. Oden stated that in November 2023, the Financial Accounting Standards Board (FASB) issued *ASU 2023-07, Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures* to improve disclosures about public entities' reportable segments and address investor requests for more detailed expense information. He stated that the ASU requires public companies to disclose significant segment expenses provided to the chief operating decision maker and included in each reported measure of segment profit or loss, known as the “significant expense principle.” He stated that it also requires disclosure of “other segment” items by reportable segment and a description of their composition. Oden stated that NAIC staff recommend that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2023-07* as not applicable to statutory accounting. He stated that this item is considered not applicable as the ASU amends U.S. GAAP guidance on segment reporting disclosures for public entities, which is not an applicable concept for statutory accounting purposes. Additionally, *Topic 280—Segment Reporting* was established from *Statement of Financial Accounting Standards (FAS) No. 131*, which has previously been determined to be not applicable to statutory accounting principles by the Working Group. Oden also noted that the annual statement reporting process already requires expense disaggregation reporting by line of business and jurisdiction.

#### K. Agenda Item 2025-11

Bruggeman directed the Working Group to agenda item *2025-11: ASU 2024-03, Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40)* and *ASU 2025-01, Reporting Comprehensive Income*. Oden stated that in November 2024, the FASB issued *ASU 2024-03* to improve disclosures about public business entities' expenses and provide more detailed information on types of expenses in commonly presented captions. He stated that, in January 2025, the FASB issued *ASU 2025-01* to clarify the effective date of *ASU 2024-03*. Oden stated that both ASUs are proposed to be rejected as not applicable because they revise guidance on comprehensive income disclosure for public entities, a concept not relevant to statutory accounting. NAIC staff recommend that the Working Group expose revisions to *Appendix D – GAAP Cross-Reference to SAP* to reject both ASUs as not applicable to statutory accounting.



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#### L. Agenda Item 2025-12EP

Bruggeman directed the Working Group to agenda item *2025-12EP: Spring 2025 Editorial Revisions*. Gann stated that interested parties recommended the editorial revisions to further clarify the treatment of issue papers in Level 5 of the statutory hierarchy and to update the reference to U.S. Securities and Exchange Commission (SEC) rules and interpretations as authoritative U.S. GAAP for SEC registrants. She stated that these edits are considered editorial as they are consistent with the revisions adopted Feb. 24 for the inclusion of issue papers in Level 5 of the statutory hierarchy. Gann stated that NAIC staff recommend that the Working Group move this agenda item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose editorial revisions as illustrated within the agenda item.

#### 4. Consideration of Items on the Active Maintenance Agenda

##### A. Agenda Item 2023-14

Bruggeman directed the Working Group to agenda item *2023-14: Hypothetical IMR Memo*. Gann stated that this memorandum details the IMR Ad Hoc Group's discussions and conclusions on hypothetical IMR. She stated that the group identified the merits and rationale but reached an informal consensus that practical limitations outweigh the benefits. She said they recommend exposing this memorandum to the full Working Group for comment. Gann stated that, if supported, the discussion and conclusion will be documented in the IMR issue paper and reflected in revisions under the broad IMR project in agenda item 2023-14.

Bruggeman thanked Clark for producing the draft and going through the editing process for the Ad Hoc Group.

Clark made a motion, seconded by Walker, to expose the hypothetical IMR memorandum from the IMR Ad Hoc Group for comment.

#### 5. Received an Update on the IMR Ad Hoc Group

Gann stated that the IMR Ad Hoc Group has met regularly since October 2023. She stated that, since the 2024 Fall National Meeting, discussions have focused on IMR from reinsurance transactions as well as the concept to prove reinvestment for sold fixed-income instruments where a realized gains/loss is taken to IMR. She stated that they aim to address reinvestment and excess withdrawal assessments collectively. She stated that industry is reviewing granular cash flow information for sales before maturity and separating investment acquisitions from reinvestment activity. Gann stated that yield assessments are also considered to improve asset yield upon reinvestment. She stated that although the group has concluded on hypothetical IMR, further discussion on reinsurance aspects will continue. Gann stated that *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve* is effective until Dec. 31, 2025, with automatic nullification on Jan. 1, 2026, and that the Working Group will review this timeline and assess the INT. She stated that INT 23-01 allows negative IMR to be admitted for up to 10% of adjusted capital and surplus.

Bruggeman noted that the IMR Ad Hoc Group has been meeting approximately every other week and discussing complex topics. He noted that meeting the year-end 2025 deadline to fully implement the new proposed guidance will be very difficult. He stated that the Working Group and industry need to begin thinking about whether the

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INT will need to be extended or if it will be allowed to lapse, etc.

Gann noted that she sent an email to the Working Group members on the IMR data. She noted that regulator feedback on the data was requested. She noted that the reporting was inconsistent and lacking. Therefore, if the interpretation is extended, the Working Group also may need to consider how to improve the reporting. Gann stated that this could be with better instruction or by contacting companies.

#### 6. Received a Referral from Life Risk-Based Capital (E) Working Group

Gann stated that on Feb. 21, 2025, the Life Risk-Based Capital (E) Working Group received and exposed for public comment ACLI proposal 2025-05-L, which seeks to clarify LR010 instruction so that “SVO-designated non-bond debt securities” obtain asset concentration factor treatment akin to bonds in LR002 (Option 1). She stated that this option aligns with concentration RBC treatment pre- and post-principle-based bond definition adoption. She stated that, alternatively, Option 2 proposes a 15% asset concentration factor for “Other Schedule BA Assets,” representing a hybrid approach with NAIC designation-driven base factors. Gann stated that Working Group member comments are requested by April 11 to ensure accurate determination among these options.

Bruggeman stated that Working Group members should provide feedback regarding the asset concentration factors. Gann stated that the items do not meet the definition of bonds under the principles-based bond definition. She stated that the referral was asking if it was appropriate to include the assets that do not meet the definition of a bond in the asset concentration factor as a bond for the items that failed the bond definition but had an SVO designation. Gann stated that she thought they did not want to contradict the principles-based bond definition but that there might be some rationale for putting the assets with that bond asset concentration factor.

Clark noted that this is proposed to apply only to the assets that failed the bond definition but were filed with the SVO for a designation. He stated that life RBC allows an RBC charge based on the SVO designation, which is more bond-like. Bruggeman stated that this results in a Schedule BA “bond-like” RBC charge. Clark noted that the SVO review and designation have been applied to the assets under discussion.

Hudson made a motion, seconded by Clark, to receive the Life Risk-Based Capital (E) Working Group referral (Attachment One-J). The motion passed unanimously.

#### 7. Received Notice of a Scheduled Joint Meeting with the Life Actuarial (A) Task Force

Marcotte stated that agenda items *2024-05: Appendix A-791* and *2024-06: Risk Transfer Analysis of Combination Reinsurance Contracts* will be discussed in a joint meeting with the Life Actuarial (A) Task Force scheduled for April 10. Bruggeman noted that the Feb. 18 joint meeting with the Life Actuarial (A) Task Force was held in regulator-to-regulator session to allow discussion of specific company details. He stated that the upcoming public session will review some additional conceptual details from industry and regulators to progress on these items.

#### 8. Received Notice of a Scheduled Working Group Meeting

Marcotte stated that the Working Group plans to meet May 22 to review comments on agenda items with a shortened comment deadline of May 2.

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#### 9. Review of U.S. GAAP Exposures

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

#### 10. Received Notice of the Electronic Version of the AP&P Manual

Gann stated that the NAIC *As of March 2025 Accounting Practices and Procedures Manual* (AP&P Manual) and other NAIC publications are available to be downloaded for free from the NAIC Resource Center beginning in 2025. Gann also highlighted that Wendy Jacks (NAIC) put together a new adoptions page that is also available on the Working Group's web page.

#### 11. Received an Update on the IAIS Audit and Accounting Working Group (AAWG)

Gann stated that she and Maggie Chang (NAIC) monitor International Association of Insurance Supervisors (IAIS) discussions. She stated that the last virtual meeting was Feb. 18. She stated that the IAIS Audit and Accounting Working Group's (AAWG's) actions to review issuances from international bodies are not relevant to the U.S. However, the insurance capital standards (ICS) implementation project and potential revisions to *ICP 9: Supervisory Reporting* and *ICP 20: Public Disclosure* are of interest. Gann stated that, in response, the International Insurance Regulations (G) Committee formed the Aggregation Method Implementation (G) Working Group for comparable ICS implementation, including reporting and disclosure requirements.

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

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/08-11-25 Summer National Meeting/Hearing/01 - Spring National Meeting Minutes 03-24-25.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2025/08-11-25%20Summer%20National%20Meeting/Hearing/01%20-%20Spring%20National%20Meeting%20Minutes%2003-24-25.docx)

Draft: 4/29/25

Statutory Accounting Principles (E) Working Group  
and the Life Actuarial (A) Task Force  
Virtual Meeting  
April 10, 2025

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met April 10, 2025, in joint session with the Life Actuarial (A) Task Force. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kevin Clark, Vice Chair (IA); Richard Russell (AL); Kim Hudson (CA); Michael Estabrook (CT); Rylynn Brown (DE); Cindy Andersen (IL); Shantell Taylor (LA); Steve Mayhew and Kristin Hynes (MI); Doug Bartlett (NH); Bob Kasinow (NY); Diana Sherman and Dave Yanick (PA); Jamie Walker (TX); Doug Stolte and Jennifer Blizzard (VA); and Levi Olson (WI).

The following Life Actuarial (A) Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Ann Gillespie represented by Matt Cheung (IL); Holly W. Lambert represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Marie Grant represented by Nour Benchaaboun (MD); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Angela L. Nelson represented by William Leung (MO); Eric Dunning represented by Michael Muldoon (NE); Justin Zimmerman represented by Seong-min Eom (NJ); Scott Kipper represented by Maile Campbell (NV); Adrienne A. Harris represented by William B. Carmello and Amanda Fenwick (NY); Judith L. French represented by Peter Weber (OH); Andrew R. Stolfi represented by Tashia Sizemore (OR); Michael Humphreys represented by Steve Boston and Dave Yanick (PA); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Discussed Agenda Items 2024-05 and 2024-06

Bruggeman called on Hemphill to provide an overview of the Valuation Analysis (E) Working Group referrals. Hemphill stated that the Valuation Analysis (E) Working Group met throughout 2023 to discuss risk transfer analysis issues arising for treaties that involved cessions both on a coinsurance basis and a yearly renewable term (YRT) basis, with interdependent features, such as an inability to independently recapture or a combined experience refund. She stated that several regulators shared perspectives from past reviews of specific transactions. The Valuation Analysis (E) Working Group also requested that certain reinsurers provide their perspective and engage in a question-and-answer (Q&A) session while the issues were considered.

Hemphill stated that as a result of the Valuation Analysis (E) Working Group's meetings throughout 2023, a referral was sent to the Statutory Accounting Principles (E) Working Group in December 2023 with the consensus of the Valuation Analysis (E) Working Group after the 2023 discussions, and a request for the Statutory Accounting Principles (E) Working Group to consider targeted revisions to address the observed issues.

Hemphill stated that regarding agenda item 2024-05, as part of the review process, the Valuation Analysis (E) Working Group observed that an aside statement in the *Accounting Practices and Procedures Manual*, Appendix A-791—Life and Health Reinsurance Agreements (A-791), the Q&A on group life was, in some cases, being misconstrued as a safe harbor for individual life YRT premium rates. She noted that for both principle-based reserving (PBR) and pre-PBR business, such a safe harbor could result in the deprivation of surplus. The Valuation Analysis (E) Working Group recommended removing the aside.

Hemphill stated that regarding agenda item 2024-06, the Valuation Analysis (E) Working Group had observed instances of a bifurcated risk transfer analysis being performed for these interdependent, combined coinsurance/YRT treaties. She stated this led to an overstated reserve credit, as a proportionate reserve credit was being taken for the coinsurance piece, while it was observed that in its entirety, the treaty only transferred tail risk. In response, the Statutory Accounting Principles (E) Working Group proposed edits clarifying that risk transfer must be evaluated in the aggregate for interdependent sessions.

Hemphill stated that during discussions in early 2024, the American Council of Life Insurers (ACLI) requested that these edits not be rushed, which at that time was generally agreeable, as the edits primarily act as clarifying edits and the primary need from a Valuation Analysis (E) Working Group perspective is awareness on the part of regulators of the greater complexity and additional analysis required when reviewing risk transfer for these interdependent, combined coinsurance/YRT treaties. Hemphill stated that she believes regulator awareness is the primary concern here, and clarifying edits will be helpful. She noted that she generally supported the drafts from Statutory Accounting Principles (E) Working Group staff as responsive to the issues presented by the Valuation Analysis (E) Working Group.

Hemphill stated that the Statutory Accounting Principles (E) Working Group has now had items 2024-05 and 2024-06 pending since their exposure over a year ago at the 2024 Spring National Meeting. There have been regulator-only presentations during that time, and part of today's meeting is to ensure key materials, such as examples previously presented by the ACLI, are available for public discussion. She stated that another goal of today's meeting is to begin a detailed public discussion to work through any remaining issues on the draft for 2024-06. There appears to be general consensus on 2024-05, but the ACLI had previously requested that agenda items 2024-05 and 2024-06 be considered in tandem.

## 2. Heard a Presentation from the ACLI on Statutory Risk Transfer Considerations

Jeremy Starr (ACLI consulting representative) provided a presentation (Attachment 1) on statutory risk transfer considerations relating to combination coinsurance and YRT reinsurance agreements. This presentation attached an October 2024 presentation with single-year examples and additional multi-period examples. This presentation focused on addressing the A-791 requirement regarding no surplus deprivation. The ACLI recommended that the YRT premiums that are set equal to the valuation mortality should not result in surplus deprivation to the ceding entity. He stated that the examples demonstrate that if a reinsurance agreement in aggregate passes risk transfer requirements, including that it does not deprive a cedant of surplus, it should be accorded reinsurance accounting treatment. Starr stated that a key tenet of the ACLI's position on combined coinsurance and YRT agreements is the standard by which an agreement should be judged as to whether risk has been transferred. He stated that the ACLI's position is centered on current statutory guidance on reinsurance, which allows for an independent review of each component of the coinsurance and YRT for risk transfer and then requires that the reinsurance agreement in aggregate does not deprive the cedent of surplus. It also includes the agreement complying with other regulatory requirements relating to such items as recapture and experience refunds, among others. He stated that a reinsurance agreement deprives the reinsurer of surplus when payments are made from surplus rather than the experience of the ceded business. Starr stated that the ACLI believes that to determine risk transfer, you need to review the terms of the agreement and not look at only its form. He stated that a potential way to assess deprivation of surplus is via a model demonstrating that net gain after reinsurance is positive for all durations. He stated that agreements should pass risk transfer based on whether treaties have YRT rates calculated based on the lowest mortality rates used in calculating the reserves.

Clark, Hemphill, and John Di Meo (Hannover Life Reassurance Company of America—Hannover Re) discussed various items the Working Group would like to see in the next round of examples, including an example where the coinsured block incurs a loss, as the concern is that the YRT premiums offset coinsurance losses in a way that

could result in a deprivation of surplus. They also stated that regulators want to see the presentation data in an Excel spreadsheet.

### 3. Heard a Presentation on Combined Coinsurance Funds Withheld YRT Agreements

Hemphill gave a presentation (Attachment 2) on combined coinsurance funds withheld YRT agreements, highlighting concerns regarding risk transfer on some contracts when there are interdependent features, such as the inability to independently recapture and an aggregate experience refund. She noted requirements in *Statement of Statutory Accounting Principles (SSAP) No. 61—Life, Deposit-Type and Accident and Health Reinsurance*, that reinsurance credit should not be given if the terms limit or diminish the transfer of risk, and in A-791 that surplus relief should not be temporary. She highlighted concerns that a bifurcated risk transfer analysis does not reflect the economics of the interdependent contract.

Hemphill highlighted that companies presented that YRT premiums were automatically acceptable if they were based on the valuation mortality. The Valuation Analysis (E) Working Group identified that an aside statement was being misinterpreted as a YRT safe harbor. She provided a simple example of how such a safe harbor could still result in a deprivation of surplus. This resulted in the referral which led to agenda item 2024-05.

Hemphill stated that risk transfer requirements differ depending on the type of treaty. Proportional (e.g., coinsurance), YRT, and non-proportional (e.g., excess of loss) treaties each have unique standards for statutory reporting. She stated that regulators have challenged a bifurcated approach (analyzing coinsurance and YRT separately), as it overlooks their interdependence. This commingling of economics creates risk transfer concerns. A-791 notes that YRT is not a concern if it only provides incidental reserve credits without surplus enhancement. She noted that risk transfer issues arise when there is significant surplus enhancement for interdependent coinsurance funds withheld and YRT treaties, as it raises the issue of the YRT functioning to enable or subsidize the coinsurance cession. She stated that, for interdependent coinsurance funds withheld and YRT treaties to meet risk transfer standards, the YRT cession and premiums must not act to support or enable the coinsurance cession. If YRT creates high reserve credits or significant surplus relief, it fails to qualify as true YRT under A-791, which must only provide “incidental reserve credits for the ceding insurer’s net amount at risk for the year with no other allowance to enhance surplus,” and cannot be exempt from its requirements. She stated that this highlights the importance of qualitative evaluations alongside quantitative analyses and that, while examples may demonstrate outcomes, principle-based assessments are crucial for identifying whether the transaction meets risk transfer requirements. She stated that misinterpretation of a “YRT safe harbor” is another concern. The notion that YRT premiums, if aligned with prescribed Commissioners’ Standard Ordinary (CSO) Tables or valuation mortality rates, automatically validate the agreement is incorrect. She stated that simplified examples, such as a 10-year level term policy with no deficiency reserves and flat mortality, where the reinsurance premium exceeds the gross premium, illustrate that even when YRT premiums align with valuation mortality rates, they can still lead to surplus deprivation. She stated that this undermines the safe harbor concept and so any analysis depending on a comparison of the YRT premiums to valuation mortality fails to address combined YRT and coinsurance transaction risk transfer issues. She stated that, ultimately, YRT must not subsidize or support coinsurance since, without this independence, such agreements fail risk transfer evaluations.

Bruggeman stated that earlier he asked about a situation where a direct writing company (i.e., cedant) knows a block of whole life business will not generate future profits. To mitigate losses, they might pay a reinsurer to take the business. If an immediate payment occurs, the cession happens, the reserve reduction disappears, and any future gains or losses transfer to the reinsurer, eliminating them for the cedant. He stated that reinsurers will not take on this business out of goodwill—they expect compensation. Compensation could be cash paid upfront or, in some cases, financed by YRT premiums from another block of profitable business. This financing aspect raises concerns. Bruggeman asked whether what was being addressed was the issue of YRT premiums on a separate

profitable block being used to subsidize the transfer of an unprofitable block. He stated that if future losses are anticipated, someone must bear the cost, and the cedant would need to pay something to halt those losses. Bruggeman asked whether the payment is made upfront in cash or financed through expected future profits from a different block. He questioned whether either of these approaches raises concerns from a risk transfer perspective.

Hemphill stated that paying upfront is a separate issue, but the concern arises when a profitable YRT block is used to pay for the coinsurance cession. In this case, the coinsurance terms cannot independently stand on their own, which aligns with ACLI stance that the coinsurance piece must stand on its own. If the reinsurer would not accept the coinsurance cession without the YRT, this raises the question of whether the YRT is really exempt from any part of A-791 since it is providing more than incidental surplus relief.

Bruggeman stated that trying to finance a coinsurance cession using another block, such as a profitable YRT block, does not constitute true risk transfer when assessed in aggregate. Financing through another block essentially uses profits from elsewhere, which could result in a deprivation of surplus. For example, a high YRT premium acts as a buffer on the experience for both blocks, enabling this arrangement and undermining risk transfer. If future coinsurance losses are being covered by inflating YRT premiums, this fails to meet risk transfer requirements. He stated that Hemphill's point aligns with this. Each component, coinsurance and YRT, must demonstrate risk transfer individually and in combination. Even if the combination seems to satisfy risk transfer requirements, the individual pieces must stand on their own. He stated that you cannot rely on one to support the other. This complexity makes drafting clear guidelines challenging. Every time wording is proposed, new scenarios arise that could violate A-791, which is why this discussion is necessary. He stated that any guidance must remain consistent with A-791. Adding new wording risks creating scenarios that inadvertently conflict with its core principles. Ultimately, when evaluating transactions, it is important to avoid violating A-791, including surplus deprivation or requiring payments to the reinsurer that undermine compliance. Regulators often need to step in to address cases where requirements are misunderstood or unmet. The Valuation Analysis (E) Working Group has worked hard to clarify these points, but creating universally applicable examples remains challenging without delving into company-specific cases.

Starr stated that coinsurance must stand independently. He said its terms should not rely on a YRT agreement to function, as Hemphill pointed out. While there may be situations where combined analysis shows coinsurance performing well while YRT underperforms, or vice versa, the critical point is that each component must stand alone. Together, in combination, they must ensure there is no surplus deprivation. He stated that they are focused on the minimum reserve, not necessarily the CSO table reserve, when calculating, and that while their language has not always been as precise as it could be, Hemphill's example clarified that in such cases, the YRT premium should be three, not six, due to the one-half X factors.

Hemphill stated that in prior discussions, the complexity of evaluating both PBR and pre-PBR business was emphasized. For PBR, they understood that the valuation mortality could change over time, which added to the complexity. However, it is now clear that straight valuation mortality is not suitable for pre-PBR business either. Even when using the lowest valuation mortality, this is not a fixed threshold; it can change over time as X factors are reevaluated and potentially updated by the company. As a result, a safe harbor still cannot be established, even when considering the lower valuation mortality.

Di Meo stated that Hemphill articulated it well in her presentation that there should not be payments for amounts where the cedant has established no liability. He stated that, conceptually, parties appear to agree on this standard and applies in these unique scenarios, such as when using X factors on term business or secondary guarantees. He stated that he is encouraged by the progress made over the past weeks. This example and the discussions have helped all involved move forward and find common ground.

Clark stated that the key area of difference between the regulatory and industry conversations is fairly narrow, and all agree that both components of reinsurance must be evaluated separately for risk transfer and also analyzed together to ensure there is no potential for surplus deprivation. He stated that the disagreement lies in the industry proposal to include a statement in the standard suggesting that, as long as YRT premiums do not exceed the minimum valuation mortality, surplus deprivation is essentially impossible. He stated that Hemphill's examples have effectively demonstrated that this is not always true, highlighting the limitation of such a statement. So, while there is alignment on the principle of evaluating both components separately and together, and ensuring no surplus deprivation occurs, the challenge is that there is no single, universally applicable "safe harbor" statement that holds true in all scenarios. He stated that he is unsure where the ACLI or the industry currently stands on this point, given the discussions. However, the language proposed that reinsurance should be evaluated both separately and in aggregate is about as good as can reasonably be achieved.

Di Meo stated that they can bring additional clarity to this and that they all agree on the proposed language regarding assessing transactions together and the conclusion that these transactions may not meet the required standards. He said he thinks there is room to refine the approach further. He stated that it is his understanding that the market is effectively shut down because these transactions are deemed non-compliant and unapproved. Unless this is the regulator's intent, he proposed that the parties involved continue collaborating to develop language that clearly defines a place for these transactions in a prudent and appropriate way. He stated that this is a complex issue, and while there is no silver bullet safe harbor language, that does not mean that language allowing the industry to move forward with these types of transactions cannot be drafted. He stated that many of these have been in place for years and have served cedants and the industry well, and that the goal is to preserve and support those benefits while addressing compliance concerns effectively.

Bruggeman stated that he has been working on wording that combines the best elements of the initial exposure draft and the ACLI's comments, but he wanted to wait for this discussion to finalize it. He stated his goal is to act as a bridge to find common ground. He asked whether industry, or the ACLI specifically, could propose adjustments to their original suggestions for paragraph 18 after hearing these discussions. He said that all would benefit from seeing those changes. He stated that he would revisit the wording he has been working on, with input from Hemphill and others, to see if a balanced approach that avoids missing anything critical in A-791 can be achieved. He stated that, ultimately, they need a solution that makes sense for both perspectives and that if industry can provide updated suggestions, they can collaborate further with NAIC staff and the ACLI to refine the language. He stated that, until then, it seems these transactions are effectively on hold and that if the industry truly needs this, it may require a broader policy decision.

Di Meo stated that the insights gained from these conversations have been invaluable in addressing potential gaps and understanding the concerns and sensitivities expressed. He said the ongoing discussions and examples shared with regulators have been particularly eye-opening.

Bruggeman stated that the wording is crucial, but there is also flexibility in how it is presented. For example, a new paragraph, as proposed; or provide more detailed explanations in a Q&A format; or even combine both approaches. He stated that he is not in favor of using an interpretation, which the Statutory Accounting Principles (E) Working Group occasionally does. He stated that, instead, incorporating changes into a new paragraph 18 in SSAP No. 61 or expanding the A-791 Q&A seems like a more practical approach. He stated that, as Hemphill pointed out, many of these issues require a qualitative rather than purely quantitative evaluation. It is about recognizing when something does not seem right, when something raises yellow or even red flags. This approach can help ensure they address the nuances effectively.



Having no further business, the joint meeting of the Statutory Accounting Principles (E) Working Group and Life Actuarial (A) Task Force adjourned.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/08-11-25 Summer National Meeting/Hearing/02 - Meeting Minutes 04-10-25.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2025/08-11-25%20Summer%20National%20Meeting/Hearing/02%20-%20Meeting%20Minutes%2004-10-25.docx)

Draft: 6/16/25

Statutory Accounting Principles (E) Working Group  
Virtual Meeting  
May 22, 2025

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met May 22, 2025. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kevin Clark, Vice Chair (IA); Sheila Travis and Richard Russell (AL); Kim Hudson (CA); William Arfanis and Michael Estabrook (CT); Rylynn Brown (DE); Cindy Andersen (IL); Melissa Gibson and Shantell Taylor (LA); Steve Mayhew and Kristin Hynes (MI); Doug Bartlett (NH); Bob Kasinow (NY); Diana Sherman (PA); Jamie Walker (TX); Doug Stolte and Jennifer Blizzard (VA); and Amy Malm and Levi Olson (WI).

1. Reviewed Non-Contested Positions

The Working Group reviewed comments received on previously exposed items (Attachment XX).

A. Agenda Item 2023-24

Bruggeman directed the Working Group to agenda item 2023-24: Current Expected Credit Losses (CECL). Wil Oden (NAIC) stated that, at the request of regulators, this agenda item was drafted to preserve the pre-CECL U.S. generally accepted accounting principles (GAAP) impairment and other-than-temporary impairment (OTTI) guidance for historical reference. He stated that this item was last presented at the 2024 Summer National Meeting, and no comments were received during its last exposure. Oden stated that NAIC staff recommend that the Working Group adopt the exposed draft Issue Paper No. 171—Current Expected Credit Losses (CECL), with minor edits to clarify that the issue paper is intended for historical reference only and should not be construed as statutory guidance. Additionally, due to its size, NAIC staff recommend that the issue paper be posted electronically only and not included in the *Accounting Practices and Procedures Manual* (AP&P Manual).

B. Agenda Item 2025-04

Bruggeman directed the Working Group to agenda item 2025-04: Capital Structure Code. Julie Gann (NAIC) stated that this agenda item addresses the capital structure code. It proposes deleting specific columns from Schedule D-1-1 (Long-Term Bonds – Issuer Credit Obligations) and Schedule D-1-2 (Asset-Backed Securities). She stated that these columns currently indicate whether an investment is secured, senior secured, unsecured, or another classification. Gann stated that, while this information has proven useful for classifying securities, it was originally requested by the Valuation of Securities (E) Task Force and is derived from actual investment feeds rather than the data reported on Schedule D. Therefore, NAIC staff propose deleting the columns but retaining the associated commentary. Gann stated that, if adopted, this change will be implemented at year-end 2025.

Tip Tipton (Thrivent), representing interested parties, stated that interested parties fully support this proposal. He stated that, as regulators assess additional data points for potential removal, they remain open to suggestions while collaborating with NAIC staff to optimize the data provided.

C. Agenda Item 2025-06

Bruggeman directed the Working Group to agenda item 2025-06: AVR Line: Unrated Multi-Class Securities. Gann stated that this proposal recommends deleting Line 8 from the asset valuation reserve (AVR) schedule, formerly identified as "Unrated Multi-Class Securities Acquired by Conversion" and categorized under bonds in the AVR.

She stated that the reasoning behind this deletion is that current reporting guidance for bonds does not necessitate information on this line and that historical review shows that the line has not been used over recent years. She stated that interested parties provided no comments regarding this deletion. Gann stated that the comments received at the Blanks (E) Working Group proposed combining this item with another blanks proposal that would be effective Jan. 1, 2026. She stated that NAIC staff do not support this delay because the line in question is redundant. She stated that to avoid triggering a system-wide renumbering of the AVR and the associated risk-based capital (RBC) formula, NAIC staff propose renaming the line to "Intentionally Left Blank" for the current year. Gann stated that this temporary measure ensures the line remains unused, intending to consider fully deleting the blank line and renumbering in 2026.

D. Agenda Item 2025-07

Bruggeman directed the Working Group to agenda item 2025-07: Dividend General Interrogatory Update. Jake Stultz (NAIC) stated that NAIC staff received a question about general interrogatory no. 14 in Part Two of the General Interrogatories in the Life, Accident and Health and Fraternal (Life/Fraternal) Annual Statement Blank. After reviewing it, NAIC staff noted that it appeared unnecessary and inconsistent with the other annual statement instructions. Specifically, the section addresses cumulative dividends and the type of assets that were distributed. He stated that NAIC staff recommended its removal. Interested parties support this recommendation, and its adoption will not affect statutory accounting as it only applies to the annual statement.

Clark made a motion, seconded by Malm, to adopt as final, agenda items 2023-24: Current Expected Credit Losses (CECL) (Attachment One-XX); 2025-04: Capital Structure Code (Attachment One-XX); 2025-06: AVR Line: Unrated Multi-Class Securities (Attachment One-XX); and 2025-07: Dividend General Interrogatory Update (Attachment One-XX). The motion passed unanimously.

2. Reviewed Comments on Exposed Items

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

A. Agenda Item 2024-07

Bruggeman directed the Working Group to agenda item 2024-07: Reporting of Funds Withheld and Modco Assets. Stultz stated that this item addresses the current lack of clarity regarding the assets that support funds withheld and modified coinsurance (modco) reinsurance agreements, a point raised during discussions in the Interest Maintenance Reserve (IMR) Ad Hoc Group. He stated that to improve transparency, the proposal adds a new Schedule S, Part 8, to the life/fraternal annual statement, specifically reporting assets associated with funds withheld and modco reinsurance agreements. Stultz stated that this update affects reporting only and does not impact statutory accounting. He stated that interested parties have reviewed the proposal and supported the original edits the American Council of Life Insurers (ACLI) provided, with minor wording adjustments already incorporated. He stated that United Healthcare, a health insurer reporting on the life/fraternal blank, commented that although it has funds withheld and modco reinsurance agreements, it does not transfer investment risk. He stated that they requested that either these assets be scoped out or a method be devised to exclude them from the current reporting scope.

Bruggeman stated that additional feedback from interested parties resulted in several cleanup items. For example, a new line for "Cash and Cash Equivalents" has been added near the bottom of the schedule to avoid renumbering the entire document. Stultz stated that "Any Other Assets" will now be captured under the "All Other Investments," ensuring comprehensive reporting for assets associated with funds withheld and modco reinsurance agreements.

Stultz stated that an interested party also submitted a question to the Blanks (E) Working Group regarding situations where a reporting lag prevents full asset information from being available. To address this, NAIC staff incorporated guidance from the RBC schedule, offering a consistent method to allocate known asset balances within the schedule. Stultz stated that the most significant revision in this final version is a scope change. He stated that the original proposal included all assets subject to a funds withheld and modco agreement. However, based on recent comments and to align with RBC, NAIC staff now recommend limiting the scope to only those assets that transfer investment risk. He stated that while this reflects the current objectives, NAIC staff acknowledge the possibility of expanding the scope in a future agenda item to include all funds withheld and modco assets.

Robin Marcotte (NAIC) stated that NAIC staff added references to lag reporting and the RBC amounts. She stated that narrowing the scope allows for a better comparison with RBC while allowing adoption for year-end 2025. She stated that the Working Group can later decide whether to expand the scope further for 2026.

Gann stated that all funds withheld and modco assets a reporting entity holds will continue to be captured in the restricted asset disclosure. She stated that the new Schedule S, Part 8, will focus solely on assets with investment risk transfer. She stated that regulators will still be able to identify the full universe of modco and funds-withheld assets through the restricted asset disclosure, while Schedule S, Part 8, will tie to the RBC formula to confirm accuracy.

Clark stated that not all products require investment risks to be transferred, but they could still be funds withheld, in which case Appendix A-791 does not require those assets to be segregated. Therefore, it is possible to have a funds-withheld agreement that does not restrict any particular assets. He stated that is why it would be very difficult if this scope was broadened to include all funds withheld when there are not necessarily specific assets tagged to the agreement to comply with this schedule requirement and there is nothing additional needed for next year because the scope as refined here matches what it should, which is those assets for which investment risk has been transferred and, therefore, are legally segregated and identifiable.

Bruggeman stated that NAIC staff have addressed the feedback and concerns, including those raised at the Spring National Meeting, and refined the scope accordingly. He stated that these adjustments adequately address United Healthcare's concern; however, he is open to additional input, particularly from regulators.

Tipton stated concerns with the restricted asset disclosure in Note 5L, noting that several interested parties have asked whether this should now be tied to the new Schedule S, Part 8, and that, based on recent changes, it appears it will not. He stated that adding a brief clarification in future materials that Note 5L will remain separate from Schedule S, Part 8, would ensure regulators understand that they will receive the complete picture through the restricted asset disclosure. He stated that this clarification is merely to manage expectations and that it is important for ensuring that the data regulators need remains intact.

Bruggeman asked Tipton if he was suggesting that the Working Group might need to perform a reconciliation process or consider additional adjustments next year.

Tipton stated that Stultz mentioned the possibility of a second round, although Clark expressed doubts. He stated that it is important to manage expectations regarding the data provided by the industry and that they are open to adjustments next year, whether in Schedule S, Part 8, or another section. He stated that he is open to further discussion and collaboration on this matter.

Bruggeman stated that Tipton should consider commenting at the Summer National Meeting once he has a chance to review the details and see how other companies handle this issue. He said to notify NAIC staff in advance if the Working Group needs to consider anything for next year.

Tipton stated he was hearing two key points: 1) industry should ensure they have comprehensive documentation to complete this new schedule; and 2) industry should consider potential future changes. He stated that they can get this evaluated prior to the Summer National Meeting.

Angelica Sanchez (New York Life Insurance), representing interested parties, asked for clarification on whether the proposed additional edits state that only the portion of assets supporting the ceded or assumed liabilities should be included, meaning any amount exceeding the reserve should be excluded. She asked whether assets reported in the new Schedule S should be capped at the reserve credit value. She stated that two liabilities exist: the reserve credit taken by the insurance company and the funds withheld liability balance. She stated that she wanted to confirm that the reported assets on Schedule S should align with the reserve credit, not the funds withheld liability, acknowledging that these two figures may differ due to timing or other variables.

Marcotte stated that the intent was to ensure that the collateral reported on Schedule S aligned properly with the corresponding liabilities. Specifically, if there is 110% collateral, it should be capped at the liability amount rather than exceeding it. She stated that, with RBC, having excess collateral does not result in additional RBC credit. She stated that the goal was to match what would be taken as the RBC credit. Marcotte stated that, if this interpretation is incorrect, she is open to removing that phrase, but the underlying point remains that credit is not received for excess collateral beyond the liability.

Sanchez questioned whether the cap is determined by the funds withheld liability or based on the reserve credit. Marcotte stated that NAIC staff's understanding from reviewing the life RBC instructions is that the reserve credit was the cap.

Clark stated that the intent is for the amounts reported on this schedule to align with the C-1 credit taken on the RBC schedules. He stated that while this schedule is not necessarily tied to the total restricted assets under modco and funds withheld agreements in the footnote disclosure, there may be opportunities for further reconciliation in the future. He stated that the primary purpose of this schedule is to provide a detailed breakdown of what is used for RBC credit.

Bruggeman stated that with all these proposed changes, NAIC staff have provided a clear direction. He stated that Maggie Chang (NAIC) provided a message noting that the RBC instructions state, "In some instances, there may be assets in a trust that exceed the amount needed to support the liabilities; only the portion of assets used to support the ceded liabilities is used to determine the ceded RBC." He stated that this aligns with the intended language reflected in the agenda item.

Clark made a motion, seconded by Hudson, to adopt as final, the draft of the new reporting schedule (included in Exhibit 1 of this Form A), which adds a new part to the reinsurance Schedule S in the life/fraternal annual statement blanks and instructions and recommends that the Blanks (E) Working Group move forward with the adoption of its corresponding agenda item 2025-05BWG. The adoption of this agenda item will not result in changes to statutory accounting. The motion passed unanimously.

#### B. Agenda Item 2025-05

Bruggeman directed the Working Group to agenda item 2025-05: Reinsurer Affiliated Assets. Gann stated that this item originated from a referral by the Financial Analysis (E) Working Group regarding funds withheld that are related to or affiliated with a reinsurer. She stated that, previously, the Working Group adopted the restricted asset disclosure to capture information on modco and funds withheld, and that the blanks templates for this disclosure are scheduled for adoption May 29. Gann stated that this proposal further expands the disclosure to specifically capture funds withheld assets that have a direct affiliation with the reinsurer. She stated that the structure is like the newer investment schedule reporting for related assets, where a coded classification (1–6) identifies the nature of the relationship between the investment and the reinsurer. Gann stated that the proposal seeks adoption at this meeting to be effective for year-end 2025. Additionally, the proposal recommends requiring the restricted asset disclosure in both quarterly and annual financial statements. Currently, it is mandated only for the annual statement, but given significant fluctuations observed in restricted asset disclosures, expanding to interim reporting would provide better transparency. She stated that, if adopted today, the disclosure will be updated for year-end 2025, with the quarterly reporting requirement taking effect in the first quarter of 2026.

Gann stated that comments were received from interested parties highlighting concerns about potential misleading information and the scope of the disclosure. They also raised practical considerations regarding data availability and suggested regulators weigh the benefits of the increased reporting frequency. She stated that some interested parties proposed limiting disclosure to assets with Level 3 fair value classifications. Gann stated that NAIC staff recommend adopting the revisions outlined in this agenda item to require disclosure when assets are affiliated with the reinsurer and expand the restricted asset reporting to both quarterly and annual statements. She stated that regulators should be aware of transactions involving affiliated assets, particularly when an asset manager acquires assets related to the reinsurer, and that timely reporting in quarterly financial statements would be beneficial. Gann stated that interested parties also provided feedback to the Blanks (E) Working Group. She said the feedback consisted primarily of editorial suggestions to ensure consistency between the quarterly and annual disclosures. She stated that some interested parties also questioned the necessity of quarterly reporting.

Shannon Jones (ACLI), representing interested parties, stated that interested parties feel this disclosure sets an unusual precedent, as it would require cedents to report related party investments of an unrelated entity. Jones said there are operational challenges to consider, particularly that reinsurers may not have a contractual obligation within the reinsurance agreement to disclose this information to the cedent. She stated that, while such communication may occur, it is not required, meaning it might not happen in practice.

Bruggeman stated that two key topics are being considered: 1) capturing and integrating information on restricted assets, specifically those held by unaffiliated reinsurers with affiliated investments; and 2) establishing consistency in reporting this information on a quarterly basis after year-end 2025. He stated that the Working Group can begin with a motion to adopt the recommendations outlined by NAIC staff and then proceed with further discussion and commentary, or the Working Group can defer action on this for now. He stated that if no action is taken, these changes cannot happen by year-end 2025.

Gann stated that Bruggeman is correct in that if the Working Group does not adopt at this meeting, the Blanks (E) Working Group would be unable to adopt its concurrent exposure at its May 29 meeting, resulting in the inability to have this data captured for year-end 2025.

Clark stated that narrowing the scope may resolve some concerns about completing the disclosure. Specifically, the disclosure could apply only when the reinsurer, an affiliate, or an asset manager affiliated with the reinsurer has discretion over investing the funds withheld assets. He stated that this issue becomes particularly relevant when the reinsurer manages the assets, as the cedent may not be aware that the reinsurer is investing in affiliated assets. Clark stated that this lack of visibility could contribute to the concerns being raised.

Bruggeman stated that regarding capturing and integrating information on restricted assets, the reinsurer's fund manager invests in assets that are subsequently recorded on the cedant's records. He stated that the reinsurer may also maintain its own investments. In that situation, the reinsurer might operate in a reciprocal jurisdiction, as a certified reinsurer, or under another, where collateral may or may not be provided directly. He stated that even when collateral is collected, the cedent should be aware of the types of investments held, as these represent a credit risk in dealings with the reinsurer. He stated that one of the issues raised in the Financial Analysis (E) Working Group referral was the need to clearly show that there are affiliated investments not related to the ceding entity. He stated that, in some cases, these investments could be used in ways that the cedent is unaware of and that Jones appears to be describing items that are not necessarily covered by the reinsurance agreement. He stated that perhaps these items should be incorporated into the reinsurance agreement or re-evaluated from that perspective; however, that is beyond the Working Group's purview. He stated that the Working Group's sole focus is on obtaining the appropriate disclosure.

Gann stated that the goal is to capture information regarding asset affiliation. She stated that the focus is on non-affiliated reinsurers because when a reinsurer is affiliated, it is evident that the funds withheld would by default be affiliated with the reinsurer. She stated that the intent is to determine, for non-affiliated reinsurers, whether the funds withheld assets held by the cedent are indeed affiliated with that reinsurer. Gann stated that she agrees with Clark that the primary focus is to capture information about reinsurers managing these assets and transitioning them toward an affiliated status. However, the proposal was not specifically scoped to track that process. She stated that its intent was simply to identify all assets affiliated with the reinsurer.

Bruggeman stated that it is the most identifiable indicator as it reflects what is recorded on the insurer's books, and that the proposal is seeking disclosure on whether the reinsurer is investing in affiliated assets.

Clark stated that, as he understands it, the scope of this disclosure is limited to the assets in the ceding company's books and does not require disclosure of the reinsurer's assets.

Gann confirmed that these are only for if the cedant has funds withheld that are reported as assets on their books, and then those assets are affiliated with the corresponding reinsurer.

Clark stated that he understands the concern when the ceding company manages the assets and the reinsurer is not involved. In such cases, the ceding company might inadvertently invest in a bond issued by a company affiliated with the reinsurer without realizing it. However, if the reinsurer is actively managing the investments and they invest in an affiliated bond, they should be able to report that to the ceding company, allowing the ceding company to be aware of any potential conflicts of interest. He stated that this is the situation being addressed, which may alleviate concerns about whether that information can be obtained.

Bruggeman stated that since these assets are on the cedants' books, they should be aware of how and from whom they were acquired. He stated that while a reinsurer's affiliate does not inherently create a conflict of interest, there is potential for one. Bruggeman asked for a motion to adopt the disclosure that identifies the funds withheld assets held by the ceding company, which are related to or affiliated with the reinsurer.

Hudson made a motion, seconded by Taylor, to proceed with adoption of the revisions captured in this agenda item to both require the restricted asset note in all quarterly and annual financial statements and to incorporate a disclosure to identify funds withheld assets that are related to/affiliated with the reinsurer. No modifications are proposed to the disclosure based on the interested parties' comments. For clarity, with adoption, the entire restricted asset disclosure will be required in all quarterly and annual financial statements, including the reinsurer-

affiliated asset disclosure. This update to the data captured notes will be effective for year-end 2025, and the quarterly reporting will be initially required in the first quarter of 2026. The motion passed unanimously.

C. Agenda Item 2025-08

Bruggeman directed the Working Group to agenda item 2025-08: Medicare Part D Prescription Drug Payment Plan Disclosures. Marcotte stated that at the Spring National Meeting, the Working Group presented revisions to *Statement of Statutory Accounting Principles (SSAP) No. 84—Health Care and Government Insured Plan Receivables*. She stated that these revisions introduced additional disclosures for Medicare Part D prescription payment plan receivables, specifically addressing the aging of these recoverables and the amount of write-offs included in claims. This agenda item was presented concurrently with the Blanks (E) Working Group proposal 2025-04BWG, which enables initial reporting at year-end 2025.

Marcotte stated that the Working Group received feedback from AHIP, Blue Cross Blue Shield Association (BCBSA), and other interested parties and that comments were also shared with the Blanks (E) Working Group. She stated that NAIC staff recommend adopting the revised disclosures with one minor change. She stated that interested parties suggested making the language regarding the current reporting period and the prior year consistent in Note 28C(1), corresponding to SSAP No. 84, paragraph 25a. She stated that, upon review, NAIC staff determined that prior year information does not need to be disclosed. Therefore, NAIC staff recommend deleting references to the prior year in both SSAP No. 84, paragraph 25a, and Note 28C(1). She stated that this revision has been communicated to the Blanks (E) Working Group and, with its adoption, NAIC staff will support the Blanks (E) Working Group's modifications, which include removing a minor wording difference and deleting a prior year column from their illustration.

Hudson made a motion, seconded by Sherman, to adopt as final the exposed revisions that add disclosures about the Medicare Part D Prescription Payment Plan receivables to SSAP No. 84, with a minor edit to delete the prior year in SSAP No. 84, paragraph 25a. The motion passed unanimously.

3. Considered Maintenance Agenda—Pending Listing

Hudson made a motion, seconded by Sherman, to expose the clarifications to statutory accounting guidance in agenda items 2025-13, 2025-14, 2025-15, 2025-16, and 2025-17EP for a 32-day public comment period ending June 23.

A. Agenda Item 2025-13

Bruggeman directed the Working Group to agenda item 2025-13: Residential Mortgage Loans Held in Statutory Trusts. Oden stated that this agenda item was drafted in response to comments on agenda item 2024-21: Investment Subsidiaries. He stated that those comments indicated that the growth in investment subsidiaries is largely due to the increased use of Delaware Statutory Trusts (DSTs). Unlike common law trusts, DSTs are established under Delaware statutory trust laws and offer significant flexibility when structuring the trust. Oden stated that this proposal seeks to develop accounting and reporting guidance for qualifying trust structures that hold residential mortgage loans within the scope of *SSAP No. 37—Mortgage Loans*. He stated that, rather than singling out DSTs, this guidance applies to all statutory trusts regardless of their state of formation. For statutory trusts that meet the qualifying criteria, the proposal would require individual reporting of residential mortgage loans held within statutory trusts on Schedule B—Mortgage Loans, along with additional disclosures. He stated that NAIC staff recommend moving this item to the active listing as a statutory accounting principle (SAP) clarification and exposing revisions to SSAP No. 37.



Oden stated that the agenda item proposes adding qualifying investment trusts holding residential mortgage loans within the scope of SSAP No. 37 and requires that these loans be reported on Schedule B. He stated that NAIC staff are specifically requesting comments on the defined requirements for qualifying trusts and the proposed reporting format. Oden stated that the proposal targets statutory trusts holding only residential mortgage loans. This ensures transparency by avoiding the mixing of different types of mortgage loans within a single trust, which could obscure the details. He stated that it has been noted that these trusts are primarily used for holding residential mortgage loans, so the guidance aligns with current usage. Oden stated that the agenda item proposes separate reporting of individual residential mortgage loans on Schedule B, consistent with existing annual statement instructions. He stated that discussions with industry have revealed inconsistencies in reporting practices, as some entities aggregate mortgage loans by trust, while others report individually. He stated that comments are requested on whether individual loan reporting is preferred or if aggregate reporting should be allowed. Oden stated that one concern with individual reporting is the potential for high volumes of residential mortgage loans. However, individual reporting might simplify the reporting process as insurers will likely already have mortgage loan detail listings on hand for each statutory trust.

**B. Agenda Item 2025-14**

Bruggeman directed the Working Group to agenda item 2025-14: ASU 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. Oden stated that this agenda item was drafted in response to *Accounting Standards Update (ASU) 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*. He stated that it amends the U.S. GAAP guidance on *Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets*, which originated from ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, guidance previously determined by the Working Group to be not applicable to SAPs. He said that NAIC staff recommend moving this agenda item to the active listing, categorizing it as a SAP clarification, and exposing revisions in Appendix D to reject ASU 2017-05 as not applicable to statutory accounting since this ASU modifies guidance already rejected.

**C. Agenda Item 2025-15**

Bruggeman directed the Working Group to agenda item 2025-15: ASU 2025-02, SEC Updates. Oden stated that this is a U.S. Securities and Exchange Commission (SEC) update regarding the issuance of another SEC bulletin, *Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121*. He stated that the Working Group previously reviewed and rejected Staff Accounting Bulletin (SAB) No. 121 and since this ASU rescinds that bulletin, NAIC staff recommend moving this agenda item to the active listing, categorizing it as a SAP clarification, and exposing revisions rejecting this ASU in Appendix D to reject ASU 2025-02 as not applicable to statutory accounting since this ASU rescinds guidance already rejected.

**D. Agenda Item 2025-16**

Bruggeman directed the Working Group to agenda item 2025-16: Status Section Updates. Marcotte stated that this agenda item updates the status section of the statements of SAPs. She stated that the key changes include changing “substantively revised” to “conceptually revised” and removing issue paper references. Marcotte stated that these updates streamline the document while still allowing users to track revisions via the effective date section and other parts of the SSAP. She stated that the agenda item includes a list of SSAPs that are expected to be impacted, but any additional updates discovered while preparing the publication for release will also be incorporated. These revisions are not proposed to be tracked in the publication. She recommended moving this

agenda item to the active listing, categorizing it as a SAP clarification, and exposing the intent to make the revisions described in the agenda item.

E. Agenda Item 2025-17EP

Bruggeman directed the Working Group to agenda item 2025-17EP: Editorial Process – May 2025. Gann stated that four editorial items were included in the proposed revisions. She stated that NAIC staff received feedback that the maturity categories in *SSAP No. 26—Bonds*, which correspond to Schedule D, Part 1A, do not align with those in the actual schedule. NAIC staff propose a minor revision to ensure the maturity categories match. She stated that there is a remaining reference to a credit rating provider (CRP) designation in *SSAP No. 41—Surplus Notes*. Since this was updated last year with a capital note item, NAIC staff recommend deleting that reference. She stated that NAIC staff propose deleting an additional disclosure in *SSAP No. 56—Separate Accounts*, corresponding to the separate account revisions made last year. Gann stated that in *INT 22-01: Freddie Mac When-Issued K-Deal (WI Trust) Certificates*, the section on the Federal Home Loan Mortgage Corporation (Freddie Mac) when-issued K-Deals still quotes outdated *SSAP No. 43R—Loan-Backed and Structured Security* language. NAIC staff propose deleting this outdated reference. Gann stated that NAIC staff recommend moving this agenda item to the active listing, categorizing it as a SAP clarification, and exposing the editorial revisions.

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

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/08-11-25 Summer National Meeting/Hearing/03 - Meeting Minutes 05-22-25.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2025/08-11-25%20Summer%20National%20Meeting/Hearing/03%20-%20Meeting%20Minutes%2005-22-25.docx)

Draft: 6/5/25

Statutory Accounting Principles (E) Working Group  
E-Vote  
June 2, 2025

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force conducted an e-vote that concluded June 2, 2025. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kevin Clark, Vice Chair (IA); Richard Russell (AL); Kim Hudson (CA); Michael Estabrook (CT); Rylynn Brown (DE); Melissa Gibson (LA); Kristin Hynes (MI); Doug Bartlett (NH); Bob Kasinow (NY); Jamie Walker (TX); Doug Stolte (VA); and Amy Malm (WI).

1. Exposed Agenda Items 2024-05 and 2024-06

The Working Group reviewed the following agenda items for exposure:

- a. 2024-05: A-791, Paragraph 2.c. – This item addresses a Valuation Analysis (E) Working Group referral. It re-exposes the prior revision to delete a sentence in Appendix A-791—Life and Health Reinsurance Agreements, paragraph 2.c., Question and Answer (Q&A).
- b. 2024-06: Risk Transfer Analysis on Combination Reinsurance **Contracts** – This item addresses a Valuation Analysis (E) Working Group referral. The exposed revisions are to *Statement of Statutory Accounting Principles (SSAP) No. 61—Life, Deposit-Type and Accident in Health Reinsurance* and the Appendix A-791 Q&A. The revisions address risk transfer on combination reinsurance contracts with interdependent contract features.

Clark made a motion, seconded by Gibson, to expose agenda items 2024-05 and 2024-06 for a 43-day public comment period ending July 14. The motion passed unanimously.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/08-11-25 Summer National Meeting/Hearing/04 - Evote Meeting Minutes 06-02-25.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2025/08-11-25%20Summer%20National%20Meeting/Hearing/04%20-%20Evote%20Meeting%20Minutes%2006-02-25.docx)

Draft: 6/11/25

Statutory Accounting Principles (E) Working Group  
E-Vote  
June 5, 2025

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force conducted an e-vote that concluded June 5, 2025. The following Working Group members participated: Dale Bruggeman, Chair (OH); Richard Russell (AL); Kim Hudson (CA); William Arfanis (CT); Rylynn Brown (DE); Cindy Andersen (IL); Melissa Gibson (LA); Kristin Hynes (MI); Doug Bartlett (NH); Bob Kasinow (NY); Jamie Walker (TX); Jennifer Blizzard (VA); and Amy Malm (WI).

1. Exposed an Extension to INT 23-01

The Working Group exposed edits to *Interpretation (INT) 23-01: Net Negative (Disallowed) Interest Maintenance Reserve* to extend the effective date until Dec. 31, 2026, as well as incorporate the following clarifications and requirements:

- Paragraph 9a: Clarification on the adjusted capital and surplus calculation, with an additional cap to limit admittance to 10% of the current unadjusted capital and surplus.
- Paragraph 9d: New paragraph requiring completion of the data-captured template disclosures to admit net negative interest maintenance reserve (IMR).
- Paragraph 9e: New paragraph requiring net negative IMR to be captured in the principle-based reserving (PBR) calculation or asset adequacy testing (AAT)/cash flow testing pursuant to *Valuation Manual (VM)-20, Requirements for Principle-Based Reserves for Life Insurance*, with a requirement to prepare a reconciliation to ensure that reserves are not overstated.
- Paragraphs 13a and 13b: Clarification on the derivative disclosure roll-forward and confirmation that the amount disclosed for “net negative disallowed IMR” reflects the total.

Arfanis made a motion, seconded by Malm, to expose the proposed revised INT 23-01 for a 40-day public comment period ending July 14. The motion passed unanimously.

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

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/08-11-25SummerNationalMeeting/Hearing/05-EvoteMeetingMinutes06-05-25.docx>

## Interpretation of the Statutory Accounting Principles (E) Working Group

### INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve

#### INT 23-01 Dates Discussed

April 10, 2023, June 28, 2023, August 13, 2023, TBD 2025

#### INT 23-01 References

##### Current:

*SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*  
*Annual Statement Instructions*

#### INT 23-01 Issue

1. The statutory accounting guidance for interest maintenance reserve (IMR) and the asset valuation reserve (AVR) is within *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*, but the guidance within *SSAP No. 7* is very limited. It provides a general description, identifies that IMR/AVR shall be calculated and reported per the guidance in the applicable *SSAP*, and if not explicit in the *SSAP*, in accordance with the annual statement instructions. The *SSAPs* most often simply direct allocation to (or between) IMR and AVR, with the bulk of the guidance residing within the annual statement instructions.
2. As detailed in *SSAP No. 7*, paragraph 2, the guidance for IMR and AVR applies to life and accident and health insurance companies and focuses on IMR and AVR liability recognition and distinguishing between IMR and AVR:
  2. Life and accident and health insurance companies shall recognize liabilities for an AVR and an IMR. The AVR is intended to establish a reserve to offset potential credit-related investment losses on all invested asset categories excluding cash, policy loans, premium notes, collateral notes and income receivable. The IMR defers recognition of the realized capital gains and losses resulting from changes in the general level of interest rates. These gains and losses shall be amortized into investment income over the expected remaining life of the investments sold. The IMR also applies to certain liability gains/losses related to changes in interest rates. These gains and losses shall be amortized into investment income over the expected remaining life of the liability released.
3. The IMR guidance in the annual statement instructions provides information on the net balance. A positive IMR represents net interest rate realized gains and is reported as a liability on a dedicated reporting line. A negative disallowed IMR represents net interest rate realized losses and is reported as a miscellaneous other-than-invested write-in asset in the general account and nonadmitted.
4. IMR balances between the general account and separate accounts are separate and distinct. Meaning, a net negative IMR in the general account only represents activity that occurred in the general account that was allocated to IMR. However, the net positive or negative balance of the general account influences how the net positive or negative balances are reported in separate account statements (and vice versa). (A net negative IMR balance in the general account may not be disallowed if there is a covering net positive IMR in the separate account. Negative IMR that is not disallowed is reported as a contra-liability.) The instructions for reporting the net negative and positive balances are detailed in the annual statement instructions:

Line 6 – Reserve as of December 31, Current Year

Record any positive or allowable negative balance in the liability line captioned "Interest Maintenance Reserve" on Page 3, Line 9.4 of the General Account Statement and Line 3 of the Separate Accounts Statement. A negative IMR balance may be recorded as a negative liability in either the General Account or the Separate Accounts Statement of a company only to the extent that it is covered or offset by a positive IMR liability in the other statement.

If there is any disallowed negative IMR balance in the General Account Statement, include the change in the disallowed portion in Page 4, Line 41 so that the change will be appropriately charged or credited to the Capital and Surplus Account on Page 4. If there is any disallowed negative IMR balance in the Separate Accounts Statement, determine the change in the disallowed portion (prior year less current year disallowed portions), and make a direct charge or credit to the surplus account for the "Change in Disallowed Interest Maintenance Reserve" in the write-in line, in the Surplus Account on Page 4 of the Separate Accounts Statement. The following information is presented to assist in determining the proper accounting:

General Account IMR Balance	Separate Account IMR Balance	Net IMR Balance
Positive	Positive	Positive (See rule a)
Negative	Negative	Negative (See rule b)
Positive	Negative	Positive (See rule c)
Positive	Negative	Negative (See rule d)
Negative	Positive	Positive (See rule e)
Negative	Positive	Negative (See rule f)

Rules:

- a. If both balances are positive, then report each as a liability in its respective statement.
- b. If both balances are negative, then no portion of the negative balances is allowable as a negative liability in either statement. Report a zero for the IMR liability in each statement and follow the above instructions for handling disallowed negative IMR balances in each statement.
- c. If the general account balance is positive, the separate accounts balance is negative and the combined net balance is positive, then all of the negative IMR balance is allowable as a negative liability in the Separate Accounts Statement.
- d. If the general account balance is positive, the separate account balance is negative, and the combined net balance is negative, then the negative amount not covered by the positive amount is not allowable. Report only the allowable portion as a negative liability in the Separate Accounts Statement and follow the above instructions for handling the disallowed portion of negative IMR balances in the Separate Accounts Statement.
- e. If the general account balance is negative, the separate account balance is positive, and the combined net balance is positive, then all of the negative IMR balance is allowable as a negative liability in the General Account Statement.
- f. If the general account balance is negative, the separate account balance is positive, and the combined net balance is negative, then the negative amount not covered by the positive amount is not allowable. Report only the allowable portion as a negative liability in the General Account Statement and follow the above instructions for handling the disallowed portion of negative IMR balances in the General Account Statement.

5. In October 2022, the ACLI requested the Statutory Accounting Principles (E) Working Group to reassess the guidance for net negative (disallowed) IMR, with a request to consider admittance of those

## Net Negative (Disallowed) Interest Maintenance ReserveINT 23-01

amounts. The ACLI noted that the nonadmittance of disallowed negative IMR can have adverse negative ramifications for insurers with two key themes:

- a. In general, rising interest rates are favorable to the financial health of the insurance industry and policyholders. However, with negative IMR, there is an inappropriate perception of decreased financial strength through lower surplus and risk-based capital.
- b. Negative IMR could impact the rating agency view of the industry or incentivize companies to avoid prudent investment transactions that are necessary to avoid mismatches between assets and liabilities. In either scenario, negative IMR encourages short-term non-economic activity that is not in the best long-term interest of a reporting entity's financial health or its policyholders.

6. In considering the request, the Working Group concluded that, for year-end 2022, there would be no change to statutory accounting guidance and deviations from statutory accounting principles would need to be approved via a permitted or prescribed practice. The Working Group then held company-specific educational sessions in January 2023 to receive detailed information regarding negative IMR and received a subsequent comment letter from the ACLI.

7. During the 2023 Spring National Meeting, the Working Group further discussed the topic of negative IMR and directed NAIC staff to proceed with drafting guidance for a 2023 solution and to begin work towards a long-term solution.

#### INT 23-01 Discussion

8. This interpretation prescribes limited-time, optional, statutory accounting guidance, as an exception to the existing guidance detailed in SSAP No. 7 and the annual statement instructions that requires nonadmittance of net negative (disallowed) IMR as a short-term solution. Specifically, this interpretation impacts the annual statement instruction rules regarding disallowed negative IMR detailed in rules 'b,' 'd' and 'f' shown in paragraph 4.

9. Reporting entities are permitted to admit net negative (disallowed) IMR with the following restrictions:

- a. Reporting entities that qualify pursuant to paragraph 9.b., are permitted to admit net negative (disallowed) IMR up to 10% of the reporting entity's adjusted general account<sup>1</sup> capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner. The capital and surplus shall be adjusted to exclude any net positive goodwill, EDP equipment and operating system software, net deferred tax assets and admitted<sup>2</sup> net negative (disallowed) IMR. The adjusted capital and surplus calculation intends to reflect the most recently filed financial statements for all admitted components (e.g., a subtraction of admitted positive goodwill, EDP equipment/software, net DTAs and net negative (disallowed) IMR as reported in the third quarter financial statements to determine the limit for year-end.) However, to safeguard from situations in which the company has experienced a decline in capital & surplus and/or had significant increases in net admitted

<sup>1</sup> The general account capital and surplus includes surplus reflected in the separate account; therefore, an aggregation of general account and separate account surplus is not necessary.

<sup>2</sup> As the separate account does not have "admitted" assets, broad reference to "admitted net negative (disallowed) IMR" throughout this interpretation includes what is admitted in the general account and what is recognized as an asset in the separate accounts.

(disallowed) IMR in the current period, the admittance of net negative (disallowed) IMR shall also not exceed 10% of the current period unadjusted capital and surplus.

- b. Reporting entities applying this interpretation are required to have a risk-based capital (RBC) greater than 300% authorized control level (ACL) after an adjustment to total adjusted capital (TAC) that reflects a reduction to remove any net positive goodwill, EDP equipment and operating system software, net deferred tax assets and admitted net negative (disallowed) IMR. Compliance with this adjusted RBC calculation shall be affirmed for all quarterly and annual financial statements for which net negative (disallowed) IMR is reported as an admitted asset in the general account or recognized as an asset in the separate accounts. Reporting entities shall provide documentation to illustrate compliance with this requirement upon state regulator request. Reporting entities with an adjusted RBC calculation of 300% ACL or lower are not permitted to admit net negative (disallowed) IMR in the general account or recognize IMR assets in the separate accounts.
- c. The net negative (disallowed) IMR permitted for admittance shall not include losses from derivatives that were reported at fair value prior to derivative termination<sup>3</sup> unless the reporting entity has historically followed the same process for interest-rate hedging derivatives that were terminated in a gain position. In other words, there is a requirement for documented, historical evidence illustrating that unrealized gains from derivatives reported at fair value were reversed to IMR (as a liability) and amortized as part of IMR. Reporting entities that do not have evidence of this past application are required to remove realized losses from derivatives held at fair value from the net negative (disallowed) IMR balance to determine the amount permitted to be admitted. Reporting entities that begin a new process for the use of hedging derivatives, perhaps with a theoretical process to treat derivative losses and derivative gains similarly, but do not have evidence illustrating the historical treatment of derivative gains through IMR are not permitted to include derivative losses in the net negative (disallowed) IMR permitted to be admitted. This evidence is required separately for the general account, insulated separate account and non-insulated separate account if losses from derivatives previously reported at fair value are currently being allocated to IMR in those accounts.
- d. Reporting entities admitting any amount of net negative (disallowed) IMR pursuant to paragraphs 9.a through 9.c shall fully complete the data-captured disclosures described in paragraph 13. If a reporting entity does not fully complete the data-captured disclosures or provide narrative disclosures containing equivalent information in lieu of the data-capture template, it shall nonadmit all net negative (disallowed) IMR.
- e. Reporting entities admitting any amount of net negative (disallowed) IMR pursuant to paragraphs 9.a. through 9.c. shall capture the admitted negative IMR in the principles-based reserving (PBR) calculation or asset adequacy testing (AAT)/ cash flow testing (CFT) pursuant to Valuation Manual (VM)-20: Requirements for Principle-Based Reserves for Life Insurance, Section 7.D.7 and VM-30: Actuarial Opinion and Memorandum Requirements, Section 3.B.5. Reporting entities shall prepare a reconciliation of admitted negative IMR to the reported IMR reflected for PBR and CFT to ensure reserves are not overstated.<sup>4</sup>

<sup>3</sup> Reference to derivative termination throughout this interpretation includes all actions that close out a derivative, including, but not limited to, termination, expiration, settlement, or sale.

<sup>4</sup> An optional template to assist with the IMR reconciliation is available on the NAIC Principles-Based Reserving website: [https://content.naic.org/pbr\\_data.htm](https://content.naic.org/pbr_data.htm). It is available as a template to VM-31.



## Net Negative (Disallowed) Interest Maintenance ReserveINT 23-01

10. Reporting entities that admit net negative (disallowed) IMR shall follow the following process:
  - a. All net negative (disallowed) IMR in the general account shall first be admitted until the capital and surplus percentage limit, as detailed in paragraph 9.a., is reached.
  - b. If all general account net negative (disallowed) IMR has been fully admitted, and the reporting entity is still below the paragraph 9.a. capital and surplus limit, then the reporting entity can report net negative (disallowed) IMR as an asset in the separate accounts. Reporting entities that have both insulated and non-insulated separate accounts shall recognize IMR assets proportionately between the insulated and non-insulated statements until the aggregated amount recognized as an admitted asset in the general account and as an asset in the insulated and non-insulated statements reaches the percentage limit of capital and surplus detailed in paragraph 9.a.
11. Reporting entities that admit net negative (disallowed) IMR in the general account shall report the admittance in the balance sheet as follows:
  - a. Reporting entities shall report the net negative (disallowed) IMR as an aggregate write-in to miscellaneous other-than-invested assets (line 25) (named as “Admitted Disallowed IMR”) on the asset page. The net negative (disallowed) IMR shall be admitted to the extent permitted per paragraph 9.a., with the remaining net negative (disallowed) IMR balance nonadmitted.
  - b. Reporting entities shall allocate an amount equal to the general account admitted net negative (disallowed) IMR from unassigned funds to an aggregate write-in for special surplus funds (line 34) (named as “Admitted Disallowed IMR”). Although dividends are contingent on state specific statutes and laws, the intent of this reporting is to provide transparency and preclude the ability for admitted negative IMR to be reported as funds available to dividend.
12. Reporting entities that record net negative (disallowed) IMR as an asset in the separate account shall report the recognition in the balance sheet as follows:
  - a. Reporting entities shall report the permitted net negative (disallowed) IMR as an aggregate write-in to miscellaneous other-than-invested assets (line 15) (named as “Recognized Disallowed IMR”) on the asset page.
  - b. Reporting entities shall allocate an amount from surplus equal to the asset recognized as disallowed IMR as an aggregate write-in for special surplus funds (line 19) (named as “Recognized Disallowed IMR) on the liabilities and surplus page.
13. Reporting entities admitting net negative (disallowed) IMR are required to complete the following disclosures in the annual and quarterly financial statements for IMR:
  - a. Reporting entities that have allocated gains/losses to IMR from derivatives that were reported at fair value prior to the termination of the derivative shall disclose the unamortized balances in IMR from these allocations separately between gains and losses. This disclosure shall reflect a roll-forward that: (1) begins with unamortized fair value derivative gains and losses realized in IMR, (2) adds the fair value of derivative gains and losses realized to IMR in the current period, (3) subtracts the fair value derivative gains and losses amortized out of IMR in the current period, (4) the sum of which shall equal the

unamortized fair value derivative gains and losses within IMR as of the current reporting date.

- b. Reporting entities shall complete a note disclosure that details the following:
- i. ~~Total Net~~ net negative (disallowed) IMR in aggregate and allocated between the general account, insulated separate account and non-insulated account,
  - ii. Amounts of negative IMR admitted in the general account and reported as an asset in the separate account insulated and non-insulated blank,
  - iii. The calculated adjusted capital and surplus per paragraph 9.a., and
  - iv. Percentage of adjusted capital and surplus for which the admitted net negative (disallowed) IMR represents (including what is admitted in the general account and what is recognized as an asset in the separate account).
- c. Reporting entities shall include a note disclosure that attests to the following statements:
- i. Fixed income investments generating IMR losses comply with the reporting entity's documented investment or liability management policies,
  - ii. IMR losses for fixed income related derivatives are all in accordance with prudent and documented risk management procedures, in accordance with a reporting entity's derivative use plans and reflect symmetry with historical treatment in which unrealized derivative gains were reversed to IMR and amortized in lieu of being recognized as realized gains upon derivative termination.
  - iii. Any deviation to 13.c.i was either because of a temporary and transitory timing issue or related to a specific event, such as a reinsurance transaction, that mechanically made the cause of IMR losses not reflective of reinvestment activities.
  - iv. Asset sales that were generating admitted negative IMR were not compelled by liquidity pressures (e.g., to fund significant cash outflows including, but not limited to excess withdrawals and collateral calls).

#### INT 23-01 Status

14. The consensuses in this interpretation were adopted on August 13, 2023, to provide limited-time exception guidance to SSAP No. 7 and the annual statement instruction for the reporting of net negative (disallowed) IMR. The original provisions within this interpretation ~~are~~ were permitted as a short-term solution until December 31, 2025, ~~and will be automatically with automatic nullification planned nullified~~ on January 1, 2026. On [REDACTED], the Statutory Accounting Principles (E) Working Group extended this interpretation one year until December 31, 2026, with modifications to provide clarity and establish an additional current-period admittance limit in paragraph 9.a. This interpretation will be automatically nullified on January 1, 2027.

15. The effective date of this interpretation may be adjusted (nullified earlier or with an extended effective date timeframe) in response to Statutory Accounting Principles (E) Working Group actions to establish statutory accounting guidance specific to net negative (disallowed) IMR.

16. ~~No-further~~ discussion is planned.

**Application Guidance for Admitting / Recognizing Net Negative (Disallowed) IMR****General Account:**

1. Net negative IMR in the general account that exceeds net positive IMR in the separate accounts is considered “disallowed” general account IMR. (Determination of the disallowed IMR in the general account shall be compared against the aggregate IMR balance in all separate accounts.)
2. Net negative disallowed IMR in the general account shall be reported as an aggregate write-in for other-than-invested assets as “Admitted Disallowed IMR” on line 25 of the asset page and nonadmitted. The change in nonadmittance shall be reported on line 41 in the summary of operations.
3. To the extent the reporting entity is permitted to admit net negative disallowed IMR pursuant to the provisions in this interpretation, the reporting entity shall admit the disallowed IMR reported on line 25 of the asset page to the extent permitted, with the change in nonadmittance reflected on line 41 in the summary of operations.
4. Reporting entities shall report an amount equal to the general account admitted net negative (disallowed) IMR as an aggregate write-in for special surplus funds (line 34 of the Liabilities, Surplus and Other Funds page) named as “Admitted Disallowed IMR.”
5. Reporting entities shall include note disclosures in the quarterly and annual financial statements as required in paragraph 13 of the interpretation.

**Separate Account:**

6. Net negative IMR in the separate account (aggregated IMR in both insulated and non-insulated separate accounts) that exceeds net positive IMR in the general account is considered “disallowed” separate account IMR. If the aggregate separate account IMR is positive, with a negative IMR in the insulated separate account and positive IMR in non-insulated separate account (or vice versa), then the negative IMR in the insulated separate account is not permitted to be reported as an asset. In those situations, the separate account has an aggregate positive IMR balance.
7. Net negative (disallowed) IMR in the separate account permitted to be recognized as an asset, as the admittance in the general account did not utilize the full percentage of adjusted capital and surplus permitted within this interpretation, shall be proportionately divided between insulated and non-insulated separate accounts if both separate accounts are in a negative position. If the separate account IMR is an aggregate net negative, but only one separate account blank is in a negative position, then only the separate account blank with a net negative position can recognize disallowed IMR as an asset.
8. If negative IMR in the separate account has previously been recognized as a direct charge to surplus, the reporting entity shall recognize an asset as an aggregate write-in for other-than-invested assets as “Recognized Disallowed IMR” on line 15 of the separate account asset page, with an offsetting credit to surplus. This credit to surplus shall reverse the charge previously recognized. This process shall continue in subsequent quarters if additional separate account IMR is permitted as an asset to the extent IMR was previously taken as a direct charge to surplus. Once prior surplus impacts have been fully eliminated, then the entity shall follow the guidance for new net negative (disallowed) IMR as detailed in the following paragraph. If subsequent quarters result with a decline in the permitted IMR asset in the separate account, then the asset shall be credited with an offsetting charge to surplus.

9. If the reporting entity enters a net negative (disallowed) IMR position (meaning, there has not been a prior charge to surplus for net negative (disallowed) IMR), then the entity shall recognize the asset as an aggregate write-in for other-than-invested assets as “Disallowed IMR” on line 15 of the separate account balance sheet, with an offsetting credit to IMR (line 3 of the liability page) until the IMR liability equals zero. This process shall continue in subsequent quarters if additional net negative IMR is generated from operations and is permitted as an asset under the provisions of this interpretation. If subsequent quarters result with a decline in the permitted IMR asset in the separate account, then the asset shall be credited with an offsetting charge to surplus.
10. Reporting entities shall report an amount equal to the asset recognized reflecting net negative (disallowed) IMR as an aggregate write-in for special surplus funds (line 19) (named as “Recognized Disallowed IMR.” This shall be included in each separate account statement (insulated and non-insulated) if net negative disallowed IMR is recognized as an asset in that statement.
11. Reporting entities shall include note disclosures in the quarterly and annual financial statements as required in paragraph 13 of the interpretation.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/08-11-25 Summer National Meeting/Hearing/06 - INT 23-01 - Revised April 2025 \(002\).docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2025/08-11-25%20Summer%20National%20Meeting/Hearing/06%20-%20INT%2023-01%20-%20Revised%20April%202025%20(002).docx)

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To: Members of the Statutory Accounting Principles (E) Working Group  
From: IMR Ad Hoc Group  
Re: Recommendation for Removal of Hypothetical IMR  
Date: SAPWG Draft – 3-6-2025

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### Background

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

The amount of the gain (loss) that is interest-related and its IMR amortization should be determined using the following three step procedure for the portion of the block sold, transferred or reinsured.

1. Identify the IMR balance and future amortization arising from the past (**Existing**) and present (**Newly-Created**) dispositions of the assets associated with the block of liabilities.
2. Identify the IMR balance and future amortization that would result if the remaining assets associated with the block of liabilities were to be sold. (**Hypothetical**)
3. Define the interest-related gain (loss), net of taxes, to be the negative of the sum of the IMR balances determined in steps 1 and 2. The future amortization of the gain (loss) is the negative of the sum of the amortization determined in steps 1 and 2.

The associated assets are the assets allocable to the reinsured block of business for the purposes of investment income allocation. If the ceding company has not been tracking the investment income of the block, it should retrospectively identify the assets using procedures consistent with its usual investment income allocation procedures. ***The associated assets are not necessarily the same as the assets transferred as part of the transaction.***

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

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

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

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

[.....]

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

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

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

While the instructions do not discuss the rationale for the concept of hypothetical IMR, the intent clearly was for there to be a process to determine allocable assets for the block and to recognize the cession of the

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IMR that would have been generated had those assets been sold at the time of the transaction, even though the IMR being ceded does not yet exist on the balance sheet.

### Recommendation of the IMR Ad Hoc Group

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

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

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

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

### Analysis

#### *Illustration*

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

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

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

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

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

Company A - Ceding Company									
Paying Bonds					Paying Cash				
Cash	95	(15)	80		Cash	95	(105)	(10)	
Bond	95	(95)	-		Bond	95	-	95	
Total Assets	190		80		Total Assets	190		85	
Reserves	100	(100)	-		Reserves	100	(100)	-	
Hypothetical IMR	-	-	-		Hypothetical IMR	-	-	-	
IMR	(5)	5	-		IMR	(5)	5	-	
Surplus	95	(15)	80		Surplus	95	(10)	85	
Liab & Surplus	190		80		Liab & Surplus	190		85	
Company B - Assuming Company									
Receiving Bonds					Receiving Cash				
Cash	-	15	15		Cash	-	105	105	
Bonds	-	90	90		Bonds	-	-	-	
Total Assets	-		105		Total Assets	-		105	
Reserves	-	100	100		Reserves	-	100	100	
Hypothetical IMR	-	-	-		Hypothetical IMR	-	-	-	
IMR	-	(10)	(10)		IMR	-	(5)	(5)	
Surplus	-	15	15		Surplus	-	10	10	
Liab & Surplus	-		105		Liab & Surplus	-		105	
Note - IMR and Deferred Gains are net of FIT (21%), not shown for simplification purposes.									



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

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

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

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

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

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

### Qualitative Discussion

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

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

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

### **Key Points in Justifying Hypothetical IMR**

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

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

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

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- In order to calculate a Hypothetical IMR, you must first determine what assets are supporting the block being reinsured.
    - Assets are rarely tracked at a level that would allow for specific identification.
    - Instead, allocation methodologies would need to be used to identify the supporting assets, a process that in itself introduces company judgement.
    - Therefore, calculating a Hypothetical IMR likely implies a level of precision in asset tracking that does not exist in fact.
  - Hypothetical IMR as a concept is counterintuitive and difficult to understand which has likely contributed to its limited use to date. It effectively results in the ceding of IMR that has yet to be established. It also can result in there being a lingering Hypothetical IMR balance that continues to exist and be amortized even after all liabilities it relates to have been transferred to a reinsurer.
  - Hypothetical IMR can also have the effect of creating a circular reference whereby the need for the cedant and reinsurer to establish it impacts the pricing, which in turn impacts the amount of Hypothetical IMR needing to be established, in turn further impacting the pricing.
  - The ability to intentionally manipulate the accounting results related to asset allocation is likely limited.
    - For 3<sup>rd</sup> party reinsurance transactions, the reinsurer must agree to the assets it will receive and is unlikely to be motivated by a cedant's desire to optimize accounting results.
    - There may be greater ability to manipulate results in affiliated transactions.
    - It is unlikely that asset allocation could be manipulated to such a magnitude that it materially misstates the financial condition of an insurer. In the rare circumstance that it was, mechanisms like asset adequacy testing and other financial analysis tools would likely identify such instances.

### *Conclusion*

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

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## **Appendix A**

[Insert Cleaned Up Example]

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/08-11-25 Summer National Meeting/Hearing/07 - 23-14 - Hypothetical IMR Memo - 2-21-2025.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2025/08-11-25%20Summer%20National%20Meeting/Hearing/07%20-%2023-14%20-%20Hypothetical%20IMR%20Memo%20-%202-21-2025.docx)

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

**Issue: IMR Definition**

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

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

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

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

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

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

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

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

**Existing Authoritative Literature:**

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

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

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

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

- Agenda Item 2023-14: *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* establishes a broad project to capture accounting guidance for AVR and IMR in SSAP No. 7. The IMR ad hoc group was created from this agenda item and has been meeting regularly since October 2023.
- Agenda Item 2023-15: IMR/AVR Specific Allocations adopted revisions to the A/S instructions for year-end 2024 to remove the guidance that prescribes the specific allocation of non-interest related losses to IMR. The revisions addressed both mortgage loans and the guidance for debt securities. For debt securities, the guidance directs AVR reporting if there is an acute credit event that negatively impacts the price of the security that has not yet been reflected in the CRP ratings/SVO feed at the time of the sale where the resulting gains/loss was predominantly credit related.
- Agenda Item 2023-29: IMR / AVR Preferred Stock adopted revisions to the A/S instructions for year-end 2024 to remove the guidance that directed all preferred stock to be allocated between IMR/AVR based on NAIC designations, and to clarify that perpetual preferred stock as well as all mandatorily convertible preferred stock shall be reported through the AVR.
- Agenda Item 2024-15: Asset Liability Management Derivatives was developed to consider new statutory accounting guidance to permit the deferral of realized gains/losses for interest-rate hedging derivatives that do not qualify as effective hedges under *SSAP No. 86—Derivatives*. This item was initially exposed at the 2024 Summer National Meeting, but an extended comment period was provided until November 8, 2024. Then, due to the extent of comments and the complexity of the topic, the Working Group deferred direction to staff to move forward. Further discussion, along with a review of data reported for IMR derivatives is anticipated, before the Working Group directs staff to move forward.

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

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

**Staff Recommendation:**

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

**ACLI Proposed IMR Definition:**

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

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

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

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

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

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

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

**NAIC discussion regarding the proposed modifications and overall definition:**

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

**Status:**

On March 24, 2025, the Statutory Accounting Principles (E) Working Group exposed this agenda item with the proposed ACLI IMR definition along with an NAIC staff proposed IMR definition. This agenda item is considered a new SAP concept as the definition will be included in the IMR issue paper and revised *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* as part of the intent to include accounted-related concepts for IMR in the SSAP and not the annual statement instructions.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/08-11-25 Summer National Meeting/Hearing/08 - 25-03 - IMR Definition.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/08-11-25SummerNationalMeeting/Hearing/08-25-03-IMRDefinition.docx)

## **Definition and Purpose of the Interest Maintenance Reserve (IMR)**

The intent of this document is to offer a theoretical definition and purpose of IMR within the context of the U.S. Statutory Framework so that specific IMR-related issues can be addressed in future sessions of the Ad Hoc Technical Working Group from a mutually agreed upon foundation. In summary, the conceptual development of IMR recognized the need for a valuation adjustment to ensure consistent treatment of assets and liabilities and an accurate presentation of solvency amid fluctuations in interest rates. Illustrative examples further illuminate the necessity of an IMR for both positive and negative balances within the context of such a framework. After such a conceptual grounding, IMR is then considered in tandem with the more recent development of Principles-based Reserves (PBR) in Appendix 1 with Asset Adequacy Testing (AAT) in Appendix 2 and with Derivatives in Appendix 3 ensuring no inconsistencies need to be separately addressed.

## **The Objective of the Statutory Framework and the Necessity of IMR**

The most important and fundamental purpose of the Statutory Statements is to provide basic financial information focusing on solvency. It must provide regulators (and management) the tools to monitor and ensure policy and contract holder obligations can be met when they come due. To that end, “the valuation of assets and liabilities proceeds on the assumption that the insurer is a going concern” and “valuation is not done on a liquidation basis.”<sup>1</sup>

### Liability Valuation

In keeping with the focus on solvency and conservatism, the prudent valuation of long duration insurance liabilities needs to be determined. Because insurance liabilities generally do not have a deep and wide market, their valuation is dependent on assumptions, calculations, and/or models. A market-consistent approach to liability valuation can be challenging to develop, is highly sensitive to the assumptions used, and can over rely upon or misapply current market conditions. These challenges can distort financial solvency and inhibit companies from issuing long duration insurance products. A market-consistent approach has not been adopted in the U.S. Statutory framework.

The Statutory framework’s amortized cost valuation approach utilizes conservative methodologies and assumptions. In many cases, these conservative methodologies and assumptions are determined at origin and may not be changed over the entire course of the liability. As the U.S. Statutory framework has evolved, additional/new valuation approaches have been introduced (e.g., PBR). Regardless of the specific approach, the U.S. Statutory framework has remained focused on ensuring the company’s long-term solvency in a stable, durable, and conservative manner.

### Asset Valuation

To support their insurance liabilities and ensure solvency, companies need to invest their assets such that they have a very high probability of paying contractual liabilities when they become due. For long-duration liabilities, these investments are predominantly in conservative fixed income assets. To accurately assess whether a company can fulfill its obligations, its liabilities and assets must be presented on a financially integrated and consistent basis.

In the Statutory framework, asset valuations for fixed income securities are primarily based on amortized cost accounting principles. Here the valuations reflect the market available yields (interest rates) and outlook at the time of purchase. They are generally not revisited for changes in interest rates (only for impairment). The

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<sup>1</sup> “Asset Valuation Reserves and Interest Maintenance Reserves, Blue Book, December 2002”. Report to the NAIC Financial Condition Committee.

amortized cost asset valuation approach maintains consistency with the valuation of liabilities. It also limits the use of market values, which are not always observable or reliable across the spectrum of assets insurance companies hold in support of their liabilities.

However, if an asset is sold and a new asset is purchased, the company effectively “unlocks” the yield and reflects the current market available yield in the asset valuation. The liability assumptions, as explained earlier, cannot be readily adjusted in the same manner. Because of this potential for inconsistent asset and liability valuations, the company’s financial statements could provide false indicators of financial strength or of financial weakness. Concerns related to this dynamic led to the development of a prudent and innovative valuation adjustment concept within the Statutory framework: the Interest Maintenance Reserve.

### Interest Maintenance Reserve

The original E Committee report lays out many considerations reviewed during its development of IMR, and it summarizes the IMR as:

*The Interest Maintenance Reserve (IMR) - captures for all types of fixed income investments, all of the realized capital gains and losses which result from changes in the overall level of interest rates as they occur. Once captured, these capital gains or losses are amortized into income over the remaining life (period to maturity) of the investments sold. Realized gains and losses on derivative investments, which alter the interest rate characteristics of assets/liabilities, also are allocated to the IMR and are to be amortized into income over the life of the associated assets/liabilities.<sup>2</sup>*

Ultimately, the IMR facilitates better alignment of the timing of interest rate related gain/loss realizations on certain fixed income investments with the interest rate assumptions embedded in the policyholder liabilities they support. The IMR was developed to complement existing valuation practices, rather than replace them, and subsequent updates to valuation methodologies considered IMR in their development.

There are times when IMR treatment of an interest-related gain or loss would not be appropriate; for instance, if assets are sold to fund excess withdrawals or surrenders or to meet other significant expenses, collateral calls, etc. In general, the IMR is only appropriate for fixed income gains and losses from a portfolio of assets that support existing insurance liabilities.

### **Applicable Illustrative Examples**

Illustrative examples are useful for understanding the concepts underpinning IMR. The following examples are simplified (e.g., the role asset adequacy testing plays in the valuation of liabilities is ignored), but they illustrate the implications of the valuation concepts involved in the IMR’s development. They can then be appropriately extrapolated to the more complex insurance contracts and reserve methodologies.

#### Example 1

Assume Company XYZ starts out with \$10 of surplus invested in equity securities with no change in value over the period of valuation. The prevailing interest rate environment is such that the fixed income bond yield and the insurance liability valuation rate are both 4%, and Company XYZ:

- Sells an insurance contract that pays \$100 at the end of ten years as well as pays \$4 at the end of years 1 – 10 for \$100 dollars of premium received today.
- Purchases a 10-year bond with a coupon rate of 4% to support the liability.

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<sup>2</sup> “Asset Valuation Reserves and Interest Maintenance Reserves, Blue Book, December 2002”. Report to the NAIC Financial Condition Committee.

Under statutory accounting, Company XYZ's balance sheet would look like Figure A.

Figure A			
Assets		Liabilities and Surplus	
Bonds	100	Insurance liability	100
Equities	<u>10</u>	Surplus	<u>10</u>
Total Assets	<u>110</u>	Liabilities & Surplus	<u>110</u>

Next, assume that bond yields drop to 2% immediately after Company XYZ purchases the bond. Company XYZ's balance sheet would not change, although the bond is now valued at \$118. From a statutory solvency perspective, there is no concern with the balance sheet because the bond can fund the liability and the financial statements are reported on a financially integrated basis and accurately reflect solvency.

Later that day, assume Company XYZ sells the bond and immediately invests the proceeds in a new 10-year bond of the same credit quality with a coupon rate of 2%. Par value would now be \$118. Company XYZ's balance sheet, without the Interest Maintenance Reserve concept (or performing asset adequacy analysis), would now look like Figure B.

Figure B			
Assets		Liabilities and Surplus	
Bonds	118	Insurance liability	100
Equities	<u>10</u>	Surplus	<u>28</u>
Total Assets	<u>128</u>	Liabilities & Surplus	<u>128</u>

Without IMR, Company XYZ's balance sheet shows an illusory increase in surplus as the bond has essentially been marked to market at \$118 but the insurance liability is unchanged. The bond's coupon payments are now insufficient to meet policyholder obligations, and the company may have to sell a portion of the bond every year to meet its yearly obligation.

To further illustrate the solvency distortion absent the IMR, assume Company XYZ sells \$18 of the bond and dividends the \$18 to its owners. Its balance sheet in Figure C would show the company still appearing solvent.

Figure C			
Assets		Liabilities and Surplus	
Bonds	100	Insurance liability	100
Equities	<u>10</u>	Surplus	<u>10</u>
Total Assets	<u>110</u>	Liabilities & Surplus	<u>110</u>

However, the total shortfall (without adjusting for minor interest effects) as the liability runs off would be:

Total of yearly (40) and final (100) payments owed policyholder	(140)
Total bond interest payments (20) and maturity (100)	120
Total equity sale	<u>10</u>
Total shortfall including sale of surplus assets	<u>(10)</u>

As discussed earlier, the IMR was developed to address the marking to market of assets upon sale, where the liabilities are unchanged, with a valuation adjustment (IMR) so that the Statutory framework can value both

assets and liabilities on a consistent basis. With IMR, the inappropriate portrayal of solvency in Figures B and C would not occur. More importantly, the inappropriate dividend would not have been able to occur, and the balance sheet would instead look like Figure D.

Figure D			
Assets		Liabilities and Surplus	
Bonds	118	Insurance liability	100
Equities	<u>10</u>	IMR	18
Total Assets	<u>128</u>	Surplus	<u>10</u>
		Liabilities & Surplus	<u>128</u>

### Example 2

After demonstrating the importance of IMR in a declining interest rate environment in Example 1, Example 2 demonstrates its importance in a rising interest rate environment. For Company XYZ, assume the same starting position as Example 1. Immediately after purchasing the bond, the bond yield increases to 6%. Company XYZ's balance sheet would not change although the bond now has a market value of \$85. From a statutory solvency perspective, there is no concern with the balance sheet valuation because the bond can fund the liability and the financial statements are reported on a financially integrated basis and accurately reflect solvency.

Later that day, assume Company XYZ sells the bond and immediately invests the proceeds in a 10-year bond of the same credit quality with a coupon rate of 6%. Par value would now be \$85. Company XYZ's balance sheet, without IMR, would look like Figure E.

Figure E			
Assets		Liabilities and Surplus	
Bonds	85	Insurance liability	100
Equities	<u>10</u>	Surplus	<u>(5)</u>
Total Assets	<u>95</u>	Liabilities & Surplus	<u>95</u>

Company XYZ's balance sheet now shows illusory decreased financial strength as the bond has essentially been marked to market at \$85 but the insurance liabilities are unchanged. The company could still fund the liability by retaining and investing the increased bond coupons received. The total surplus as the liability runs off would be:

Total of yearly (40) and final (100) payments owed policyholder	(140)
Total bond interest payments (55*) and maturity (85)	140
Total equity sale	<u>10</u>
Total surplus including after sale of surplus assets	<u>10</u>

\*10 payments of \$5.10 (\$85 x 6%) plus approximately \$4 of interest earnings from investing the annual excess of the coupon payments the new bond generates (\$5.10) from that paid to the policyholder (\$4).

Just like in Example 1, the inappropriate portrayal of solvency in this example would not occur after including IMR, and the balance sheet would look like Figure F.

Figure F			
Assets		Liabilities and Surplus	
Bonds	85	Insurance liability	100
IMR*	15	Surplus	<u>10</u>
Equities	<u>10</u>	Liabilities & Surplus	<u>110</u>
Total Assets	<u>110</u>		

\* For these examples, it is inconsequential whether negative IMR is reported an asset or contra liability. It is placed here as an asset for illustrative purposes only.

Prior to selling the original bond and re-investing the proceeds, the bond on Company XYZ's balance sheet was in an unrealized loss position. Hypothetically, it could have been shown in the financial statements as in Figure G.

Figure G			
Assets		Liabilities and Surplus	
Bonds at Market	85	Insurance liability	100
Unrealized Loss	15	Surplus	<u>10</u>
Equities	<u>10</u>	Liabilities & Surplus	<u>110</u>
Total Assets	<u>110</u>		

As the original bond and the new bond are transacted at market value, there would be no difference in solvency position pre- and post-trade for Company XYZ. Disallowing negative IMR in Figure F (the IMR value under "Assets") is no more appropriate than disallowing the unrealized loss embedded within the balance sheet in Figure G.

An illustrative example regarding IMR in the context of derivative hedging transactions is provided in Appendix 3.

### Definition of IMR

With this background, we now have the proper context to define and state the purpose of IMR:

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

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

Specifically, the IMR valuation adjustment more appropriately reflects the impact to statutory surplus from fluctuations in interest rates and therefore provides a more accurate representation of solvency under the NAIC's statutory framework which often includes amortized cost valuation of fixed income

investments and liability valuations with fixed assumptions in accordance with the Accounting Practices and Procedures and Valuation Manual.

To accurately assess whether a company can fulfill its obligations, it must present its liabilities and assets on a financially integrated and consistent basis. If they are inconsistent, then the annual statement will not reveal the degree to which assets exceed liabilities and neither regulators nor management can appropriately determine the risk of insolvency for the company. Taken further, limiting IMR balances creates an inconsistency within the Statutory framework and would generate false solvency signals for regulators. Limiting IMR balances can also disincentivize prudent interest rate risk management. By appropriately recognizing fixed income gains and losses within the Statutory framework, the IMR prevents the misrepresentation of surplus from changes in interest rates.

## **Appendix 1 – IMR in the context of Principle-Based Reserving (PBR)**

PBR is a relatively recently developed method for calculating U.S. statutory reserves that intends to better quantify product risks. Distinctive to PBR in the Statutory framework, the approach considers a range of future economic scenarios and uses justified company-specific assumptions that can change over time as company experience emerges, subject to regulatory guardrails. PBR is generally applicable for individual life insurance contracts issued 2020 and later (VM-20) and for all variable annuity contracts (VM-21). PBR is expected to apply to fixed annuity contracts issued 2025 and later (VM-22). Minimum reserves under PBR are the maximum of a formula-based reserve and modeled reserves.

For PBR's formula-based reserves, the accounting basis is "frozen" and "locked in" at issue and does not reflect underlying assets or a company's investment strategy (e.g., the net premium reserve). As a result, the existing IMR construct works in tandem with PBR's formula-based reserves to maintain consistency between the liability and asset valuations when the asset valuation is unlocked due to asset sales.

For PBR's modeled reserves, the accounting basis is not "frozen" but is unlocked over time with assumptions that reflect company experience in its cash flow models (e.g., the deterministic reserve and the stochastic reserve). Under PBR's modeled reserves, the reserves reflect the company's underlying assets and investment strategy, and the impact of asset gains or losses is reflected in the modeled reserve calculation. Distinctive to the modeled reserve component(s) of PBR, the modeled reserves then reflect an explicit adjustment for IMR so that there is no surplus impact at time of asset sale.

In summary, the IMR construct is necessary for consistent liability valuation under PBR's formula-based reserves and is already explicitly reflected and accounted for under PBR's modeled reserves.



## **Appendix 2 – IMR in the context of Asset Adequacy Testing (AAT)**

Asset adequacy analysis is an analysis of the adequacy of reserves and other liabilities, considering the assets supporting such reserves and other liabilities under moderately adverse conditions. If additional assets are needed, then the actuary should establish an additional reserve equal to the value of those additional assets.

A common form of asset adequacy analysis is cash flow testing, which is the projection and comparison of the timing and amount of cash flows under one or more scenarios. Conceptually, cash flow testing is similar to the deterministic reserve, or a set of deterministic reserves, under PBR as discussed in Appendix 1.

In 2022 and 2023, the NAIC's Life Actuarial (A) Task Force provided guidance on allocating negative IMR for PBR and AAT. This guidance recommended that any portion of negative IMR that is an admitted asset should be allocated for PBR and AAT in a principle-based, reasonable, and appropriate manner that would be consistent with the handling of negative IMR. Effectively, AAT explicitly accounts for admitted negative IMR by reducing the amount of interest-earning assets. Likewise, AAT can reflect positive IMR by allowing for a larger starting balance of interest-earning assets. In summary, AAT has been designed in tandem with the IMR construct to ensure the consistent valuation of assets and liabilities within the Statutory framework.

### **Appendix 3 – IMR in the context of Derivative Hedging Transactions**

The applicability of the IMR construct to gains or losses from derivative hedging transactions flows from the concepts outlined in the earlier text. To illustrate its importance within plausible ALM strategies, the example outlined here in Appendix 3 assumes a more complex and realistic set of insurance liabilities.

#### **Example 3**

Assume Company XYZ issues life insurance contracts where the premiums come in each year until death and there is a payment upon death estimated to occur at the end of 5 years. Assume Company XYZ is again starting out with \$10 of surplus invested in equity securities (again, assume no change in value over the period of valuation). The current interest rate environment is such that the fixed income bond yield and the insurance liability valuation rate are again both 4%, and Company XYZ:

- Sells 100 insurance contracts that pay \$1 upon death for yearly premiums of 18.47 cents at the end of each year 1 through 5.
- Purchases bonds with a coupon rate of 4%, with all premiums and coupons received, maturing at the anticipated time of death in 5 years.
- Assume the market yield of 4% is constant throughout the 5-year period.

Company XYZ's balance sheet for each year, using a simplified net premium calculation for reserves, would look like Figure H.

Figure H						
Year	Assets			Liabilities and Surplus		
	Bonds	Equities	Total	Insurance Liability	Surplus	Total
1	18.47	10.00	28.47	18.47	10.00	28.47
2	37.67	10.00	47.67	37.67	10.00	47.67
3	57.64	10.00	67.64	57.64	10.00	67.64
4	78.40	10.00	88.40	78.40	10.00	88.40
5	100.00	10.00	110.00	100.00	10.00	110.00

Company XYZ can pay all claims on the policy and the balance sheet surplus appropriately reflects surplus at the end of each reporting period. In the real world with this more dynamic pool of liabilities, other changes could occur, such as one or multiple of:

- Interest rates could decline, and coupon and premium payments would not be able to be invested at 4%.
- Death benefits could be paid at a point in time greater than the invested bond maturity and if interest rates decline, the bond would not be able to be re-invested at 4%.
- Policy surrenders could occur, including due to changes in market interest rates, causing the claims patterns to change from expectations.

Amidst this real-world uncertainty, Company XYZ could consider any of the following risk mitigating activities, which inherently depend upon its mix of insurance liabilities:

- Accept the risk of future asset and liability cash flow fluctuations, which could result in an inability pay claims in certain situations. For instance, if interest rates declined, the coupon payments, premium payments, and/or maturities would not be able to be re-invested in fixed income investments that have sufficient yield to pay claims as expected.
- Charge higher premiums at inception to account for the reinvestment risk and duration risk associated with the insurance liabilities.

- Manage the investment portfolio to a prudent liability duration or any number of appropriate and prudent asset liability management (ALM) strategies.
- Prudently hedge with derivatives within the ALM strategy. Such derivative usage strategies are used where purchases are not viable or where it is more efficient to utilize derivatives.

If the derivative strategy is applied, the reinvestment risk could be hedged to lock in a 4% yield. When interest rates fluctuate, any gain or loss on the derivative offsets the lower or higher actual yield that is received on the reinvestments.

In Example 3, if interest rates plunged to 0% on day 2, Company XYZ would not be able to support the liabilities because future premiums and coupons would not be able to be reinvested at 4%. If Company XYZ had hedged reinvestment risk, they would have a gain on derivatives equal to the economic loss of not being able to invest at 4%. Similarly, if interest rates doubled to 8%, Company XYZ would have a loss on derivatives equal to the economic gain of now being able to invest at the much higher interest rate of 8%. In both cases, Company XYZ has hedged reinvestment risk and has not changed the solvency picture in Example 3.

In summary, IMR is appropriate for all types of fixed income investments, including derivatives which alter the interest rate characteristics of assets/liabilities, for all realized capital gains and losses which result from changes in the overall level of interest rates as they occur.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/08-11-25 Summer National Meeting/Hearing/09 - 25-03 - ACLI IMR Definition.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2025/08-11-25%20Summer%20National%20Meeting/Hearing/09%20-%2025-03%20-%20ACLI%20IMR%20Definition.docx)

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

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

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

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

**Existing Authoritative Literature:**

**1. Distinguishing Liabilities from Equity / Derivatives and Hedging:**

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

**Financial Instruments with Characteristics of both Liabilities and Equity**

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

- a. A mandatorily redeemable financial instrument shall be classified as a liability unless the redemption is required to occur only upon the liquidation or termination of the issuing reporting entity.
- b. A financial instrument, other than an outstanding share, that at inception both 1) embodies an obligation to repurchase the issuer's equity shares or is indexed to such an obligation and 2) requires or may require the issuer to settle the obligation by transferring assets.
- c. Obligations that permit the holder to require the issuer to transfer assets.
- d. A financial instrument is a liability if the issuer must settle the obligation by issuing a variable number of its equity shares and the obligation's monetary value is based solely or predominantly on: 1) a fixed monetary amount, 2) variation in something other than the fair value of the issuer's equity shares, or 3) variations inversely related to changes in the fair value of the issuer's equity shares.
- e. Instruments in which the counterparty (holder) is not exposed to the risks and benefits that are similar to those of a holder of an outstanding share of the entity's equity shall be classified as a liability.

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

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

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

#### **Debt**

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

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

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

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

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

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

**Staff Recommendation:**

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

**Staff Review Completed by:**

William Oden, NAIC Staff – February 2025

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

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

**Relevant Literature**

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

**Status:**

On March 24, 2025, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 15—Debt and Holding Company Obligations* to adopt with modification *ASU 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20), Induced Conversions of Convertible Debt Instruments* for statutory accounting as this update provides clarifications on induced conversions and when the inducement shall be recognized as expense by the issuer.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/08-11-25 Summer National Meeting/Hearing/10 - 25-02 - ASU 2024-04, Induced Conversions of Convertible Debt Instruments.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/08-11-25SummerNationalMeeting/Hearing/10-25-02-ASU2024-04,InducedConversionsofConvertibleDebtInstruments.docx)

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

**Issue:** VM-22 Update Coordination

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:**

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

**Existing Authoritative Literature:**

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

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

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

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

**Staff Review Completed by:** Robin Marcotte– NAIC Staff

**Staff Recommendation:**

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

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

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

**Policy Reserves**

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

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

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

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

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

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

**Status:**

On March 24, 2025, the Statutory Accounting Principles (E) Working Group exposed revisions which add minor consistency revisions to *SSAP No. 51—Life Contracts* reflect updates to the *Valuation Manual* in *VM-22 PBR: Requirements for Principle-Based Reserves for Non-Variable Annuities*.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/08-11-25SummerNationalMeeting/Hearing/11-25-09-VM-22Coordination.docx>



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

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

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:**

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

**Existing Authoritative Literature:**

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

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

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

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

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

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

**Staff Recommendation:**

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2023-07, Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures* as not applicable to statutory accounting. This item is considered not applicable as the ASU amends U.S. GAAP guidance on segment reporting disclosures for public entities, which is not an applicable concept for statutory accounting purposes. Topic 280 was established from FAS 131, which has previously been determined to be not applicable to statutory accounting principles by the Working Group. In addition, the annual statement reporting process requires reporting by line of business, jurisdiction and instead of U.S. GAAP "segment" type information.

**Staff Review Completed by:** William Oden – February 2025

**Status:**

On March 24, 2025, the Statutory Accounting Principles (E) Working Group exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2023-07, Segment Reporting (Topic 280)*, *Improvements to Reportable Segment Disclosures* as not applicable to statutory accounting.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National\\_Meetings/A. National Meeting Materials/2025/08-11-25 Summer National Meeting/Hearing/12 - 25-10 - ASU 2023-07, Improvements to Reportable Segment Disclosures.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National_Meetings/A._National_Meeting_Materials/2025/08-11-25_Summer_National_Meeting/Hearing/12-25-10-ASU_2023-07_Improvements_to_Reportable_Segment_Disclosures.docx)

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

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

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:**

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

**Existing Authoritative Literature:**

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

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

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

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

**Staff Recommendation:** NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject ASU 2024-03, *Disaggregation of Income Statement Expenses* and ASU 2025-01, *Clarifying the Effective Date of ASU 2024-03* as not applicable to statutory accounting. This item is proposed to be rejected as not applicable as the ASUs are specific to comprehensive income disclosures for public entities, which is not an applicable concept for statutory accounting purposes. Additionally, the annual statements already require a level of expense disaggregation in the Summary of Operations, along with a more detailed breakdown in the general expense exhibit.

**Staff Review Completed by:** William Oden – January 2025

**Status:** On March 24, 2025, the Statutory Accounting Principles (E) Working Group exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject ASU 2024-03, *Disaggregation of Income Statement Expenses* and ASU 2025-01, *Clarifying the Effective Date of ASU 2024-03* as not applicable to statutory accounting.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/08-11-25 Summer National Meeting/Hearing/13- 25-11 - ASU 2024-03 and 2025-01, Disaggregation of Income Statement Expenses.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2025/08-11-25%20Summer%20National%20Meeting/Hearing/13-25-11%20-%20ASU%202024-03%20and%202025-01,%20Disaggregation%20of%20Income%20Statement%20Expenses.docx)

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

**Issue:** *ASU 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:**

In February 2017 the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*, to clarify the scope of Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets, and to add guidance for partial sales of nonfinancial assets. Subtopic 610-20, which was issued in May 2014 as a part of *ASU 2014-09, Revenue from Contracts with Customers (Topic 606)*, provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. ASU 2017-05 also establishes a definition for the term “in substance nonfinancial asset” and guidance for making this determination.

The guidance provided by Subtopic 610-20 specifically carves out transfers of nonfinancial assets which are part of business combinations, leases, sale-leaseback transactions, securitizations of nonfinancial assets, and nonmonetary transactions. The nonfinancial assets within the scope of Subtopic 610-20 include intangible assets, land, buildings, use of facilities or utilities, or materials and supplies and may have a zero carrying value.

**Existing Authoritative Literature:**

Nonfinancial asset is not a defined term within Statutory Accounting, but the term is inclusive of several types of assets which are individually addressed within statutory accounting.

*SSAP No 22—Leases* provides statutory guidance on use of facilities or utilities agreements.

*SSAP No 40—Real Estate Investments* provides statutory guidance on investments in land and buildings.

Intangibles are generally addressed by *SSAP No. 20—Nonadmitted Assets*, which states that intangibles are nonadmitted assets unless specifically admitted. Certain intangible assets are specifically addressed and allowed as admitted assets, which would include *SSAP No. 16—Electronic Data Processing Equipment and Software* and *SSAP No. 68—Business Combinations and Goodwill*.

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

Agenda items 2016-19 and 2017-37 addressed ASU 2014-09 and the other main ASUs related to ASC Topic 606 Contracts with Customers and were rejected in *SSAP No. 47—Uninsured Plans*. As noted earlier, Subtopic 610-20 was established through ASU 2014-09.

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:**

None

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

**Staff Recommendation:**

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* as not applicable to statutory accounting. This item is considered not applicable as the ASU amends U.S. GAAP guidance on derecognition of nonfinancial assets, which is not an applicable concept for statutory accounting purposes. Topic 610 was established from ASU 2014-09, which has previously been determined to be not applicable to statutory accounting principles by the Working Group.

**Staff Review Completed by:** William Oden – April 2025

**Status:**

On May 22, 2025, the Statutory Accounting Principles (E) Working Group exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* as not applicable to statutory accounting.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/08-11-25 Summer National Meeting/Hearing/14 - 25-14 - ASU 2017-05, Asset Derecognition and Sales of Nonfinancial Assets.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2025/08-11-25%20Summer%20National%20Meeting/Hearing/14%20-%2025-14%20-%20ASU%202017-05,%20Asset%20Derecognition%20and%20Sales%20of%20Nonfinancial%20Assets.docx)

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

**Issue:** *ASU 2025-02—Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 122*

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:**

In March of 2025, FASB issued *ASU 2025-02, Liabilities (Topic 405), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 122*, which amends an SEC paragraph pursuant to the issuance of SEC Staff Accounting Bulletin (SAB) No. 122, which rescinds the interpretive guidance on accounting for obligations to safeguard crypto-assets held for platform users detailed in SAB No. 121.

**Existing Authoritative Literature:**

Historically, SEC guidance from ASUs have been rejected as not applicable for statutory accounting in Appendix D. Regardless, all ASUs are reviewed for statutory accounting purposes to determine if the guidance should be considered for statutory accounting.

The SEC guidance deleted by ASU 2025-02 was previously rejected for inclusion in statutory accounting.

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

*ASU 2023-04, Amendments to SEC Paragraphs Pursuant to SAB No. 121* was rejected by the Working Group through agenda item 2023-27.

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:**

None

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

**Staff Recommendation:**

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2025-02, Liabilities (Topic 405), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 122* as not applicable to statutory accounting. This guidance is not applicable as it eliminates SEC guidance which was rejected for statutory accounting purposes.

**Staff Review Completed by:** William Oden – May 2025

**Status:**

On May 22, 2025, the Statutory Accounting Principles (E) Working Group exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2025-02, Liabilities (Topic 405), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 122* as not applicable to statutory accounting.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/08-11-25 Summer National Meeting/Hearing/15 - 25-15 - ASU 2025-02 - SEC Updates.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2025/08-11-25%20Summer%20National%20Meeting/Hearing/15%20-25-15%20ASU%202025-02%20SEC%20Updates.docx)



**NAIC Accounting Practices and Procedures Manual  
Editorial and Maintenance Update  
May 22, 2025**

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

SSAP/Appendix	Description/Revision
SSAP No. 26	<b>SSAP No. 26—Bonds</b> Update Disclosure 40.f. to Match Schedule D, Part 1A Maturity categories. Schedule D, Part 1A has maturity categories of 10-20 years and over 20 years. The disclosure in SSAP No. 26 only goes up to an after 10-year category.
SSAP No. 41	<b>SSAP No. 41—Surplus Notes</b> Remove remaining reference to a “CRP” designation in paragraph 11. Whether the designation is required from a Credit Rating Provider or from the SVO is contingent on the <i>Purposes and Procedures Manual of the NAIC Investment Analysis Office</i> .
SSAP No. 56	<b>SSAP No. 56—Separate Accounts</b> Delete Disclosure 32.d. The disclosure is no longer applicable with previously adopted revisions.
INT 22-01	<b>INT 22-01: Freddie Mac When Issued K-Deal (WI Trust) Certificates.</b> Remove former SSAP No. 43R— <i>Loan-Backed and Structured Security</i> terminology.

**Staff Recommendation:**

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

**1. SSAP No. 26—Bonds – Update Disclosure 40.f. to Match Schedule D-Part 1A**

Schedule D, Part 1A has categories for 10-20 years and over 20 years. This has been a long-standing disconnect from the categories in SSAP No. 26 recently identified and was not revised as part of the bond definition. The SSAP No. 26 guidance has also been revised to remove the direction for items without a maturity date that are either not payable on demand or not in good standing as the Schedule D – Part 1A instructions shall be followed.

40. The financial statements shall include the following disclosures:

- f. For the most recent balance sheet, the book/adjusted carrying values and the fair values of bonds and assets in scope of this statement, reported in statutory annual statement Schedule D, Part 1A, due:
  - i. In one year or less (including items without a maturity date which are payable on demand and in good standing);
  - ii. After one year through five years;
  - iii. After five years through ten years;

iv. After ten years through twenty years.

v. Over 20 Years(including items without a maturity date which are either not payable on demand or not in good standing).

**2. SSAP No. 41—Surplus Notes – Delete remaining reference to “CRP designations”**

10. Capital or surplus notes shall be valued in accordance with paragraph 11. Pursuant to that paragraph, the value is determined by NAIC designations. The *Purposes and Procedures Manual of the NAIC Investment Analysis Office* provides guidance in determining the NAIC designation for these investments.
11. If the capital or surplus note ~~has been rated by an NAIC CRP and~~ has a designation equivalent of NAIC 1 or NAIC 2, then it shall be reported at amortized cost. If the capital or surplus note does not have an NAIC designation or has an NAIC designation of NAIC 3 through 6, then the balance sheet amount shall be reported at the lesser of amortized cost or fair value, with fluctuations in value reflected as unrealized valuation changes.

**3. SSAP No. 56—Separate Accounts – Delete Disclosure 32.d.**

Delete paragraph 32.d. as it is no longer applicable with the revised adoption to SSAP No. 56:

32. For each grouping (as detailed in paragraph 33), the following shall be disclosed:

~~d. — Reserves for asset default risk, as described in paragraph 18.b., that are recorded in lieu of AVR.~~

With the revisions adopted to SSAP No. 56—*Separate Accounts* under agenda item 2024-10: Book Value Separate Accounts, the guidance in paragraph 18.b. was deleted.

**Historical SSAP No. 56 guidance for paragraph 18.b.**

These paragraphs have been deleted/revised:

**Separate Account AVR and IMR Reporting**

~~18.23.~~ An AVR is generally required for separate accounts when the insurer reporting entity, rather than the policyholder/contractholder, suffers the loss in the event of asset default or fair value loss. An AVR is required unless:

a. — The asset default or fair value risk is borne directly by the policyholders; or

b. — The regulatory authority for such separate accounts already explicitly provides for a reserve for asset default risk, where such reserves are essentially equivalent to the AVR.

**Revised SSAP No. 56 after adoption of 2024-10 (shown clean)**

**Separate Account AVR and IMR Reporting**

23. An AVR is required for separate accounts when the reporting entity, rather than the policyholder/contractholder, suffers the loss in the event of asset default or fair value loss.
24. Assets supporting separate accounts, excluding products captured in **paragraph 18**, do not require an AVR because the policyholders/contractholders bear the risk of change in the value of the assets.

- However, for those contracts an AVR is required for that portion of the assets representing seed money (including accumulated earnings on seed money) from the general account.
25. Assets supporting separate account contracts where the insurer bears the risk of investment performance, which shall include all book value separate accounts, require an AVR because the insurer is responsible for credit related asset or fair value loss.
  26. “Book Value” separate accounts, pursuant to paragraph 18, are required to maintain an Interest Maintenance Reserve (IMR). Separate accounts with assets reported at fair value are not required to maintain an IMR. Once an IMR is required for a separate account, all of the investments in that separate account are subject to the requirement. If an IMR is not required for a separate account, none of the investments in that separate account are subject to the requirement.
  27. As detailed in the Annual Statement Instructions, Separate account IMR is kept separate from the general account IMR and accounted for in the separate accounts statement.
  28. The AVR and IMR shall be calculated and reported in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* and the Annual Statement Instructions.

#### **4. INT 22-01: Freddie Mac When Issued K-Deals (WI Trust) Certificates**

The adoption of *SSAP No. 43—Asset-Backed Securities* as part of the principles-based bond project resulted in an explicit scope reference to Freddie Mac When Issued K-Deal (WI Trust) Certificates. Additionally, the guidance in *SSAP No. 43* was revised and no longer includes the terms of “loan-backed” or “structured securities” or the historical definitions for those terms.

This editorial item is to remove the outdated guidance referring to loan-backed and structured securities from INT 22-01. As these structures are now named inclusions in *SSAP No. 43*, paragraph 2.b., consideration was given to nullifying the INT; however, per correspondence with a Freddie Mac representative, the INT is useful in explaining the structures and rationale for the *SSAP No. 43* inclusion and they would like for it to be retained. The proposed deletion is shown below:

#### **INT 22-01 Discussion**

6. This interpretation clarifies that investments in the Freddie Mac WI Program shall be captured in scope of *SSAP No. 43* from initial acquisition, and not as a derivative forward contract, for the following reasons:
  - a. The WI Program is fully guaranteed by Freddie Mac and ensures that the investor will receive pass-through certificates, backed by mortgage loans held in trust, that reflect the terms of the investment set at original acquisition. In the event that the K-Deal certificates cannot be acquired, Freddie Mac is guaranteed to provide payment to the investor that reflects the full principal and interest per the original terms of the agreement, which reflects the payments that would have been received overtime if K-Deal certificates had been acquired.
  - b. The definition of a forward contract in *SSAP No. 86* reflects an agreement between two parties that commit one party to purchase and another party to sell the instrument underlying the contract at a specified future date. With the WI Trust Program, the investor does not have a future commitment to acquire securities, as the investor acquires the WI Trust certificate on day one of the transaction and the investor is not required to convert the WI Trust certificates at any time. This WI Trust certificate is not a derivative instrument, as at the time of acquisition, the certificate reflects a tradeable investment in a

trust structure backed by cash and a Freddie Mac guarantee of cash flows in accordance with terms established at original acquisition. In addition to having no variation to the investor as a result of an underlying interest, there is no requirement on the investor to take delivery of a different investment. The ability to convert the WI Trust certificate to a K-Deal certificate is strictly an election to the investor and is not a requirement to receive the pass-through cash flows per the terms of the initial investment.

- c. The WI Program, and resulting obligation of Freddie Mac, ultimately reflects an investment where the investor receives pass-through cash flows generated from mortgage loans acquired and held in trust. ~~This investment dynamic is within the scope of SSAP No. 43R, paragraphs 2-4:~~

~~2. — Loan-backed securities are defined as securitized assets not included in structured securities, as defined below, for which the payment of interest and/or principal is directly proportional to the payments received by the issuer from the underlying assets, including but not limited to pass-through securities, lease-backed securities, and equipment trust certificates.~~

~~3. — Structured securities are defined as loan-backed securities which have been divided into two or more classes for which the payment of interest and/or principal of any class of securities has been allocated in a manner which is not proportional to payments received by the issuer from the underlying assets.~~

~~4. — Loan-backed securities are issued by special purpose corporations or trusts (issuer) established by a sponsoring organization. The assets securing the loan-backed obligation are acquired by the issuer and pledged to an independent trustee until the issuer's obligation has been fully satisfied. The investor only has direct recourse to the issuer's assets, but may have secondary recourse to third parties through insurance or guarantee for repayment of the obligation. As a result, the sponsor and its other affiliates may have no financial obligation under the instrument, although one of those entities may retain the responsibility for servicing the underlying assets. Some sponsors do guarantee the performance of the underlying assets.~~

- d. The WI Program, and treatment as a SSAP No. 43 security, is consistent with the current guidance for TBA securities when an insurer intends to take possession of the resulting mortgage-backed security. A TBA security reflects the pre-purchase of mortgage-backed securities prior to the finalization of the security issuance. Pursuant to the annual statement instructions, TBA securities are to be reported on Schedule D-1: Long-Term Bonds unless the structure more closely resembles a derivative. This determination depends on how a company uses the TBA. (For example, if a company intended to assume the mortgage-backed security once issued, the TBA would be captured on Schedule D-1 at initial acquisition. If a reporting entity was to continually trade/roll TBA exposures, this would be more characteristics of a derivative and would be captured on Schedule DB as a derivative.)

**Status:**

On May 22, 2025, the Statutory Accounting Principles (E) Working Group exposed the editorial revisions detailed in this agenda item.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/08-11-25SummerNationalMeeting/Hearing/16-25-17EPMay2025.docx>

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

**Issue: A-791 Paragraph 2.c.**

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:**

The Valuation Analysis (E) Working Group sent a referral to the Statutory Accounting Principles (E) Working Group which recommends making a clarifying edit to A-791, Life and Health Reinsurance Agreements, 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." **(See Existing Authoritative Literature)** 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.

**Existing Authoritative Literature:**

**A-791, Life and Health Reinsurance Agreements, paragraph 2c:**

2. No insurer shall, for reinsurance ceded, reduce any liability or establish any asset in any statutory financial statement if, by the terms of the reinsurance agreement, in substance or effect, any of the following conditions exist:
  - c. The ceding insurer is required to reimburse the reinsurer for negative experience under the reinsurance agreement, except that neither offsetting experience refunds against current and prior years' losses under the agreement nor payment by the ceding insurer of an amount equal to the current and prior years' losses under the agreement upon voluntary termination of in force reinsurance by the ceding insurer shall be considered such a reimbursement to the reinsurer for negative experience. Voluntary termination does not include situations where termination occurs because of unreasonable provisions which allow the reinsurer to reduce its risk under the agreement. An example of such a provision is the right of the reinsurer to increase reinsurance premiums or risk and expense charges to excessive levels forcing the ceding company to prematurely terminate the reinsurance treaty;

**A-791, Life and Health Reinsurance Agreements, paragraph 2c's, Question and Answer (Underlining added for Emphasis):**

**Q – If group term life business is reinsured under a YRT reinsurance agreement (which includes risk-limiting features such as with an experience refund provision which offsets refunds against current and/or prior years' losses (i.e., a "loss carryforward" provision), under what circumstances would any provisions of the reinsurance agreement be considered "unreasonable provisions which allow the reinsurer to reduce its risk under the agreement" thereby violating subsection 2.c.?**

**A – 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.** So long as the reinsurer cannot charge premiums in excess of the premium received by the ceding insurer under the provisions of the YRT reinsurance agreement, such provisions would not be considered unreasonable. Any provision in the YRT reinsurance agreement which allows the reinsurer to charge reinsurance premiums in excess of the proportionate premium received by the ceding insurer would be considered unreasonable. The revisions to this QA regarding group term life yearly renewable term agreements is effective for contracts in effect as of January 1, 2021.

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** On January 10, 2024, the Statutory Accounting Principles (E) Working Group received the referral from the Valuation Analysis (E) Working Group and directed NAIC staff to prepare an agenda item for future Working Group discussion.

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

**Convergence with International Financial Reporting Standards (IFRS):** Not applicable.

**Staff Recommendation:**

NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions to remove the first sentence of the A-791, paragraph 2c's Question and Answer as illustrated below. In addition, the Working Group should notify the Valuation Analysis (E) Working Group, the Life Actuarial (A) Task Force and the Reinsurance (E) Task Force of the exposure.

As noted by the referral, the sentence is not necessary as it is more of an introductory aside. If it is causing confusion and misapplication, as noted by the VAWG, it is better to remove the sentence.

**Proposed revision to A-791, Life and Health Reinsurance Agreements, paragraph 2c:**

2. No insurer shall, for reinsurance ceded, reduce any liability or establish any asset in any statutory financial statement if, by the terms of the reinsurance agreement, in substance or effect, any of the following conditions exist:
  - c. The ceding insurer is required to reimburse the reinsurer for negative experience under the reinsurance agreement, except that neither offsetting experience refunds against current and prior years' losses under the agreement nor payment by the ceding insurer of an amount equal to the current and prior years' losses under the agreement upon voluntary termination of in force reinsurance by the ceding insurer shall be considered such a reimbursement to the reinsurer for negative experience. Voluntary termination does not include situations where termination occurs because of unreasonable provisions which allow the reinsurer to reduce its risk under the agreement. An example of such a provision is the right of the reinsurer to increase reinsurance premiums or risk and expense charges to excessive levels forcing the ceding company to prematurely terminate the reinsurance treaty;

**A-791, Life and Health Reinsurance Agreements, paragraph 2c's, Question and Answer):**

**Q – If group term life business is reinsured under a YRT reinsurance agreement (which includes risk-limiting features such as with an experience refund provision which offsets refunds against current and/or prior years' losses (i.e., a “loss carryforward” provision), under what circumstances would any provisions of the reinsurance agreement be considered “unreasonable provisions which allow the reinsurer to reduce its risk under the agreement” thereby violating subsection 2.c.?**

**A – ~~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.~~** So long as the reinsurer cannot charge premiums in excess of the premium received by the ceding insurer under the provisions of the YRT reinsurance agreement, such provisions would not be considered unreasonable. Any provision in the YRT reinsurance agreement which allows the reinsurer to charge reinsurance premiums in excess of the proportionate premium received by the ceding insurer would be considered unreasonable. The revisions to this QA regarding group term life yearly renewable term agreements is-are effective for contracts in effect as of January 1, 2021.

**Staff Review Completed by:** Robin Marcotte – NAIC Staff, February 2024

**Status:**

On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed the above illustrated revisions to remove the first sentence of *Appendix A-791—Life and Health Reinsurance Agreements* (A-791), paragraph 2c's Question and Answer. In addition, the Working Group directed NAIC staff to notify the Valuation Analysis (E) Working Group, the Life Actuarial (A) Task Force and the Reinsurance (E) Task Force of the exposure.

On August 13, 2024, the Statutory Accounting Principles (E) Working Group re-exposed this agenda to allow more time for comments and discussion on this agenda item.

On December 17, 2024, the Statutory Accounting Principles (E) Working Group received a preliminary overview of the comments received from the August 2024 exposure. The Working Group directed NAIC staff to schedule a joint meeting with the Life Actuarial (A) Task Force to further discuss the referral from the Valuation of Assets (E) Working Group and the comments received.

On April 10, 2025, the Statutory Accounting Principles (E) Working Group and the Life Actuarial (A) Task Force held a joint meeting. The meeting discussed this agenda item and agenda item 2024-06: Risk Transfer Analysis on Combination Reinsurance Contracts; heard a presentation from the American Council of Life Insurers (ACLI) on statutory risk transfer considerations and heard a presentation on combined coinsurance funds withheld YRT agreements from the LATF chair.

On May 30, 2025, a small group of regulators from the SAPWG and Life Actuarial (A) Task Force recommended re-exposure of the previously exposed revisions to this agenda item. These revisions delete a sentence from the A-791 paragraph 2c QA as illustrated above. There are no revisions from the prior exposure for this item.

On June 2, 2025 the Statutory Accounting Principles (E) Working Group re-exposed the previously exposed revisions to this agenda item. These revisions delete a sentence from the A-791 paragraph 2c QA as illustrated above. There are no revisions from the prior exposure for this item.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/08-11-25 Summer National Meeting/Hearing/17 - 24-05 - A791 par 2c.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/08-11-25SummerNationalMeeting/Hearing/17-24-05-A791par2c.docx)

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

**Issue: Risk Transfer Analysis on Combination Reinsurance Contracts**

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:**

This agenda item is to address a December 2023, referral by the Valuation Analysis (E) Working Group (VAWG) regarding reinsurance risk transfer and reserve credit for a particular form of reinsurance being observed by regulators in the life industry. The referral noted that:

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. Individual 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

*SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* contains guidance for life and health reinsurance agreements. Additionally, SSAP No. 61R refers to Appendix A-791, *Life and Health Reinsurance Agreements* for risk transfer criteria applicable to all forms of life and health reinsurance other than Yearly Renewable Term (YRT) agreements and certain non-proportional contracts such as stop loss and catastrophe reinsurance. YRT agreements are required to comply with specific parts of A-791. Furthermore, contracts that do not meet the conditions for reinsurance accounting in SSAP No. 61R, including the applicable parts of A-791, receive deposit accounting.

As noted in the referral above, regulators have observed reinsurance transactions that combine both coinsurance and YRT, typically applicable to different underlying policies, but that are interdependent. There exists 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.

The concern raised by regulators is 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. The agreements are designed to compensate the cedant for aggregate experience only in tail scenarios, which is accomplished through the design of the aggregate experience refund. In most reasonably expected scenarios, the net effect of the reinsurance is such that the cedant pays a financing charge to the reinsurer for a designated period of time until an expected recapture date and no additional net funds exchange hands. As a result, taking a full proportional reserve credit on the coinsured component is not reflective of the actual risk being transferred. SSAP No. 61R, paragraph 36 notes that the reinsurance credit is only for the risk reinsured. As noted in the referral, there was 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. NAIC staff agrees with the VAWG consensus and proposes to incorporate a version of existing guidance from SSAP No. 62R that addresses this point. The inclusion of this guidance is intended to require risk transfer to be analyzed for the entire contract when multiple interdependent types of reinsurance are present.

*SSAP No. 62R—Property and Casualty Reinsurance Exhibit A – Implementation Questions and Answers*, question 10 provides guidance on interdependent contract features. This agenda item proposes to incorporate key aspects of the SSAP No. 62R, Exhibit A question 10 into SSAP No. 61R to provide more clarity on evaluation of risk transfer on contracts with interdependent features. The answer requires that features of the contract(s) that directly or indirectly compensate the reinsurer or related reinsurers for losses be considered in determining if a particular contract transfers risk. The *SSAP No. 62R—Property and Casualty Reinsurance Exhibit A – Implementation Questions and Answers* question 10 provides the following:

10A: A contract is not defined, but is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract. **For example, the profit-sharing provisions of one contract may refer to experience on other contracts and, therefore, raise the question of whether, in substance, one contract rather than several contracts exist.**

The inconsistency that could result from varying interpretations of the term *contract* is limited by requiring that features of the contract or other contracts or agreements that directly or indirectly compensate the reinsurer or related reinsurers for losses be considered in evaluating whether a particular contract transfers risk. Therefore, if agreements with the reinsurer or related reinsurers, in the aggregate, do not transfer risk, the individual contracts that make up those agreements also would not be considered to transfer risk, regardless of how they are structured.

As historical background, the guidance for SSAP No. 62R, Exhibit A, question 10, originated from *GAAP EITF Topic D-34, Accounting for Reinsurance: Questions and Answers about FASB Statement No. 113* (EITF D-34). NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions to *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* as illustrated below. The proposed revisions incorporate guidance to SSAP No. 61R which is consistent with the guidance currently in SSAP No. 62R, Exhibit A Implementation Questions and Answers, question 10 and also add reference to A-791, paragraph 6 guidance in the YRT guidance paragraph. (See Authoritative Literature). FASB Statement No. 113 was adopted with modification in both SSAP No. 62R and SSAP No. 61R. Topic 944 Reinsurance Contracts in the current FASB Codification Implementation Guide continues to include the guidance from EITF D-34.

The example reinsurance contract that VAWG observed contained yearly renewable term reinsurance. Per SSAP No. 61R, paragraph 19, only certain parts of *A-791 Life and Health Reinsurance Agreements* apply to YRT contracts. Specifically, YRT contracts only have to pass A-791, paragraphs 2.b., 2.c., 2.d., 2.h., 2.i., 2.j. or 2.k. to result in reinsurance accounting. In addition, paragraph 3 of A-791 on deferral of gain on cession of prior year blocks of business also applies. As described above, YRT contracts do not transfer all of the risk inherent in the contract as they typically only cover a percentage of the net amount at risk for typically one year. Note that the reinsurance accounting credit from a YRT contract per the guidance in SSAP No. 61R, paragraph 37 is computed as the one-year term mean reserve on the amount of insurance ceded. Therefore, a YRT credit is typically less than what a proportional coinsurance contract which transfers all significant risks would typically provide.

The VAWG reinsurance contract example also included coinsurance contracts which must pass all of A-791 to receive reinsurance accounting. The example contract contained a shared experience refund between the two contract types. This interdependent feature is a key element. NAIC staff agrees with VAWG that an interdependent reinsurance payment in a contract requires a single risk transfer assessment. However, the combined interdependent contract when assessed in aggregate would likely cause it to either not meet the conditions for reinsurance accounting or would result in a smaller reinsurance credit than VAWG observed some entities taking.

A-791, paragraph 2e contains the guidance which limits the amounts paid to the reinsurer to the income realized on the underlying reinsured policy and paragraph 2f contains the guidance on transferring all the significant risk of the business reinsured. Adding YRT coverage with coinsurance would likely result in a “fail” of the criteria in A-791 because not all of the significant risks of the underlying reinsured policies would be likely to be passed to the reinsurer (thus failing the criteria in A-791, paragraph 2f). Combining YRT and coinsurance in the same contract could also cause that contract to fail A-791 if the reinsurance contract charged more than the income on the underlying policy.

In addition, A-791, paragraph 6 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. This paragraph does not currently apply to YRT but is recommended to apply.

#### **Existing Authoritative Literature:**

- *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*

#### **Types of Reinsurance Arrangements**

11. Once an entity has decided to reinsure amounts in excess of its desired retention, it may proceed in one of several basic arrangements—coinsurance, modified coinsurance, yearly renewable term or non-proportional. Such contracts may have funds withheld.

#### **Coinsurance**

12. In this arrangement, the risks are reinsured on the same plan as that of the original policy. The direct writer and the reinsurer share in the risk in the same manner. The ceding entity pays the reinsurer a proportional part of the premiums collected from the insured. In return, the reinsurer reimburses the ceding entity for the proportional part of the death or accident and health claim payments and other benefits provided by the policy, including nonforfeiture values, policy dividends, experience rating refunds, commissions, premium taxes, and other direct expenses agreed to in the contract. The reinsurer must also establish the required reserves for the portion of the policy it has assumed. A single policy can be coinsured with more than one entity or under more than one reinsurance contract with the same entity as long as the combined total of reinsurance and the retention of the ceding entity is not more than 100% of the risk.

13. In coinsurance of participating policies, the reinsurer may reimburse the ceding entity for its portion of the dividends paid to the policyholder. In determining its schedule of dividends, the ceding entity takes into account the experience on the business as written. If the reinsurer reimburses dividends it will typically accept the ceding entity's schedule but may require input into the schedule. Changes to the schedule may

have to be agreed to by the reinsurer. Coinsurance of all or a portion of a block of business also is used in situations where a severe strain is placed on the direct writing entity's surplus in the first policy year. For example, the premium received by the direct writer during the first policy year usually is insufficient to pay the high first-year commissions and other costs of issue and to establish the initial reserve. In such an example, coinsurance relieves some of the surplus strain of adding large amounts of new insurance.

### Modified Coinsurance

14. The "modified coinsurance" or "modco" arrangement is a variation of coinsurance. The ceding entity has transferred all or a portion of the net policy liabilities on the reinsured policies to the reinsurer, and the reinsurer is required to indemnify the ceding entity for the same amount. The assets necessary to support the reserves for the original policies are maintained by the ceding entity instead of the reinsurer. This is accomplished by designating in the contract the transfer of the net policy liabilities to the assuming entity and an immediate transfer back to the extent of the modco deposit. Under modified coinsurance, the assuming entity shall transfer to the ceding entity the increase in the reserve on the reinsured portion. This transaction reflects the reinsurer's risk with respect to the reinsured business and its obligation to maintain the reserves supporting such obligation. In some cases, a policy may be reinsured partially on a coinsurance arrangement and partially on a modified coinsurance arrangement. This may be accomplished through the use of two contracts or in a single contract.

### Yearly Renewable Term (YRT)

15. Under this arrangement of reinsurance, the ceding entity transfers the net amount at risk on the portion reinsured to the reinsurer and pays a one-year term premium. The "net amount at risk"—as defined in the contract—is usually the amount of insurance provided by the policy in excess of the ceding entity's reserve on it.

### Non-Proportional

16. Other forms of reinsurance are also available, such as catastrophe and stop loss coverage. 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. 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.

### Transfer of Risk

17. **Reinsurance agreements must transfer risk from the ceding entity to the reinsurer in order to receive the reinsurance accounting treatment discussed in this statement.** If the terms of the agreement violate the risk transfer criteria contained herein, (i.e., **limits or diminishes the transfer of risk by the ceding entity to the reinsurer**), **the agreement shall follow the guidance for Deposit Accounting. In addition, any contractual feature that delays timely reimbursement violates the conditions of reinsurance accounting.**

18. This paragraph applies to all life, deposit-type and accident and health reinsurance agreements except for yearly renewable term reinsurance agreements and non-proportional reinsurance agreements such as stop loss and catastrophe reinsurance. All reinsurance agreements covering products that transfer significant risk shall follow the guidance for reinsurance accounting contained in this statement. All reinsurance contracts covering products that do not provide for sufficient transfer of risk shall follow the guidance for Deposit Accounting.

19. **Yearly renewable term (YRT)** reinsurance agreements that transfer a proportionate share of mortality or morbidity risk inherent in the business being reinsured and do not contain 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.,** shall follow the guidance for reinsurance accounting, including paragraphs 55-57 of this statement that apply to indemnity reinsurance. Contracts that fail to meet the requirements for reinsurance accounting shall follow the guidance for Deposit Accounting. For all treaties entered into on or after January 1, 2003, the deferral guidance in paragraph 3 of A-791 shall also apply to YRT agreements. Since YRT agreements only transfer

the mortality or morbidity risks to the reinsurer, the recognition of income shall be reflected on a net of tax basis, as gains emerge based on the mortality or morbidity experience.

20. For non-proportional reinsurance agreements such as stop loss and catastrophe reinsurance agreements, contract terms shall be evaluated to assess whether they transfer significant risk to the reinsurer. For example, prepayment schedules and accumulating retentions from multiple years are contractual features inherently designed to delay the timing of reimbursement to the ceding entity limits the risk to the reinsurer. Regardless of what a particular feature might be called, any feature that can delay timely reimbursement violates the conditions for reinsurance accounting. Transfer of insurance risk requires that the reinsurer's payment to the ceding entity depend on and directly vary with the amount and timing of claims settled under the reinsured contracts. Contractual features that can delay timely reimbursement prevent this condition from being met. Reinsurance accounting shall apply to all non-proportional agreements that transfer significant risk and do not contain any provisions that protect the reinsurer from incurring a loss. Contracts that fail to meet the requirements for reinsurance accounting shall follow the guidance for Deposit

### Credits for Ceded Reinsurance

36. The credit taken by the ceding entity under the coinsurance arrangement is calculated using the same methodology and assumptions used in determining its policy and claim reserves. It is, of course, only for the percentage of the risk that was reinsured. Under modified coinsurance, the reserve credit is reduced by the modco deposit retained by the ceding entity. If the entity reinsures on a yearly renewable term basis, it is itself buying insurance for the portion of the ceded amount at risk. The amount of yearly renewable term reinsurance that is required on a given policy generally decreases each year as the entity's reserve increases. The net amount at risk may increase, however, on interest sensitive products such as universal life. The amount at risk on accident and health yearly renewal term reinsurance will remain level and the reinsurance premium will increase each year.

37. The reserve credit taken by the ceding entity is reported as a reduction to the reserves and not as an asset of the entity. **The ceding entity's reserve credit and assuming entity's reserve for yearly renewable term reinsurance shall be computed as the one year term mean reserve on the amount of insurance ceded. The ceding entity must use the same mortality and interest bases which were used for valuing the original policy before reinsurance.** The credit may also be computed on a pro rata basis if the result is not materially different from the credit computed on the mean reserve basis. For all types of reinsurance, the ceding entity also takes credit for other amounts due from the reinsurer such as unpaid claims and claims incurred but not reported. If contemplated by the reinsurance contract, recognition of related assets and liabilities must occur (policy loans, due and deferred premiums, etc.).

38. Non-proportional reinsurance is entered into on an annual basis to limit the claims experience of the ceding entity and thereby protect its financial integrity. When the period of the arrangement exceeds one year, the contract must be carefully reviewed to determine if the end result more closely follows proportional reinsurance. **No reserve credit is taken for non-proportional reinsurance unless the aggregate attachment point has in fact been penetrated. In order for an entity to reflect reserve credits on a prospective basis, the entity will need to demonstrate that the present value of expected recoveries using realistic assumptions, to be realized from the reinsurer are in excess of the present value of the reinsurance premiums guaranteed to be paid by the ceding entity under the terms of the contract.** Because non-proportional reinsurance aggregates experience, and does not indemnify the ceding entity for each policy loss, the use of statutory assumptions underlying the insured policies is inappropriate for determining any reserve credit to be taken by the ceding entity. Historical experience, pricing assumptions and asset shares shall be considered in determining if the reinsurer may be reasonably expected to pay any claims. The reserve credit taken shall only reflect these reasonable expectations. **This treatment of non-proportional reinsurance is similar to the way property and casualty (P&C) reinsurance is considered. This is because these modes of reinsurance more closely follow P&C indemnification principles than life insurance formula basis, and because these coverages are very similar to excess insurance on P&C products. In determining the appropriate reserve credit, the probability of a loss penetrating to the reinsurer's level of coverage (using reasonable assumptions) must be multiplied by the expected amount of recovery.** This is the same as reserve credits on coinsurance where the probability of a claim (i.e., mortality) is multiplied by the expected return (i.e., death

benefit). In that the coverage is for aggregate experience, the mortality assumptions underlying any one policy risk are inappropriate to analyze the appropriate credits for non-proportional coverage.

- **SSAP No. 61R, adopts FAS 113 with modifications.**

#### Relevant Literature

86. This statement adopts with modification *FASB Statement No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*. The statutory accounting principles established by this statement differ substantially from GAAP, reflecting much more detailed guidance, as follows:

- a. Reserve credits taken by ceding companies as a result of reinsurance contracts are netted against the ceding entity's policy and claim reserves and unpaid claims;
- b. First year and renewal ceding commissions on indemnity reinsurance of new business are recognized as income. Ceding commissions on ceded in-force business are included in the calculation of initial gain or loss;
- c. As discussed in SSAP No. 50, statutory accounting defines deposit-type contracts as those contracts which do not include any mortality or morbidity risk. GAAP defines investment contracts as those that do not subject the insurance enterprise to significant policyholder mortality or morbidity risk. (The distinction is any mortality or morbidity risk for statutory purposes vs. significant mortality or morbidity risk for GAAP purposes.) Therefore, a contract may be considered an investment contract for GAAP purposes, and that same contract may be considered other than deposit-type for statutory purposes. A reinsurance treaty covering contracts that have insignificant mortality or morbidity risk (i.e., contracts classified as other than deposit-type contracts for statutory purposes, but investment contracts for GAAP purposes) that does not transfer that mortality or morbidity risk, but does transfer all of the significant risk inherent in the business being reinsured (e.g., lapse, credit quality, reinvestment or disintermediation risk) qualifies for reinsurance accounting for statutory reporting purposes, but would not qualify for reinsurance accounting treatment for GAAP purposes;
- d. Initial gains on indemnity reinsurance of in-force blocks of business have unique accounting treatment. A portion of the initial gain (equal to the tax effect of the initial gain in surplus) is reported as commissions and expense allowances on reinsurance ceded in the statement of operations. The remainder of the initial gain is reported on a net-of-tax basis as a write-in for gain or loss in surplus in the Capital and Surplus Account. In subsequent years, the ceding entity recognizes income on the reinsurance ceded line for the net-of-tax profits that emerged on the reinsured block of business with a corresponding decrease in the write-in for gain or loss in surplus;
- e. This statement prohibits recognition of a gain or loss in connection with the sale, transfer or reinsurance of an in-force block of business between affiliated entities in a non-economic transaction. Any difference between the assets transferred by the ceding entity and the liabilities, including unamortized IMR, shall be deferred and amortized under the interest method;
- f. This statement requires that a liability be established through a provision reducing surplus for unsecured reinsurance recoverables from unauthorized reinsurers;
- g. This statement prescribes offsetting certain reinsurance premiums.

87. This statement incorporates Appendices A-785 and A-791.

- **SSAP No. 61R, Glossary Excerpts:**

*Net Amount at Risk*

The excess of the death benefit of a policy over the policy reserve. It is the amount which must come from surplus in the event of a death claim.

*Non-Proportional Reinsurance*

Reinsurance that is not secured on individual lives for specific individual amounts of reinsurance, but rather reinsurance that protects the ceding entity's overall experience on its entire portfolio of business, or at least as broad as noted in paragraph 19 of SSAP No. 61 segment of it. The most common forms of non-proportional reinsurance are stop loss reinsurance and catastrophe reinsurance.

Non-proportional reinsurance is a form of casualty insurance. Usually neither the premium nor continuance of coverage is guaranteed beyond a specified term.

*Pool*

A method of allocating reinsurance among several reinsurers. Using this method, each reinsurer receives a specified percentage of risk ceded into the pool. Percentages may vary by reinsurer.

*Proportional Reinsurance*

Reinsurance on a particular life for a specified amount or share generally, though not necessarily, secured at the time the policy is issued to the insured. The continuation of coverage guarantees for the reinsurance generally parallel those in the life insurance coverage reinsured. Most life reinsurance conducted in the United States is done so on a proportional basis.

*Yearly Renewable Term (YRT)*

A form of life reinsurance under which the mortality or morbidity risks, but not the permanent plan reserves, are transferred to the reinsurer for a premium that varies each year with the amount at risk and the ages of the insureds. The amount of reinsurance, which may change annually, is generally the amount of insurance provided by the policy in excess of the primary insurer's reserve.

- **SSAP No. 62R—Property and Casualty Reinsurance Exhibit A – Implementation Questions and Answers**

10. Q: For purposes of evaluating whether a contract with a reinsurer transfers risk, what constitutes a contract?

- A: A contract is not defined, but is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract. For example, the profit-sharing provisions of one contract may refer to experience on other contracts and, therefore, raise the question of whether, in substance, one contract rather than several contracts exist.

The inconsistency that could result from varying interpretations of the term *contract* is limited by requiring that features of the contract or other contracts or agreements that directly or indirectly compensate the reinsurer or related reinsurers for losses be considered in evaluating whether a particular contract transfers risk. Therefore, if agreements with the reinsurer or related reinsurers, in the aggregate, do not transfer risk, the individual contracts that make up those agreements also would not be considered to transfer risk, regardless of how they are structured.

**The original GAAP source of the above in SSAP No. 62R is *EITF D-34 Accounting for Reinsurance: Questions and Answers about FASB Statement No. 113, question 13***

13. Q—For purposes of evaluating whether a contract with a reinsurer transfers risk, what constitutes a contract?

A—Statement 113 does not define what constitutes a "contract," which is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract. For

example, the profit-sharing provisions of one contract may refer to experience on other contracts and, therefore, raise the question of whether, in substance, one contract rather than several contracts exist.

Statement 113 limits the inconsistency that could result from varying interpretations of the term contract by requiring that features of the contract or other contracts or agreements that directly or indirectly compensate the reinsurer or related reinsurers for losses be considered in evaluating whether a particular contract transfers risk. Therefore, if agreements with the reinsurer or related reinsurers, in the aggregate, do not transfer risk, the individual contracts that make up those agreements also would not be considered to transfer risk, regardless of how they are structured.

Certain guidance relevant to determining the boundaries of a contract is provided in the accounting literature. As described in paragraph 8 of Statement 113, provisions of other related contracts may be considered part of the subject contract under certain circumstances. Likewise, paragraphs 59 and 60 of Statement 113 indicate that the Board did not intend for different kinds of exposures combined in a program of reinsurance to be evaluated for risk transfer and accounted for together, because that would allow contracts that do not meet the conditions for reinsurance accounting to be accounted for as reinsurance by being designated as part of a program. In addition, Question 12 above refers to the fact that an amendment of a contract may create a new contract. [Revised 12/98.]

The legal form and substance of a reinsurance contract generally will be the same, so that the risks reinsured under a single legal document would constitute a single contract for accounting purposes. However, that may not always be the case. Accordingly, careful judgment may be required to determine the boundaries of a contract for accounting purposes. [Revised 12/98.]

If an agreement with a reinsurer consists of both risk transfer and nonrisk transfer coverages that have been combined into a single legal document, those coverages must be considered separately for accounting purposes. [Revised 12/98.]

## **Topic 944 Reinsurance Contracts in the current FASB Codification Implementation Guide continues to include the guidance from EITF D-34**

### **Reinsurance Contracts Implementation Guidance**

#### **What Constitutes a Contract**

##### **944-20-55-27**

**This implementation guidance discusses, for purposes of evaluating whether a contract with a reinsurer transfers risk, what constitutes a contract, which is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract.**

##### **944-20-55-28**

**For instance, the profit-sharing provisions of one contract may refer to experience on other contracts and, therefore, raise the question of whether, in substance, one contract rather than several contracts exist.**

##### **944-20-55-29**

**The guidance in the Financial Services—Insurance Topic on reinsurance limits the inconsistency that could result from varying interpretations of the term contract by requiring that features of the contract or other contracts or agreements that directly or indirectly compensate the reinsurer or related reinsurers for losses be considered in evaluating whether a particular contract transfers risk. Therefore, if agreements with the reinsurer or related reinsurers, in the aggregate, do not transfer risk, the individual contracts that make up those agreements also would not be considered to transfer risk, regardless of how they are structured.**

##### **944-20-55-30**

**Certain guidance relevant to determining the boundaries of a contract is provided in the accounting literature.**

944-20-55-31

Paragraph 944-20-15-40 states that provisions of other related contracts may be considered part of the subject contract under certain circumstances.

944-20-55-32

Different kinds of exposures combined in a program of reinsurance shall not be evaluated for risk transfer and accounted for together, because that would allow contracts that do not meet the conditions for reinsurance accounting to be accounted for as reinsurance by being designated as part of a program.

944-20-55-33

In addition, paragraph 944-20-15-65 refers to the fact that an amendment of a contract may create a new contract.

944-20-55-34

The legal form and substance of a reinsurance contract generally will be the same, so that the risks reinsured under a single legal document would constitute a single contract for accounting purposes. However, that may not always be the case. Accordingly, careful judgment may be required to determine the boundaries of a contract for accounting purposes.

944-20-55-35

Paragraph 944-20-15-56 states that, if an agreement with a reinsurer consists of both risk transfer and nonrisk transfer coverages that have been combined into a single legal document, those coverages shall be considered separately for accounting purposes.

- ***A-791 Life and Health Reinsurance Agreements***

**A-791, paragraph 1, provides the following:**

1. This Appendix shall not apply to assumption reinsurance, yearly renewable term reinsurance or certain nonproportional reinsurance such as stop loss or catastrophe reinsurance.

**Q – Aside from assumption reinsurance, what other types of reinsurance are exempt from the accounting requirements?**

**A –** Yearly renewable term (YRT) and **certain nonproportional reinsurance arrangements, such as stop loss and catastrophe reinsurance are exempt** because these do not normally provide significant surplus relief and therefore are outside the scope of this Appendix. If a catastrophe arrangement takes a reserve credit for actual losses beyond the attachment point or the unearned premium reserve (UPR) of the current year's premium, there will most likely be no regulatory concern.

**Similarly, if a YRT treaty provides incidental reserve credits for the ceding insurer's net amount at risk for the year with no other allowance to enhance surplus, there will most likely be no regulatory concern. For purposes of this exemption, a treaty labeled as YRT does not meet the intended definition of YRT if the surplus relief in the first year is greater than that provided by a YRT treaty with zero first year reinsurance premium and no additional allowance from the reinsurer.**

Additional pertinent information applicable to all YRT treaties and to non-proportional reinsurance arrangements is contained in paragraphs 19 and 20 of SSAP No. 61R.

**A-791, paragraph 2e contains the guidance which limits the reinsurance to the amount realized on the reinsured policy.**



2. No insurer shall, for reinsurance ceded, reduce any liability or establish any asset in any statutory financial statement if, by the terms of the reinsurance agreement, in substance or effect, any of the following conditions exist:

e. The reinsurance agreement involves the possible payment by the ceding insurer to the reinsurer of amounts other than from income realized from the reinsured policies. For example, it is improper for a ceding company to pay reinsurance premiums, or other fees or charges to a reinsurer which are greater than the direct premiums collected by the ceding company;

**A-791, paragraph 2f contains the guidance on transferring all of the significant risk of the business reinsured.**

2. No insurer shall, for reinsurance ceded, reduce any liability or establish any asset in any statutory financial statement if, by the terms of the reinsurance agreement, in substance or effect, any of the following conditions exist:

f. The treaty does not transfer all of the significant risk inherent in the business being reinsured. The following table identifies for a representative sampling of products or type of business, the risks which are considered to be significant. For products not specifically included, the risks determined to be significant shall be consistent with this table.

**Risk categories:**

i. Morbidity

ii. Mortality

iii. Lapse

This is the risk that a policy will voluntarily terminate prior to the recoupment of a statutory surplus strain experienced at issue of the policy.

iv. Credit Quality

This is the risk that invested assets supporting the reinsured business will decrease in value. The main hazards are that assets will default or that there will be a decrease in earning power. It excludes market value declines due to changes in interest rate.

v. Reinvestment

This is the risk that interest rates will fall and funds reinvested (coupon payments or monies received upon asset maturity or call) will therefore earn less than expected. If asset durations are less than liability durations, the mismatch will increase.

vi. Disintermediation

This is the risk that interest rates rise and policy loans and surrenders increase or maturing contracts do not renew at anticipated rates of renewal. If asset durations are greater than the liability durations, the mismatch will increase. Policyholders will move their funds into new products offering higher rates. The company may have to sell assets at a loss to provide for these withdrawals.

+ - Significant 0 - Insignificant

**RISK CATEGORY**

	i.	ii.	iii.	iv.	v.	vi.
Health Insurance - other than LTC/LTD*	+	0	+	0	0	0

Health Insurance - LTC/LTD*	+	0	+	+	+	0
Immediate Annuities	0	+	0	+	+	0
Single Premium Deferred Annuities	0	0	+	+	+	+
Flexible Premium Deferred Annuities	0	0	+	+	+	+
Guaranteed Interest Contracts	0	0	0	+	+	+
Other Annuity Deposit Business	0	0	+	+	+	+
Single Premium Whole Life	0	+	+	+	+	+
Traditional Non-Par Permanent	0	+	+	+	+	+
Traditional Non-Par Term	0	+	+	0	0	0
Traditional Par Permanent	0	+	+	+	+	+
Traditional Par Term	0	+	+	0	0	0
Adjustable Premium Permanent	0	+	+	+	+	+
Indeterminate Premium Permanent	0	+	+	+	+	+
Universal Life Flexible Premium	0	+	+	+	+	+
Universal Life Fixed Premium	0	+	+	+	+	+
Universal Life Fixed Premium dump-in premiums allowed	0	+	+	+	+	+
*LTC = Long Term Care Insurance LTD = Long Term Disability Insurance						

6. The reinsurance agreement shall contain provisions which provide 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;** and
  - Any change or modification to the agreement shall be null and void unless made by amendment to the agreement and signed by both parties.

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** The referral from VAWG was formally received by the Working Group on January 10, 2024 and NAIC staff was directed to draft an agenda item for discussion.

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

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

**Staff Review Completed by:** Robin Marcotte – NAIC Staff - February 2024

**Staff Recommendation:**

NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions to *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* as illustrated below. The proposed revisions incorporate guidance to SSAP No. 61R which is consistent with the guidance currently in SSAP No. 62R, Exhibit A Implementation Questions and Answers, question 10 and also add reference to A-791, paragraph 6 guidance in the YRT guidance paragraph.

As described in the summary of issues, NAIC staff agrees that risk transfer analysis of a reinsurance contract or contracts with interdependent features that directly or indirectly compensate the reinsurer, requires that all parts of the contract be evaluated in aggregate. Appendix A-791, paragraph 6 already contains guidance that the agreement must constitute the entire agreement. While NAIC staff agrees with the concern that VAWG raised regarding some entities taking too large of a reinsurance credit, the existing guidance in SSAP No. 61R regarding risk transfer requires that reporting entities should not take reinsurance credit for

amounts greater than the risk ceded should be sufficient to address those concerns. However, NAIC staff would be willing to develop a more extensive implementation guidance or other revisions if desired.

**Status:**

On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions to incorporate guidance to *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* that is consistent with the guidance currently in *SSAP No. 62R—Property and Casualty Reinsurance*, Exhibit A Implementation Questions and Answers, question 10. This guidance requires risk transfer to be evaluated in aggregate for contracts with interrelated contract features such as experience rating refunds. The revisions also adds a reference in *Appendix A-791 Life and Health Reinsurance Agreements (A-791)*, paragraph 6 regarding the entirety of the contract. In addition, the Working Group directed NAIC staff to notify the Valuation Analysis (E) Working Group, the Life Actuarial (A) Task Force and the Reinsurance (E) Task Force of the exposure.

**Proposed Revisions SSAP No. 61R:**

**Transfer of Risk**

**17.** Reinsurance agreements must transfer risk from the ceding entity to the reinsurer in order to receive the reinsurance accounting treatment discussed in this statement. If the terms of the agreement violate the risk transfer criteria contained herein, (i.e., limits or diminishes the transfer of risk by the ceding entity to the reinsurer), the agreement shall follow the guidance for Deposit Accounting. In addition, any contractual feature that delays timely reimbursement violates the conditions of reinsurance accounting.

~~17-18.~~ For purposes of evaluating whether a contract with a reinsurer transfers risk, what constitutes a contract is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract. For instance, the profit-sharing provisions of one contract may refer to experience on other contracts and, therefore, raise the question of whether, in substance, one contract rather than several contracts exist. The inconsistency that could result from varying interpretations of the term contract is limited by requiring that features of the contract or other contracts or agreements that directly or indirectly compensate the reinsurer or related reinsurers for losses be considered in evaluating whether a particular contract transfers risk. Therefore, if agreements with the reinsurer or related reinsurers in the aggregate do not transfer risk, the individual contracts that make up those agreements also would not be considered to transfer risk, regardless of how they are structured.

~~18-19.~~ This paragraph applies to all life, deposit-type and accident and health reinsurance agreements except for yearly renewable term reinsurance agreements and non-proportional reinsurance agreements such as stop loss and catastrophe reinsurance. All reinsurance agreements covering products that transfer significant risk shall follow the guidance for reinsurance accounting contained in this statement. All reinsurance contracts covering products that do not provide for sufficient transfer of risk shall follow the guidance for Deposit Accounting.

~~19-20.~~ **Yearly renewable term (YRT)** reinsurance agreements that transfer a proportionate share of mortality or morbidity risk inherent in the business being reinsured and do not contain 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.,** shall follow the guidance for reinsurance accounting, including paragraphs 55-57 of this statement that apply to indemnity reinsurance. Contracts that fail to meet the requirements for reinsurance accounting shall follow the guidance for Deposit Accounting. For all treaties entered into on or after January 1, 2003, the deferral guidance in paragraph 3 of A-791 shall also apply to YRT agreements. YRT agreements shall follow the requirements of A-791, paragraph 6, regarding the entire agreement and the effective date of agreements. Since YRT agreements only transfer the mortality or morbidity risks to the reinsurer, the recognition of income shall be reflected on a net of tax basis, as gains emerge based on the mortality or morbidity experience.

20. For non-proportional reinsurance agreements such as stop loss and catastrophe reinsurance agreements, contract terms shall be evaluated to assess whether they transfer significant risk to the reinsurer. For example, prepayment schedules and accumulating retentions from multiple years are

contractual features inherently designed to delay the timing of reimbursement to the ceding entity limits the risk to the reinsurer. Regardless of what a particular feature might be called, any feature that can delay timely reimbursement violates the conditions for reinsurance accounting. Transfer of insurance risk requires that the reinsurer's payment to the ceding entity depend on and directly vary with the amount and timing of claims settled under the reinsured contracts. Contractual features that can delay timely reimbursement prevent this condition from being met. Reinsurance accounting shall apply to all non-proportional agreements that transfer significant risk and do not contain any provisions that protect the reinsurer from incurring a loss. Contracts that fail to meet the requirements for reinsurance accounting shall follow the guidance for Deposit Accounting.

On August 13, 2024, the Statutory Accounting Principles (E) Working Group re-exposed this agenda item to allow for further discussion. 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.

The Working Group requested industry input on the following:

1. Industry examples.
2. Details on both the dollar impact and the number of existing YRT combination contracts might not meet risk transfer from the exposed revision.
3. Specific language regarding the concept that interdependent contract features should be analyzed in aggregate.

On December 17, 2024, the Statutory Accounting Principles (E) Working Group received a preliminary overview of the comments received from the August 2024 exposure. The Working Group directed NAIC staff to schedule a joint meeting with the Life Actuarial (A) Task Force to further discuss the referral from the Valuation of Assets (E) Working Group and the comments received.

On April 10, 2025, the Statutory Accounting Principles (E) Working Group and the Life Actuarial (A) Task Force held a joint meeting. The meeting discussed this agenda item and agenda item 2024-05: A-791 Paragraph 2.c.; heard a presentation from the American Council of Life Insurers (ACLI) on statutory risk transfer considerations and heard a presentation on combined coinsurance funds withheld YRT agreements from the LATF chair.

The Working Group chair indicated that the Working Group will consider different options in in how a future recommendation is presented. For example, a new paragraph, as proposed; or provide more detailed explanations in an A-791 Q&A format; or even combine both approaches. He stated that he is not in favor of using an interpretation, which the Statutory Accounting Principles (E) Working Group occasionally does. He stated that, instead, incorporating changes into a new paragraph in SSAP No. 61 or expanding the A-791 Q&A seems like a more practical approach. He and the Task Force chair noted that many of these issues require a qualitative rather than purely quantitative evaluation. It is about recognizing when something does not seem right, when something raises yellow or even red flags. This approach can help ensure they address the nuances effectively.

On June 2, 2025 the Statutory Accounting Principles (E) Working Group exposed by email vote, the May 30, 2025 recommendation. The exposed revisions to SSAP No. 61 and to A-791 QA are illustrated below.

#### **May 30, 2025 Recommendation for Email Vote Exposure**

On May 30, 2025, a small group of SAPWG and Life Actuarial (A) Task Force regulators recommended exposure of revisions to *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance and the QA of Appendix A-791, Life and Health Reinsurance Agreements* as illustrated below. The revisions to SSAP No. 61 have been revised and expanded from the prior exposures and is shown tracked as new revisions. The revisions to A-791 have not been previously exposed.

SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance as illustrated below

### Transfer of Risk

17. Reinsurance agreements must transfer risk from the ceding entity to the reinsurer in order to receive the reinsurance accounting treatment discussed in this statement.

a. If the terms of the agreement violate the risk transfer criteria contained herein, (i.e., limits or diminishes the transfer of risk by the ceding entity to the reinsurer), the agreement shall follow the guidance for Deposit Accounting. In addition, any contractual feature that delays timely reimbursement violates the conditions of reinsurance accounting.

b. For purposes of evaluating whether a reinsurance agreement/contract (for this paragraph “contract”) transfers risk under statutory accounting, the determination of what constitutes a contract is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract. Multiple contracts, whether on one or multiple blocks of policies, must be evaluated together for risk transfer purposes where considerations to be exchanged under one contract depend on the performance of the other contract(s) whether they are entered into together, or separately, directly or indirectly, that achieve one overall planned effect. For contracts that contemplate reinsurance on both a YRT and coinsurance basis, where there are interdependent features such as a combined experience refund or an inability to independently recapture, each of the YRT and coinsurance reinsurance components satisfying risk transfer requirements on their respective bases is necessary but not sufficient for the contract as a whole to satisfy risk transfer. When evaluated in its entirety, such contract(s) cannot 1) potentially deprive the ceding insurer of surplus at the reinsurer’s option or automatically upon the occurrence of some event; 2) potentially require payments to the reinsurer for amounts other than the income realized from the reinsured policies, nor; 3) contain any of the other conditions prohibited by Appendix A-791 related to risk transfer.

18. This paragraph applies to all life, deposit-type and accident and health reinsurance agreements except for yearly renewable term reinsurance agreements and non-proportional reinsurance agreements such as stop loss and catastrophe reinsurance. All reinsurance agreements covering products that transfer significant risk shall follow the guidance for reinsurance accounting contained in this statement. All reinsurance contracts covering products that do not provide for sufficient transfer of risk shall follow the guidance for Deposit Accounting.

19. Yearly renewable term (YRT) reinsurance agreements that transfer a proportionate share of mortality or morbidity risk inherent in the business being reinsured and do not contain 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., shall follow the guidance for reinsurance accounting, including paragraphs 55-57 of this statement that apply to indemnity reinsurance. Contracts that fail to meet the requirements for reinsurance accounting shall follow the guidance for Deposit Accounting. For all treaties entered into on or after January 1, 2003, the deferral guidance in paragraph 3 of A-791 shall also apply to YRT agreements. YRT agreements shall follow the requirements of A-791, paragraph 6, regarding the entire agreement and the effective date of agreements. Since YRT agreements only transfer the mortality or morbidity risks to the reinsurer, the recognition of income shall be reflected on a net of tax basis, as gains emerge based on the mortality or morbidity experience. See paragraph 17.b. for additional requirements if a YRT agreement has interdependent contract features with reinsurance on a different basis (such as coinsurance).

### Appendix A-791, Life and Health Reinsurance Agreements first Q&A

1. This Appendix shall not apply to assumption reinsurance, yearly renewable term reinsurance or

certain nonproportional reinsurance such as stop loss or catastrophe reinsurance.

**Q – Aside from assumption reinsurance, what other types of reinsurance are exempt from the accounting requirements?**

**A – Yearly renewable term (YRT) and certain nonproportional reinsurance arrangements, such as stop loss and catastrophe reinsurance are exempt because these do not normally provide significant surplus relief and therefore are outside the scope of this Appendix. If a catastrophe arrangement takes a reserve credit for actual losses beyond the attachment point or the unearned premium reserve (UPR) of the current year's premium, there will most likely be no regulatory concern.**

Similarly, if a YRT treaty provides incidental reserve credits for the ceding insurer's net amount at risk for the year with no other allowance to enhance surplus, there will most likely be no regulatory concern. For purposes of this exemption, a treaty labeled as YRT does not meet the intended definition of YRT if the surplus relief in the first year is greater than that provided by a YRT treaty with zero first year reinsurance premium and no additional allowance from the reinsurer.

For contracts that contemplate reinsurance on both a YRT and coinsurance basis, where there are interdependent features such as a combined experience refund or an inability to independently recapture, risk transfer can only occur if there is no potential for payments out of surplus at the reinsurer's option or automatically upon the occurrence of some event, meaning that in all cases there would be an established liability to absorb any possible payments. The YRT premium simply being at or below the valuation net premium does not ensure that payments from surplus are not possible.

**Additional pertinent information applicable to all YRT treaties and to non-proportional reinsurance arrangements is contained in paragraphs 19 and 20 of SSAP No. 61.**

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/08-11-25 Summer National Meeting/Hearing/18 - 24-06 - RT YRT-Combo contracts.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/08-11-25SummerNationalMeeting/Hearing/18-24-06-RTYRT-Combocontracts.docx)

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

**Issue: Sale Leaseback Clarification**

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

**Existing Authoritative Literature:**

**SSAP No. 22:**

**Sale-Leaseback Transactions**

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

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

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

- a. A normal leaseback is a lessee-lessor relationship that involves active use of the property by the seller-lessee in consideration for payment of rent, including contingent rentals that are based on future operations of the seller-lessee. The phrase active use of the property by the seller-lessee refers to use of the property during the lease term in the seller-lessee's trade or business, provided that subleasing of the leased property is minor.
- b. Admitted assets, if the buyer-lessor is a related party, or either admitted or nonadmitted assets if the buyer-lessor is not a related party. For purposes of this paragraph, related parties include those

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

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

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

#### **Deposit Method and Financing Method**

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

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

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

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

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

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

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



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

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

**Staff Review Completed by:**

Jake Stultz, NAIC Staff – February 2025

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

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

- a. A normal leaseback is a lessee-lessor relationship that involves active use of the property by the seller-lessee in consideration for payment of rent, including contingent rentals that are based on future operations of the seller-lessee. The phrase active use of the property by the seller-lessee refers to use of the property during the lease term in the seller-lessee's trade or business, provided that subleasing of the leased property is minor.
- b. Admitted assets, if the buyer-lessor is a related party, or either admitted or nonadmitted assets if the buyer-lessor is not a related party. For purposes of this paragraph, related parties include those identified in *SSAP No. 25* and entities created for the purpose of buying and leasing nonadmitted assets for the reporting entity and/or its affiliates.
- c. A sale where the cash received by the seller has access restrictions does not meet the definition of a sale for sale leaseback accounting and shall be recorded as a financing arrangement as described in paragraph 39.

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

**Status:**

On March 24, 2025, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 22—Leases* to clarify that sale leasebacks with restrictions on access to the cash from the sales transaction do not qualify for sale leaseback accounting and must be accounted for by the seller using the financing method.

**Summer 2025 Updated Staff Recommendation:**

As a result of the comments received and internal NAIC staff discussions, NAIC staff recommends that the Working Group expose expanded revisions to *SSAP No. 22—Leases*, as illustrated below, which clarify that sale leasebacks with restrictions on access to the cash do not qualify for sale leaseback accounting and must be accounted for by the seller using the financing method. These have been modified from the prior exposed version to be clearer. NAIC staff does not recommend exposing the footnote proposed by the joint trades.

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

- a. A normal leaseback is a lessee-lessor relationship that involves active use of the property by the seller-lessee in consideration for payment of rent, including contingent rentals that are based on future operations of the seller-lessee. The phrase active use of the property by the seller-lessee refers to use of the property during the lease term in the seller-lessee's trade or business, provided that subleasing of the leased property is minor.
- b. Admitted assets, if the buyer-lessor is a related party, or either admitted or nonadmitted assets if the buyer-lessor is not a related party. For purposes of this paragraph, related parties include those identified in SSAP No. 25 and entities created for the purpose of buying and leasing nonadmitted assets for the reporting entity and/or its affiliates.
- c. When cash or assets received by the seller have restrictions as to the use of the cash or sale of the assets, the cash and assets received are not considered available to meet policyholder obligations and are nonadmitted in accordance with SSAP No. 4—Assets and Nonadmitted Assets. Such transactions ~~A sale where the cash received by the seller has access restrictions does~~ do not meet the definition of a sale for sale leaseback accounting and shall be recorded as a financing arrangement as described in paragraph 39.

39. A sale-leaseback transaction that does not qualify for sale-leaseback accounting nor the deposit method shall be accounted for by the financing method. Under this method the seller-lessee shall not derecognize the transferred asset and shall account for any amounts received as a financial liability and the buyer-lessor shall not recognize the transferred asset and shall account for the amounts paid as a receivable. A sales-leaseback transaction where the cash or assets received as part of the sale are subject to restrictions as described in paragraph 34.c. would not qualify for sales-leaseback accounting and shall be accounted for using the financing method.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A. National Meeting Materials/2025/08-11-25 Summer National Meeting/Hearing/19 - 25-01 - Lease Clarification.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/08-11-25SummerNationalMeeting/Hearing/19-25-01-LeaseClarification.docx)

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

**Issue: Residential Mortgage Loans Held in Statutory Trusts**

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:** This agenda item was drafted in response to interested parties’ comments on agenda item 2024-21: Investment Subsidiaries. Comments from interested parties noted that a significant part of the increase in investment subsidiaries is primarily due to increased usage of Delaware Statutory Trusts (DSTs). DSTs are distinct from common-law trusts as they are established under Delaware statutory trust laws, which allows for significant flexibility in structuring the trust. While holding real estate investments within a DST provides a number of structural and tax advantages, one of the most notable benefits is that it enables insurance companies to bypass the requirement of obtaining individual state lending licenses for each state where they hold residential mortgage investments.

This agenda item proposes to develop accounting and reporting guidance for qualifying trust structures, regardless of the state of domicile, that hold residential mortgage loans in scope of *SSAP No. 37—Mortgage Loans* and proposes reporting of these items on Schedule B - Mortgage Loans. Discussion on requirements in determining a “qualifying” trust and the reporting specifics are key items for which regulator feedback is specifically requested. Rather than retaining a generic reporting category that allows an RBC look-through without any parameters, which likely should have been eliminated when the concept of “investment subsidiaries” was deleted from SSAP No. 97 in 2005, NAIC staff proposes to assess statutory trust structures holding residential mortgage loans and establish specific accounting and reporting guidance.

As previously identified, the existing reporting for “investment subsidiaries” does not provide any transparency to regulators, as there are very limited restrictions as to what can be captured in an investment subsidiary, potentially allowing companies to bypass SSAP accounting or admittance requirements, NAIC designation determinations or state investment limitations requirements, with look-through RBC based on company records. Further, the RBC measurement guidance refers to an “imputed statutory value” and there are no current provisions on how that value should be determined.

**Existing Authoritative Literature:**

**SSAP No. 37— Mortgage Loans**

**SCOPE OF STATEMENT**

1. This statement establishes statutory accounting principles for the accounting and reporting of mortgage loans and related fees.

## SUMMARY CONCLUSION

2. A mortgage loan is defined as a debt obligation that is not a security, which is secured by a mortgage on real estate. In addition to mortgage loans directly originated, a mortgage loan also includes mortgage loans acquired or obtained through assignment, syndication or participation<sup>1</sup>. Investments that reflect “participating mortgages,” “mortgage loan fund,” “bundled mortgage loans”<sup>2</sup> or the “securitization of assets” are not considered mortgage loans within scope of this SSAP.

- a. A security is a share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:
  - i. It is either represented by an instrument issued in bearer or registered form, or if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.
  - ii. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.
  - iii. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

3. Mortgage loans meet the definition of assets as specified in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement.

**Footnote 1** - Examples of agreements intended to be captured within this statement:

a. Reporting entity is a “co-lender” in a single mortgage loan agreement that identifies more than one lender (which includes the reporting entity) with the real estate collateral securing all lenders identified in the agreement. For these single-mortgage loan agreements, each lender is incorporated directly into the loan documents. The key differentiating characteristic of a mortgage loan provided under a group “mortgage loan co-lending agreement” rather than a solely owned mortgage loan is that no one lender of the lending group may unilaterally foreclose on the mortgage. With these agreements, the lenders must foreclose on the mortgage loan as a group.

b. Reporting entity has a “participation agreement” to invest in a single-mortgage loan. The reporting entity is not the lender of record named as a payee on the mortgage loan, but the lender of record sells a portion of the mortgage loan to the reporting entity through an assignment or participation interest under the participation agreement. Under a participation agreement, the reporting entity acquires an undivided interest in the single mortgage loan proceeds to be received by the lender of record. Under a participation agreement, single mortgage loan proceeds include the periodic mortgage loan principal and interest payments received by the lender of record, and all rights and proceeds received in the foreclosure of a mortgage, deed of trust, deed in lieu of foreclosure, or other similar proceeding by the lender of record. The amount of the proceeds to be received by the reporting entity is based on the ratio of its participation interest to the then-outstanding single mortgage loan balance. To qualify as a mortgage loan under the scope of this statement, the reporting entity must have a signed participation agreement with the lender of record named in the mortgage loan, the financial rights and obligations of the reporting entity under the participation agreement are the same as the lender of record, the reporting entity’s participation interest in the single mortgage loan proceeds must be pari-passu with the lender of record named on the mortgage loan agreement, and the participation agreement must be properly and promptly recorded on the lender or record’s books and records. For the purposes of this footnote, “financial rights” may include the right to take legal action against the borrower, or participate with the other lenders in determining whether legal action should be taken, but typically does not include the right to solely initiate legal action, foreclosure, or under normal circumstances, communicate directly with the borrower.

**Footnote 2** - The scope of this SSAP is limited to single mortgage loan agreements. Although single mortgage loan agreements can potentially have more than one lender (e.g., co-lenders/participations) and more than one borrower (such as in a tenancy-in-common arrangement), the concept of a “single mortgage loan” does not include arrangements in which a reporting entity acquires more than one mortgage loan in a sole transaction. (For example, if a reporting entity was to acquire an interest in a “bundle” of mortgage loans with various unrelated borrowers and collateral, this agreement would be outside of the scope of this SSAP. However, a bundle of mortgage loans does not include a “bulk purchase” where the reporting entity’s interest in each mortgage loan is legally separate and divisible and the purchase just facilitates the acquisitions of multiple single mortgage loan agreements.)

**SSAP No. 46—Investments in Subsidiary, Controlled and Affiliated Entities**  
**Superseded by SSAP No. 88 as of Jan. 1, 2005.**

7.b.ii Investments in noninsurance SCA entities that have no significant ongoing operations other than to hold assets that are primarily for the direct or indirect benefit or use of the reporting entity or its affiliates, shall be recorded based on the underlying equity of the respective entity's financial statements adjusted to a statutory basis of accounting and the resultant proportionate share of the subsidiary's adjusted surplus, adjusted for unamortized goodwill as provided for in SSAP No. 68. Examples include but are not limited to: (i) an insurer and a SCA entity that leases autos, furniture, office equipment, or computer equipment to the insurer; (ii) an insurer and a SCA entity that owns real estate property that is leased to the insurer for office space; and (iii) an insurer and an SCA entity that holds investments that an insurer could acquire directly (i.e., "look through" investment subsidiary);

**SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities**

The current guidance requirement prescribes measurement based on the market value approach (8a) or an equity method (8b). The following guidance is divided as follows: 8bi: insurance subsidiaries, 8.b.ii: non-insurance subsidiaries that meet the activity and revenue test, 8bii: non-insurance subsidiaries not captured in 8a or 8bii, and 8biv: foreign insurance subsidiaries. There is no current guidance for an "investment subsidiary" and those SCAs would be captured under 8.b.iii and measured at the audited US GAAP equity.

8. The admitted investments in SCA entities shall be valued using either the market valuation approach (as described in paragraph 8.a.), or one of the equity methods (as described in paragraph 8.b.) adjusted as appropriate in accordance with the guidance in *SSAP No. 25—Affiliates and Other Related Parties*, paragraph 18.d.

- a. In order to use the market valuation approach for SCA entities, the following requirements apply:
  - i. The subsidiary must be traded on one of the following major exchanges: (1) the New York Stock Exchange, (2) the NASDAQ, or (3) the Japan Exchange Group;
  - ii. The reporting entity must submit subsidiary information to the NAIC SCA analysts for calculation of the subsidiary's market value. Such calculation could result in further discounts in market value above the established base discounts based on ownership percentages detailed below;
  - iii. Ownership percentages for determining the discount rate shall be measured at the holding company level;
  - iv. If an investment in a SCA results in an ownership percentage between 10% and 50%, a base discount percentage between 0% and 20% on a sliding scale basis is required;
  - v. If an investment in a SCA results in an ownership percentage greater than 50% up to and including 80%, a base discount percentage between 20% and 30% on a sliding scale basis is required;
  - vi. If an investment in a SCA results in an ownership percentage greater than 80% up to and including 85%, a minimum base discount percentage of 30% is required.
  - vii. Further, the SCA must have at least two million shares outstanding, with a total market value of at least \$50 million in the public's control; and

- viii. Any ownership percentages exceeding 85% will result in the SCA being recorded on an equity method.
- b. If a SCA investment does not meet the requirements for the market valuation approach in paragraph 8.a. or, if the requirements are met, but a reporting entity elects not to use that approach, the reporting entity's proportionate share of its investments in SCAs shall be recorded as follows:
  - i. Investments in U.S. insurance SCA entities shall be recorded based on either 1) the underlying audited statutory equity of the respective entity's financial statements, adjusted for any unamortized goodwill as provided for in SSAP No. 68—Business Combinations and Goodwill<sup>3</sup> or 2) the underlying audited statutory equity of the respective entity's financial statements, adjusted for any unamortized goodwill, modified to remove the impact of any permitted or prescribed accounting practices that depart from the NAIC Accounting Practices and Procedures Manual. Reporting entities shall record investments in U.S. insurance SCA entities on at least a quarterly basis, and shall base the investment value on the most recent quarterly information available from the SCA. Entities may recognize their investment in U.S. insurance SCA entities based on the unaudited statutory equity in the SCAs year-end annual statement if the annual SCA audited financial statements are not complete as of the filing deadline. The recorded statutory equity shall be adjusted for audit adjustments, if any, as soon as the annual audited financial statements have been completed. Annual consolidated or combined audits are allowed if completed in accordance with the Model Regulation Requiring Annual Audited Financial Reports as adopted by the SCA's domiciliary state;
  - ii. Investments in both U.S. and foreign noninsurance SCA entities that are engaged in the following transactions or activities:
    - (a) Collection of balances as described in *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers*
    - (b) Sale/lease or rental of EDP Equipment and Software as described in *SSAP No. 16—Electronic Data Processing Equipment and Software*
    - (c) Sale/lease or rental of furniture, fixtures, equipment or leasehold improvements as described in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*
    - (d) Loans to employees, agents, brokers, representatives of the reporting entity or SCA as described in *SSAP No. 20—Nonadmitted Assets*

**Footnote 3** - If the insurance SCA employs accounting practices that depart from the NAIC accounting practices and procedures, and the reporting insurance entity has not adjusted the valuation of the insurance SCA to be consistent with the NAIC accounting practices and procedures, (i.e., retains the effect of the permitted or prescribed practice in its valuation), disclosure about those accounting practices that affect the insurance SCA's net income and surplus shall be made pursuant to paragraph 37. If the reporting entity has adjusted the investment in the insurance SCA with the resulting valuation being consistent with the accounting principles of the AP&P Manual, the disclosures in paragraph 37 are not required.

- (e) Sale/lease or rental of automobiles, airplanes and other vehicles as described in *SSAP No. 20—Nonadmitted Assets*

- (f) Providing insurance services on behalf of the reporting entity including but not limited to accounting, actuarial, auditing, data processing, underwriting, collection of premiums, payment of claims and benefits, policyowner services
- (g) Acting as an insurance or administrative agent or an agent for a government instrumentality performing an insurance function (e.g. processing of state workers compensations plans, managing assigned risk plans, Medicaid processing etc).
- (h) Purchase or securitization of acquisition costs

and if 20% or more of the SCA's revenue is generated from the reporting entity and its affiliates, then the underlying equity of the respective entity's audited U.S. Generally Accepted Accounting Principles (GAAP) financial statements shall be adjusted to a limited statutory basis of accounting in accordance with paragraph 9. For purposes of this section, revenue means GAAP revenue reported in the audited U.S. GAAP financial statements excluding realized and unrealized capital gains/losses. Foreign SCA entities are defined as those entities incorporated or otherwise legally formed under the laws of a foreign country. Paragraphs 22-27 provide guidance for investments in holding companies;

- iii. Investments in both U.S. and foreign noninsurance SCA entities that do not qualify under paragraph 8.b.ii., shall be recorded based on the audited U.S. GAAP equity of the investee. Foreign SCA entities are defined as those entities incorporated or otherwise legally formed under the laws of a foreign country. Additional guidance on investments in downstream holding companies is included in paragraphs 22-27. Additional guidance on the use of audited foreign GAAP basis financial statements for the U.S. GAAP equity valuation amount is included in paragraph 23.b.
- iv. Investments in foreign insurance SCA entities shall be recorded based on the underlying U.S. GAAP equity from the audited U.S. GAAP basis financial statements, adjusted to a limited statutory basis of accounting in accordance with paragraph 9, if available. If the audited U.S. GAAP basis financial statements are not available, the investment can be recorded on the audited foreign statutory basis financial statements of the respective entity adjusted to a limited statutory basis of accounting in accordance with paragraph 9 and adjusted for reserves of the foreign insurance SCA with respect to the business it assumes directly and indirectly from a U.S. insurer using the statutory accounting principles promulgated by the NAIC in the *Accounting Practices and Procedures Manual*. The audited foreign statutory basis financial statements must include an audited footnote that reconciles net income and equity on the foreign statutory basis of accounting to the U.S. GAAP basis. Foreign insurance SCA entities are defined as alien insurers formed according to the legal requirements of a foreign country.

**2024 Annual Statement Instructions – Schedule D-6-1**

If a reporting entity has any common stock or preferred stock reported for any of the following required categories or subcategories, it shall report the subtotal amount of the corresponding category or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total or grand total line and number:

Category  
Preferred Stocks:

Line Number

Parent.....	0199999
U.S. Property & Casualty Insurer.....	0299999
U.S. Life Insurer .....	0399999
U.S. Health Entity #.....	0499999
Alien Insurer .....	0599999
Non-Insurer Which Controls Insurer .....	0699999
<b>*Investment Subsidiary .....</b>	<b>0799999</b>
Other Affiliates .....	0899999
Subtotals – Preferred Stocks .....	0999999
Common Stocks:	
Parent .....	1099999
U.S. Property & Casualty Insurer.....	1199999
U.S. Life Insurer .....	1299999
U.S. Health Entity #.....	1399999
Alien Insurer .....	1499999
Non-Insurer Which Controls Insurer .....	1599999
<b>*Investment Subsidiary .....</b>	<b>1699999</b>
Other Affiliates .....	1799999
Subtotals – Common Stocks .....	1899999
Totals – Preferred and Common Stocks .....	1999999

\*NOTE: Investment Subsidiary shall mean any subsidiary, other than a holding company, engaged or organized primarily in the ownership and management of investments for the reporting entity. An investment subsidiary shall not include any broker dealer or a money management fund managing funds other than those of the parent company. The following criteria are applicable:

1. 95% or more of the investment subsidiary’s assets would qualify as admitted assets;
2. The investment subsidiary’s total liabilities are 5% or less of total assets;
3. Combining the pro-rata ownership shares of the assets of all the investment subsidiaries with the owning reporting entity’s assets does not violate any state requirements concerning diversification of investments or limitations on investments in a single entity; and
4. **The investment subsidiary’s book/adjusted carrying value does not exceed the imputed value on a statutory accounting basis. If the book/adjusted carrying value does exceed the imputed statutory value, the reporting entity may either nonadmit the excess or categorize such subsidiary in the “All Other Affiliates” category.**

**2023 RBC Forecasting and Instructions:**

AFFILIATED/SUBSIDIARY STOCKS – LR042, LR043, and LR044

(Only key excerpts included – **bolded for emphasis.**)

Affiliated/Subsidiary investments fall into two broad categories: (A) Insurance Affiliates/Subsidiaries that are Subject to risk-based capital; and (B) Affiliates/Subsidiaries that are Not Subject to risk-based capital. The risk-based capital for these two broad groups differs. **Investment subsidiaries are a subset of category A in that they are subject to a risk-based capital charge that includes the life RBC risk factors applied only to the investments held by the investment subsidiary for its parent insurer.** Publicly traded insurance affiliates/subsidiaries held at market value have characteristics of both broader categories. As a result, there is a two-part RBC calculation. The general treatment for each is explained below.



#### 4. Investment Subsidiaries

An investment subsidiary is a subsidiary that exists only to invest the funds of the parent company. The term “investment subsidiary” is defined in the NAIC’s Annual Statement Instructions as any subsidiary, other than a holding company, engaged or organized primarily to engage in the ownership and management of investments for the insurer. An investment subsidiary shall not include any broker-dealer or a money management fund managing funds other than those of the parent company. **The risk-based capital charge for the ownership of an investment subsidiary is based on the risk-based capital of the underlying assets, pro-rated for the degree of ownership. The basis for this calculation is the assumption that the charge should be the same as it would be if the life insurer held the assets directly.** Report information regarding any investment subsidiaries. Subsidiaries reported in this section will be assigned an affiliate code of “4” for investment subsidiaries. The amount of reported common stock should be the same as Schedule D, Part 6, Section 1, Line 1699999. Preferred stock information should be the same as Schedule D, Part 6, Section 1, Line 0799999.

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

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

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

**Staff Recommendation:**

NAIC staff recommend that the Working Group move this item to the active listing categorized as a SAP clarification and expose this agenda item proposing to add qualifying investment trusts holding residential mortgage loans in scope of *SSAP No. 37—Mortgage Loans* for reporting on Schedule B – Mortgage Loans. Comments are specifically requested on the requirements for a qualifying trust as well as the proposed reporting. A few key items to note:

- The proposal is specific to trusts that hold only residential mortgage loans. This is due to concerns about a lack of transparency if multiple types of mortgages are held in the same trust, and that industry has indicated these structures are specifically used for residential mortgage loans. Industry has also indicated that the value of the individual residential mortgages is often a lower dollar amount which results in a high volume of residential mortgage loans held in the trust.
- The agenda item proposes separate reporting of individual mortgage loans on Schedule B for residential mortgages held in trust consistent with the existing annual statement instructions for Schedule B. NAIC staff is aware that some reporting entities are already reporting these trusts as “participation agreements” on Schedule B, but it appears there is not consistency in presentation (some companies show aggregated by trust, whereas other companies show by individual mortgage loans). Comments are requested by regulators on this proposal to determine if individual loan reporting is the preferred reporting method, or if some kind of aggregate reporting method should be explored. One concern that has been raised with individual reporting is that the volume of residential mortgage loans could be quite high as individual residential mortgage loan values are generally quite low compared to the typical mortgage loans purchased by insurers. Alternatively, individual mortgage loan reporting is consistent with existing Schedule B instructions, which may be simpler for insurers to report using existing mortgage loan details, and there would be increased transparency.

- As noted after paragraph 6.b.iv., NAIC staff is requesting information on how foreclosed assets (real estate) would be reported when held in the trust. Presumably, these would be sold and the cash would be transferred to the reporting entity, but there will be ongoing / recurring real estate in the trust as foreclosures occur before they are sold and settled. NAIC staff also requests comments on whether any additional columns should be added to Schedule B for mortgages held in qualifying statutory trust.

***Proposed revisions – 5/22 Interim Meeting:***

**SSAP No. 37—Mortgage Loans**

**SCOPE OF STATEMENT**

1. This statement establishes statutory accounting principles for the accounting and reporting of mortgage loans and related fees.

**SUMMARY CONCLUSION**

2. A mortgage loan is defined as a debt obligation that is not a security, which is secured by a mortgage on real estate. In addition to mortgage loans directly originated, a mortgage loan also includes mortgage loans acquired or obtained through assignment, syndication or participation<sup>1</sup>, or mortgage loans acquired through a qualifying investment in a statutory trust. Investments that reflect “participating mortgages,” “mortgage loan fund,” “bundled mortgage loans<sup>2</sup>” or the “securitization of assets” are not considered mortgage loans within scope

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<sup>1</sup> Examples of agreements intended to be captured within this statement:

- a. Reporting entity is a “co-lender” in a single mortgage loan agreement that identifies more than one lender (which includes the reporting entity) with the real estate collateral securing all lenders identified in the agreement. For these single-mortgage loan agreements, each lender is incorporated directly into the loan documents. The key differentiating characteristic of a mortgage loan provided under a group “mortgage loan co-lending agreement” rather than a solely owned mortgage loan is that no one lender of the lending group may unilaterally foreclose on the mortgage. With these agreements, the lenders must foreclose on the mortgage loan as a group.
- b. Reporting entity has a “participation agreement” to invest in a single-mortgage loan. The reporting entity is not the lender of record named as a payee on the mortgage loan, but the lender of record sells a portion of the mortgage loan to the reporting entity through an assignment or participation interest under the participation agreement. Under a participation agreement, the reporting entity acquires an undivided interest in the single mortgage loan proceeds to be received by the lender of record. Under a participation agreement, single mortgage loan proceeds include the periodic mortgage loan principal and interest payments received by the lender of record, and all rights and proceeds received in the foreclosure of a mortgage, deed of trust, deed in lieu of foreclosure, or other similar proceeding by the lender of record. The amount of the proceeds to be received by the reporting entity is based on the ratio of its participation interest to the then-outstanding single mortgage loan balance. To qualify as a mortgage loan under the scope of this statement, the reporting entity must have a signed participation agreement with the lender of record named in the mortgage loan, the financial rights and obligations of the reporting entity under the participation agreement are the same as the lender of record, the reporting entity’s participation interest in the single mortgage loan proceeds must be pari-passu with the lender of record named on the mortgage loan agreement, and the participation agreement must be properly and promptly recorded on the lender or record’s books and records. For the purposes of this footnote, “financial rights” may include the right to take legal action against the borrower, or participate with the other lenders in determining whether legal action should be taken, but typically does not include the right to solely initiate legal action, foreclosure, or under normal circumstances, communicate directly with the borrower.

<sup>2</sup> The scope of this SSAP is limited to single mortgage loan agreements. Although single mortgage loan agreements can potentially have more than one lender (e.g., co-lenders/participations) and more than one borrower (such as in a tenancy-in-common arrangement), the concept of a “single mortgage loan” does not include arrangements in which a reporting entity acquires more than one mortgage loan in a sole transaction. (For example, if a reporting entity was to acquire an interest in a “bundle” of mortgage loans with various unrelated borrowers and collateral, this agreement would be outside of the scope of this SSAP. However, a bundle of mortgage loans does not include

of this SSAP. Regardless of whether reported on Schedule B or another schedule, all statutory trusts owned by the reporting entity shall be detailed in Schedule Y.

a. A security is a share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

- i. It is either represented by an instrument issued in bearer or registered form, or if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.
- ii. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.
- iii. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

b. A statutory trust is a separate legal entity created as a trust under state statute, a common example of which would be Delaware statutory trusts (DSTs). For an investment in a statutory trust to qualify as a mortgage loan within this statement it must have the following characteristics:

- i. Statutory trust must be domiciled in a U.S. state or territory.
- ii. Beneficial ownership in the statutory trust must be evidenced by a certificate or registered as an uncertificated interest within the statutory trust register.
- iii. The reporting entity has exclusive, 100% undivided beneficial ownership interest in all assets of the statutory trust<sup>3</sup>.
- iv. All assets of the statutory trust are to be in first lien single residential mortgage loan agreements, meaning each mortgage loan is legally separate and divisible. Statutory trusts which have pledged, or otherwise encumbered, trust assets to secure financing would fail this criterion.

**NAIC Question on 6.b.iv. - Were the statutory trust to foreclose on a mortgage, and would the “real estate” become an asset of the trust? How would that be reported?**

a “bulk purchase” where the reporting entity’s interest in each mortgage loan is legally separate and divisible and the purchase just facilitates the acquisitions of multiple single mortgage loan agreements.)

<sup>3</sup> Some statutory trusts are formed with designated separate series, where each series maintains distinct and separate records, assets, and liabilities—either directly or indirectly (including through a nominee or otherwise)—from those of the overall trust and any other series. For ownership in a series statutory trust to meet the criterion described in paragraph 2b.i., the reporting entity must: hold 100% undivided beneficial ownership interest in all assets of the statutory trust series, the series must own all of each single mortgage loan agreement held as assets, and the reporting entity’s ownership and ability to divest its interest the series must not be contingent upon its ownership in other series of the statutory trust.

For example, if a statutory trust has Series A through C, and the reporting entity has 100% beneficial ownership of Series A but only 50% of Series B, only the investment in Series A would meet this criterion. However, if beneficial ownership of each single mortgage loan agreement is split evenly across Series A, B, and C (e.g., each holds one-third of the loan asset), then none of the investments would qualify, as the assets are shared across series.

- v. Statutory trust must maintain all requisite documents and records in accordance with the applicable state statutes. The trust must also maintain a detail of residential mortgage loan agreements held in the trust to be made available to the state insurance regulator and auditors upon request; this detail must contain, at a minimum, the same information as would be required were the mortgage loans to be individually reported on Schedule B, Part 1.
- vi. The statutory trust has no transactions of its own other than transactions associated with an ownership structure utilized only for the ownership and management of the residential mortgages exclusively for the reporting entity (e.g., service fees, real estate taxes, etc.). Transactions of the qualifying statutory trust shall be reported as transactions of the reporting entity pursuant to the guidance in this statement.
- ~~i.vii.~~ All cash flows from the single residential mortgage loan agreements must flow through directly to the reporting entity, with the exception of customary and reasonable fees to the statutory trust manager/servicer.

3. Mortgage loans meet the definition of assets as specified in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement.

#### Disclosures

27. The following disclosures shall be made for mortgage loans acquired through a qualifying investment in a statutory trust:
- a. A description of the statutory trust(s). Mortgage loans held in statutory trusts must be separately reported on Schedule B in accordance with the annual statement instructions.
    - i. If the statutory trust(s) holds any amount of subprime mortgages, the reporting entity must disclose this fact in the description of the statutory trust(s) and complete the subprime mortgage disclosures as detailed in *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*.
    - ii. Description of each statutory trust must include the U.S. state(s) in which the statutory trust is qualified to do business, and the amount of fiscal year-to-date fees incurred for asset management, property management, trustee, service, and any other fees associated with management/administration of the described statutory trust.
  - b. Disclosure of any material litigation and any kind of state or federal regulatory review and/or action concerning the statutory trust(s).
  - c. Disclosure of financing transactions of any sort which are secured, directly or indirectly, by statutory trust assets.
  - ~~a.d.~~ Total of residential mortgages held in qualifying statutory trusts, disaggregated by loan standing: In Good Standing, Restructured, Overdue Interest Over 90 Days Not in the Process of Foreclosure, and In the Process of Foreclosure.

#### ***Proposed revisions to Annual Statement Instructions:***

#### **SCHEDULE B – PARTS 1 AND 2**

## **MORTGAGE LOANS OWNED AND ACQUIRED – GENERAL INSTRUCTIONS**

If a reporting entity has any detail lines reported for any of the following required groups, it shall report the subtotal amount of the corresponding group with the specified subtotal line number appearing in the same manner and location as the pre-printed total.

For accounting guidance related to foreign currency transactions and translations, refer to *SSAP No. 23—Foreign Currency Transactions and Translations*. The underlying loans held by qualifying investments in a statutory trust(s) must be disaggregated by group (loan standing) and subgroup (loan type), as shown below.

### **SCHEDULE B – PART 1**

#### **MORTGAGE LOANS OWNED DECEMBER 31 OF CURRENT YEAR**

Report separately all mortgage loans owned and backed by real estate, including those held in qualifying investments in statutory trust(s). Include non-conventional mortgage loans (e.g., loans that can be increased to their maximum loan value without incurring the cost of writing a new mortgage). Also include mezzanine real estate loans. For accounting and admission guidance related to mezzanine real estate loans, refer to *SSAP No. 83—Mezzanine Real Estate Loans*. Collateralized Mortgage Obligations, (residential mortgage-backed securities), should be included in Schedule D.

A description of the information required by the columnar headings is as follows:

Column 21 – State of Domicile (Statutory Trust Only)

Report the two-character U.S. postal abbreviation for the U.S. state the statutory trust is domiciled within.

### **SCHEDULE B – PART 2**

#### **MORTGAGE LOANS ACQUIRED AND ADDITIONS MADE DURING YEAR**

Report individually all mortgage loans acquired or transferred from another category (e.g., joint ventures, Schedule BA) but also any increases or additions to mortgage loans acquired or transferred in the current and prior periods. Mortgages acquired and disposed during the same year should be reported in both Part 2 and Part 3, which would also include acquired or disposed of residential mortgage loans held within qualifying statutory trusts. Include non-conventional mortgage loans (e.g., loans that can be increased to their maximum loan value without incurring the cost of writing a new mortgage). Also include mezzanine real estate loans. For accounting and admission guidance related to mezzanine real estate loans, refer to *SSAP No. 83—Mezzanine Real Estate Loans*. Collateralized Mortgage Obligations (residential mortgage-backed securities) should be included in Schedule D.

A description of the information required by the columnar headings is as follows:

Column 15 – State of Domicile (Statutory Trust Only)

Report the two-character U.S. postal abbreviation for the U.S. state the statutory trust is domiciled within.

### **SCHEDULE B – PART 3**

#### **MORTGAGE LOANS DISPOSED, TRANSFERRED OR REPAID DURING THE YEAR**

Report individually each mortgage, including those held in qualifying investments in statutory trust(s), that has had decreases in the balance as a result of being closed by repayment, partial repayment, disposed or transferred to another category (e.g., real estate, Schedule A). Do not report individual partial repayments but aggregate all partial repayments by mortgage loan.

If a reporting entity has any detail lines reported for any of the following required groups, it shall report the subtotal amount of the corresponding group with the specified subtotal line number appearing in the same manner and location as the pre-printed total.

Mortgages closed by repayment .....	0199999
Mortgages with partial repayments .....	0299999
Mortgages disposed .....	0399999
Mortgages transferred.....	0499999
Total.....	0599999

A description of the information required by the columnar headings is as follows:

Column 24 – State of Domicile (Statutory Trust Only)

Report the two-character U.S. postal abbreviation for the U.S. state the statutory trust is domiciled within.

**Status:**

On May 22, 2025, the Statutory Accounting Principles (E) Working Group exposed revisions SSAP No. 37—*Mortgage Loans* to expand the scope to include qualifying investment trusts holding residential mortgage loans for reporting on Schedule B – Mortgage Loans.

On July 8, 2025, the Statutory Accounting Principles (E) Working Group received formal comments from interested parties on the draft exposed on 5/22. These comments were in addition to informal interim discussions on the draft prior to the comment letter. The following represent a summary of interested parties comments:

1. Regarding ownership of the trust’s assets, title to the RMLs is held by the trustee on behalf of the trust. The books and records of the trust then allocate a beneficial interest in each loan to a specific series. Same goes for any other assets of the trust. Some updates will be needed to the current Exposure Draft to reflect how these structures operate from a legal perspective.
  - a. *NAIC Staff have made some additional changes to better reflect this dynamic in the draft below, but welcome further recommendations from interested parties to ensure SSAP language accurately reflect these structures.*
2. Interested parties believe that the same requirements that apply to RMLs directly held and accounted for under SSAP No. 37 – *Mortgage Loans* should apply to the RMLs owned through a trust. As stated above, since all the risks and rewards related to ownership of the RMLs pass through to the insurer, this makes the most sense from a reporting perspective. Therefore, second lien loans should be allowed and RML participations of less than 100% should be allowed as well, consistent with SSAP No. 37.
  - a. *NAIC staff agree with this change and have updated the draft below with language which would allow the same types of RML allowed under SSAP No. 37 as long as the mortgage loans are legally separate and divisible.*

3. The trust should be allowed to pledge the RMLs for the benefit of the insurer. Suggested language was discussed to make this clear in the Exposure Draft.
  - a. *NAIC staff agree that clarification is necessary. As discussed, RMLs are frequently pledged as collateral for lines of credit or other borrowings (e.g. FHLB), and these arrangements are not problematic as long as the insurer is the pledgor. The primary concern arises when trust assets are pledged or encumbered by the statutory trust to a third party, and not on behalf of the insurer. To address this, NAIC staff consolidated the pledge guidance into a new paragraph in the admittance section of the SSAP clarifying that assets held in a qualifying statutory trust may be pledged by the insurer but will be non-admitted to the extent they are pledged or encumbered to a third party due to actions taken by the trust.*
4. The Exposure Draft included a request for input on the appropriate reporting for foreclosed real estate that becomes an asset of the trust. Interested parties believe that any real estate assets, cash, or other assets related to investing in the RMLs such as receivables as well as liabilities, should be reported as if held directly by the insurer since the insurer gets all the risks and rewards of ownership. We also understand that it may be common for the trust to set up an LLC to own foreclosed real estate. If that is the case, since SSAP No. 40 – *Real Estate Investments* allows for single, wholly-owned real estate held in an LLC to be directly reported on Schedule A, we believe the same look-through provision would apply here and the insurer would report the real estate as directly owned.
  - a. *NAIC staff do not disagree with the inclusion of real estate acquired via foreclosure, especially as this situation is likely to occur at some point or another and have reflected this as an allowable asset within a qualifying statutory trust. However, we do not agree with the recommendation to allow foreclosed real estate to be held within an LLC wholly owned by the qualifying statutory trust. This would result in qualifying statutory trusts with subsidiary holdings which introduces another layer of complexity; the original intent of this project was to draft guidance to allow for pass-through accounting and reporting for RMLs held within statutory trusts and while some allowances have been made to allow for necessary activity NAIC staff does not believe these allowance should include wholly-owned subsidiaries.*
5. We suggest changing the name from statutory trust to a qualifying trust. A trust can be a statutory trust or a common law trust. We understand that a statutory trust can have series whereas common law trusts do not, but both types can be used to hold RMLs on behalf of the insurer.
  - a. *NAIC staff disagree with this recommendation. Statutory trusts are created under and governed by specific state statutes, are recognized as separate legal entities, and typically require formal registration or filing with a state authority, such as the Secretary of State. These trusts operate within a clearly defined legal framework that establishes governance, liability protections, and oversight requirements. This statutory structure provides greater legal certainty, consistency across jurisdictions, and more reliable protections for both the trust and its beneficiaries or investors.*  
*In contrast, common law trusts are established under general legal principles derived from case law and judicial precedent. Formation does not require registrations with state agencies and can be formed simply through a trust agreement or declaration. Common law trusts are also often not treated as separate legal entities, but rather as a fiduciary relationship depending on the jurisdiction. Common law trusts offer broader structural flexibility, but this comes at the cost of legal certainty, consistency, and enforceability. Liability protections are less robust, and courts in other jurisdictions may not recognize the trust as a distinct legal entity or uphold provisions such*

*as limited liability for investors.*

*The primary concern with allowing common law trusts is the potential for regulatory uncertainty and increased risk. Their flexible nature and lack of standardized governance could result in inconsistent treatment, complicate oversight, and increase the risk profile of the assets held in trust. There is also a material risk that certain jurisdictions may refuse to recognize the trust structure entirely or may not enforce key provisions, undermining regulatory safeguards and investor protections.*

6. Interested parties question whether disclosure of fees paid to the servicer is a critical disclosure. We have received feedback that this information is confidential and could impact competitive market practices among servicers. Since such disclosure is not required for RMLs/CMLs directly owned and managed by a third-party servicer, we suggest that this disclosure be removed. In addition, the last sentence of paragraph 2 b (iv) implies that the loans will not be disclosed individually as it states “the detail must contain at a minimum, the same information as would be required were the mortgage loans to be individually reported on Schedule B.” If the ultimate decision is to report the loans individually on Schedule B, then this sentence should be removed.
  - a. *NAIC staff noted that the main concern the fee disclosure was to trying to address was excessive fees. However, based on the comments from IPs and discussions amongst the NAIC staff team, this disclosure was eliminated. This situation would be highly unlikely to occur unless a related party or affiliate were involved in administering the trust. It was also noted that since revenue and expenses are to be reported as if directly incurred by the insurer, then these activities would be subject to the related party and affiliate disclosure required by SSAP No. 25. To be clear on this point, the following paragraph was added to the draft revisions:*

*“Revenue and expenses shall be accounted for as if they were directly incurred by the insurer and, accordingly, are subject to the same reporting and disclosure requirements that would normally apply. This includes, but is not limited to, the related party and affiliate disclosures required under SSAP No. 25, Affiliates and Other Related Parties.”*
7. In item 27.b., interested parties believe the materiality qualifier should apply to both parts of the disclosure (litigation and state or federal regulatory review).
  - a. *NAIC staff agree with this comment and have updated the draft accordingly.*
8. Interested parties suggest adding a code to the residential mortgage loan sections of Schedule B to note loans that are held in statutory trusts so that directly held loans versus loans held in trust are easily identifiable by the regulators.
  - a. *NAIC staff agree with this comment and have updated the draft accordingly.*
9. Interested parties also suggest adding guidance in the Exposure Draft for RMLs held in trusts that do not meet the proposed criteria, so that it is clearer how those investments should be accounted for and reported.
  - a. *NAIC staff agree with this comment and have revised the draft to clarify that non-qualifying statutory trusts must comply with the applicable SSAP. No single SSAP was referenced as trust structures and their uses vary widely. As a result, referencing only one SSAP would be inappropriate, and it would be impractical to address all possible trust types and provide specific SSAP references for each.*



10. During interim discussions, interested parties also recommended revisions to allow qualifying statutory trusts to receive other assets that constitute proceeds of such mortgage loan. However, NAIC staff are concerned that this language could permit virtually any type of asset to be held and reported within a qualifying statutory trust, so long as it is received as proceeds from RMLs. It is unclear how often non-cash assets are received in these situations, and additional detail would be helpful. Specifically, the types of assets received, how frequently this occurs, and whether such assets are typically converted to cash by the trust.

**STAFF RECOMMENDATION – 2025 SUMMER NATIONAL MEETING:**

NAIC staff met with industry representatives in the interim and have incorporated revisions for consideration. We recommend that the Working Group expose an updated draft of revisions to expand the scope of SSAP No. 37—*Mortgage* to include qualifying investment trusts holding residential mortgage loans to be reported Schedule B – *Mortgage*. Key revisions include:

- Proposed updates to permit qualifying statutory trusts to hold cash and cash equivalents, and real estate obtained through foreclosure, along with clarification on the applicability of SSAP No. 2 and SSAP No. 40.
- Replacement of the restriction to first-lien mortgages with broader language permitting any single residential mortgage loan eligible under SSAP No. 37 to be held in a qualifying statutory trust.
- Removal of the requirement that qualifying statutory trusts may only hold first lien single residential mortgage loans and the requirement to hold the entire loan.
- Additional criteria for a qualifying statutory trust series which requires the qualifying trust to maintain separate and distinct records from the overall statutory trust and other series.
- Clarification that an insurer may pledge qualifying statutory trust assets as collateral; however, assets encumbered or pledged to a third party by action of the statutory trust itself are nonadmitted.
- Eliminated the management fee disclosure.
- New requirement to disclose a summary of assets and liabilities held within qualifying statutory trusts. Since such balances are to be reported as if directly held by the insurer, this disclosure is intended to provide regulators with a high-level overview of the balances held within the trust(s).

***Proposed Revisions – Summer National Meeting:***

*Drafting Note: Changes made since previous exposure shown with grey fill.*

**SSAP No. 2—Cash, Cash Equivalents, Drafts, and Short-Term Investments**  
**SCOPE OF STATEMENT**

1. This statement establishes statutory accounting principles and related reporting for cash, cash equivalents, drafts and short-term investments. Cash and cash equivalents which are beneficially owned by the insurer through an investment in a qualifying statutory trust, as defined under SSAP No. 37—Mortgage Loans, fall within the scope of this statement and shall be reported as if directly held by the reporting entity. If the qualifying statutory trust is part of a trust series where cash is held in a joint account and each series holds a beneficial

interest, only the portion beneficially owned by the insurer through the qualifying statutory trust shall be reported.

**SSAP No. 40—Real Estate Investments**  
**SUMMARY CONCLUSION**

3. Real estate investments include certain acquisition, development and construction arrangements (ADC) as defined in *SSAP No. 38—Acquisition, Development and Construction Arrangements*; and real estate held within a qualifying statutory trust(s) that was acquired due to events described in SSAP No. 37—Mortgage Loans, paragraph 18, and shall be reported as if directly held by the reporting entity.

**DISCLOSURES**

27. An entity that holds real estate investments through an LLC, which qualifies for inclusion in this statement because all the criteria in paragraph 4 are met, shall separately report each investment on Schedule A, and code the real estate as wholly-owned through an LLC. A reporting entity that holds real estate investments through a qualifying statutory trust in accordance with SSAP No. 37, shall separately report each investment on Schedule A, and code the real estate as owned through a qualifying statutory trust.

**SSAP No. 37—Mortgage Loans**  
**SCOPE OF STATEMENT**

1. This statement establishes statutory accounting principles for the accounting and reporting of mortgage loans and related fees.

**SUMMARY CONCLUSION**

2. A mortgage loan is defined as a debt obligation that is not a security, which is secured by a mortgage on real estate. In addition to mortgage loans directly originated, a mortgage loan also includes mortgage loans acquired or obtained through assignment, syndication or participation<sup>4</sup>, or mortgage loans acquired through an

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<sup>4</sup> Examples of agreements intended to be captured within this statement:

- a. Reporting entity is a “co-lender” in a single mortgage loan agreement that identifies more than one lender (which includes the reporting entity) with the real estate collateral securing all lenders identified in the agreement. For these single-mortgage loan agreements, each lender is incorporated directly into the loan documents. The key differentiating characteristic of a mortgage loan provided under a group “mortgage loan co-lending agreement” rather than a solely owned mortgage loan is that no one lender of the lending group may unilaterally foreclose on the mortgage. With these agreements, the lenders must foreclose on the mortgage loan as a group.
- b. Reporting entity has a “participation agreement” to invest in a single-mortgage loan. The reporting entity is not the lender of record named as a payee on the mortgage loan, but the lender of record sells a portion of the mortgage loan to the reporting entity through an assignment or participation interest under the participation agreement. Under a participation agreement, the reporting entity acquires an undivided interest in the single mortgage loan proceeds to be received by the lender of record. Under a participation agreement, single mortgage loan proceeds include the periodic mortgage loan principal and interest payments received by the lender of record, and all rights and proceeds received in the foreclosure of a mortgage, deed of trust, deed in lieu of foreclosure, or other similar proceeding by the lender of record. The amount of the proceeds to be received by the reporting entity is based on the ratio of its participation interest to the then-outstanding single mortgage loan balance. To qualify as a mortgage loan under the scope of this statement, the reporting entity must have a signed participation agreement with the lender of record named in the mortgage loan, the financial rights and obligations of the reporting entity under the participation agreement are the same as the lender of record, the reporting entity’s participation interest in the single mortgage loan proceeds must be pari-passu with the lender of record named on the mortgage loan agreement, and the participation agreement must be properly and promptly recorded on the lender or record’s books and records. For the purposes of this footnote, “financial rights”

investment in a qualifying statutory trust as defined in paragraph 2.b. Investments that reflect “participating mortgages,” “mortgage loan fund,” “bundled mortgage loans<sup>5</sup>” or the “securitization of assets” are not considered mortgage loans within scope of this SSAP. Nonqualifying statutory trusts shall be accounted for and reported in accordance with the applicable statement of statutory accounting principle. Regardless of whether reported on Schedule B or another schedule, all statutory trusts beneficially or directly owned by the reporting entity shall be detailed in Schedule Y.

- a. A security is a share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:
  - i. It is either represented by an instrument issued in bearer or registered form, or if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.
  - ii. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.
  - iii. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.
- b. A statutory trust is a separate legal entity, an unincorporated association created as a trust under state statute, a common example of which would be Delaware statutory trusts (DSTs). For an investment in a statutory trust to be considered a qualifying statutory trust and reported as a mortgage loan within scope of this statement, the statutory trust being invested in must have and maintain all of the following characteristics:
  - i. The statutory trust must be domiciled in a U.S. state or territory.
  - i. Beneficial ownership in the statutory trust must be evidenced by a certificate or registered as an uncertificated interest within the statutory trust register.
  - ii. The reporting entity must hold an ~~has exclusive~~, 100% undivided beneficial ownership interest in all assets of the statutory trust, or in all assets of a specific series of a statutory trust that has separate series<sup>6</sup>. Such beneficial ownership interest must be evidenced by a certificate or registered as an uncertificated interest within the statutory trust register.

may include the right to take legal action against the borrower, or participate with the other lenders in determining whether legal action should be taken, but typically does not include the right to solely initiate legal action, foreclosure, or under normal circumstances, communicate directly with the borrower.

<sup>5</sup> The scope of this SSAP is limited to single mortgage loan agreements. Although single mortgage loan agreements can potentially have more than one lender (e.g., co-lenders/participations) and more than one borrower (such as in a tenancy-in-common arrangement), the concept of a “single mortgage loan” does not include arrangements in which a reporting entity acquires more than one mortgage loan in a sole transaction. (For example, if a reporting entity was to acquire an interest in a “bundle” of mortgage loans with various unrelated borrowers and collateral, this agreement would be outside of the scope of this SSAP. However, a bundle of mortgage loans does not include a “bulk purchase” where the reporting entity’s interest in each mortgage loan is legally separate and divisible and the purchase just facilitates the acquisitions of multiple single mortgage loan agreements.)

<sup>6</sup> Some statutory trusts are formed with designated separate series, where each series maintains distinct and separate records, assets, and liabilities—either directly or indirectly (including through a nominee or otherwise)—from those of the overall trust and any other series.

- iii. All assets of the statutory trust may only consist of are to be in first lien single residential mortgage loan agreements (meaning each to be legally separate and divisible) of a type that could otherwise be directly held by the reporting entity under SSAP No. 37; real estate of which the statutory trust acquires ownership due to events described in paragraph 18; or cash and cash equivalents that constitute proceeds of such mortgage loans or are required for the acquisition, ownership and management of such mortgage loans. The insurer shall also report and account for assets and liabilities of the statutory trust as if they were directly held by the insurer; Statutory trusts which have pledged, or otherwise encumbered, trust assets to secure financing would fail this criterion.
- (a) Mortgage loans shall be reported on Schedule B in accordance with this statement.
- (b) Cash and cash equivalents shall be reported in accordance with SSAP No. 2—Cash, Cash Equivalents, Drafts and Short-Term Investments.
- (c) Real estate directly held by statutory trust shall be reported on Schedule A and as “Held for Sale” in accordance with SSAP No. 40—Real Estate Investments.
- (d) Liabilities of the statutory trust shall be reported in accordance with the applicable statement of statutory accounting principle.
- (e) Revenue and expenses shall be accounted for as if they were directly incurred by the insurer and, accordingly, are subject to the same reporting and disclosure requirements that would normally apply. This includes, but is not limited to, the related party and affiliate disclosures required under SSAP No. 25, Affiliates and Other Related Parties.
- iv. The sStatutory trust must maintain all requisite documents and records in accordance with the applicable state statutes. The trust must also maintain (either directly or through a custodian) a detail of residential mortgage loan agreements held in the trust to be made available to the state insurance regulator and auditors upon request; this detail must contain, at a minimum, the same information as would be required were the mortgage loans to be individually reported on Schedule B.
- v. The statutory trust has no transactions of its own other than transactions associated with an ownership structure utilized only for the ownership and management of the residential mortgages exclusively for the reporting entity (e.g., service fees, real estate taxes, facilitating financing arrangements, etc.). Transactions of the qualifying statutory trust

For ownership in a series of a statutory trust to meet the criterion described in paragraph 2b.ii. the trust agreement must explicitly provide for the limitation of liabilities of each series, the reporting entity must hold 100% undivided beneficial ownership interest in all assets of that the statutory trust series, the series must own all of each single mortgage loan agreement held as asset, the reporting entity's ownership and ability to divest its interest in the series must not be contingent upon its ownership interest in any other series of the statutory trust, and the series trust must maintain distinct and separate records from those of the overall trust and other series.

For example, if a statutory trust has Series A through C, and the reporting entity has a 100% beneficial ownership interest in of Series A but only a 50% ownership interest in of Series B, only the investment in Series A would meet this criterion. However, if beneficial ownership of each single mortgage loan agreement is split evenly across Series A, B, and C (e.g., each holds one third of the loan asset), then none of the investments would qualify, as the assets are shared across series.

shall be reported as transactions of the reporting entity pursuant to the guidance in this statement.

- ii.vi. All cash flows from the single residential mortgage loan agreements must flow through the statutory trust directly to the reporting entity, with the exception of customary and reasonable fees to the statutory trust manager/servicer, trustee, custodian or similar third-party service providers, or to make payment on any financing secured by the residential mortgages.

3. Mortgage loans meet the definition of assets as specified in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement.

- a. Statutory trust assets that are pledged as collateral or otherwise encumbered through action of the insurer, or by the trustee acting on the insurer's behalf, shall be reported as restricted assets and are permitted for admittance subject to the provisions of INT 01-31: Assets Pledged as Collateral. Statutory trust assets that are pledged or otherwise encumbered to a third party due to actions taken by the statutory trust (including pledges of trust assets not on behalf of the insurer) shall be nonadmitted in accordance with SSAP No. 4, footnote 2.

### Disclosures

28. The following disclosures shall be made for mortgage loans acquired through a qualifying investment in a statutory trust:

- a. A description of the statutory trust(s). Mortgage loans held in statutory trusts must be separately reported on Schedule B in accordance with the annual statement instructions.
- i. If the statutory trust(s) holds any amount of subprime mortgages, the reporting entity must disclose this fact in the description of the statutory trust(s) and complete the subprime mortgage disclosures as detailed in SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures. Transactions of the statutory trusts within the scope of SSAP No. 25 shall also be disclosed.
- ii. Description of each statutory trust must include the U.S. state(s) in which the statutory trust is qualified to do business.
- ~~the aggregate amount of fiscal year-to-date fees incurred for asset management, property management, trustee, service, and any other fees associated with management/administration of the described statutory trust.~~
- iii. Summary of assets and liabilities held within qualifying statutory trusts; aggregated by total residential mortgage loans, real estate acquired through foreclosure, cash and cash equivalents, and liabilities (if any) to be shown by reporting line.
- b. Disclosure of ~~any~~ material litigation and any kind of ~~material~~ state or federal regulatory review and/or action concerning the statutory trust(s).
- c. Disclosure of financing transactions of any sort which are secured, directly or indirectly, by statutory trust assets.

a-d. Total of residential mortgages held in qualifying statutory trusts, disaggregated by loan standing: In Good Standing, Restructured, Overdue Interest Over 90 Days Not in the Process of Foreclosure, and In the Process of Foreclosure.

***Proposed revisions to Annual Statement Instructions:***

**SCHEDULE B – PARTS 1 AND 2**

**MORTGAGE LOANS OWNED AND ACQUIRED – GENERAL INSTRUCTIONS**

If a reporting entity has any detail lines reported for any of the following required groups, it shall report the subtotal amount of the corresponding group with the specified subtotal line number appearing in the same manner and location as the pre-printed total. The underlying loans held by within qualifying investments in a statutory trust(s) must be disaggregated by group (loan standing) and subgroup (loan type), as shown below.

For accounting guidance related to foreign currency transactions and translations, refer to *SSAP No. 23—Foreign Currency Transactions and Translations*.

**SCHEDULE B – PART 1**

**MORTGAGE LOANS OWNED DECEMBER 31 OF CURRENT YEAR**

Report separately all mortgage loans owned and backed by real estate, including those held within qualifying investments in statutory trust(s). Include non-conventional mortgage loans (e.g., loans that can be increased to their maximum loan value without incurring the cost of writing a new mortgage). Also include mezzanine real estate loans. For accounting and admission guidance related to mezzanine real estate loans, refer to *SSAP No. 83—Mezzanine Real Estate Loans*. Collateralized Mortgage Obligations, (residential mortgage-backed securities), should be included in Schedule D.

A description of the information required by the columnar headings is as follows:

Column 1 – Loan Number

Report the mortgage loan number assigned by the reporting entity. For foreign denominated mortgages, indicate the principal indebtedness amount in its local currency.

Column 2 – Code

Enter “^” in this column for all assets that are bifurcated between the insulated separate account filing and the non-insulated separate account filing.

If mortgage loans are not under the exclusive control of the company as shown in the General Interrogatories, it is to be identified by placing one of the **symbols identified in the Investment Schedules General Instructions** in this column.

**Separate Account Filing Only:**

If the asset is a bifurcated asset between the insulated separate account filing and the non-insulated separate account filing, the “^” should appear first, immediately followed by the appropriate code (**identified in the Investment Schedules General Instructions**).

Column 3 – City

For mortgages in the U.S., list city. If the city is unknown, indicate the county. If the mortgage is outside the U.S., indicate the city or province.

Column 4 – State

For mortgages in U.S. states, territories and possessions, report the two-character U.S. postal abbreviation for U.S. states, territories and possessions. If the mortgage is located outside the U.S. states, territories and possessions, report the three-character (ISO Alpha 3) country abbreviations available in the listing in the appendix of these instructions.

Column 5 – Loan Type

If the loan was made to an officer or director of the reporting entity/subsidiary/affiliate, enter “E”.

If the loan was made directly to a subsidiary or affiliate enter “S”.

If the loan was made directly to a related party that doesn’t meet the affiliate definition or the reporting entity has received domiciliary state approval to disclaim control/affiliation, enter “R.”

If the residential mortgage loan is held in a qualifying statutory trust, enter “T”.

If the mortgage loan is 100% first lien, enter “1”.

If the mortgage loan is not a first lien, including those with a combination of first and subordinate liens, enter “2”.

Otherwise, leave the column blank.

Column 21 – State of Domicile (Statutory Trust Only)

Report the two-character U.S. postal abbreviation for the U.S. state or territory the statutory trust is domiciled within.

## **SCHEDULE B – PART 2**

### **MORTGAGE LOANS ACQUIRED AND ADDITIONS MADE DURING YEAR**

Report individually all mortgage loans acquired or transferred from another category (e.g., joint ventures, Schedule BA) but also any increases or additions to mortgage loans acquired or transferred in the current and prior periods. Mortgages acquired and disposed during the same year should be reported in both Part 2 and Part 3, which would also include acquired or disposed of residential mortgage loans held within qualifying statutory trusts. Include non-conventional mortgage loans (e.g., loans that can be increased to their maximum loan value without incurring the cost of writing a new mortgage). Also include mezzanine real estate loans. For accounting and admission guidance related to mezzanine real estate loans, refer to *SSAP No. 83—Mezzanine Real Estate Loans*. Collateralized Mortgage Obligations (residential mortgage-backed securities) should be included in Schedule D.

A description of the information required by the columnar headings is as follows:

Column 1 – Loan Number

Report the mortgage loan number assigned by the reporting entity. For foreign denominated mortgages, indicate the principal indebtedness amount in its local currency.

Column 2 – City

For mortgages in the U.S., list city. If the city is unknown, indicate the county. If the mortgage is outside the U.S., indicate the city or province.

Column 3 – State

For mortgages in U.S. states, territories and possessions, report the two-character U.S. postal abbreviation for U.S. states, territories and possessions. If the mortgage is located outside the U.S. states, territories and possessions, report the three-character (ISO Alpha 3) country abbreviations available in the listing in the appendix of these instructions.

Column 4 – Loan Type

If the loan was made to an officer or director of the reporting entity/subsidiary/affiliate, enter "E".

If the loan was made directly to a subsidiary or affiliate, enter "S."

If the loan was made directly to a related party that doesn't meet the affiliate definition or the reporting entity has received domiciliary state approval to disclaim control/affiliation, enter "R."

If the residential mortgage loan is held in a qualifying statutory trust, enter "T".

If the mortgage loan is 100% first lien, enter "1".

If the mortgage loan is not a first lien, including those with a combination of first and subordinate liens, enter "2".

Otherwise, leave the column blank.

Column 15 – State of Domicile (Statutory Trust Only)

Report the two-character U.S. postal abbreviation for the U.S. state or territory the statutory trust is domiciled within.

### **SCHEDULE B – PART 3**

#### **MORTGAGE LOANS DISPOSED, TRANSFERRED OR REPAYED DURING THE YEAR**

Report individually each mortgage, including those held in qualifying investments in statutory trust(s), that has had decreases in the balance as a result of being closed by repayment, partial repayment, disposed or transferred to another category (e.g., real estate, Schedule A). Do not report individual partial repayments but aggregate all partial repayments by mortgage loan.

If a reporting entity has any detail lines reported for any of the following required groups, it shall report the subtotal amount of the corresponding group with the specified subtotal line number appearing in the same manner and location as the pre-printed total.

Mortgages closed by repayment .....	0199999
Mortgages with partial repayments .....	0299999
Mortgages disposed .....	0399999
Mortgages transferred.....	0499999
Total.....	0599999



A description of the information required by the columnar headings is as follows:

Column 1 – Loan Number

Report the mortgage number assigned by the reporting entity.

Column 2 – City

For mortgages in the U.S., list city. If the city is unknown, indicate the county. If the mortgage is outside the U.S., indicate the city or province.

Column 3 – State

For mortgages in U.S. states, territories and possessions, report the two-character U.S. postal abbreviation for U.S. states, territories and possessions. If the mortgage is located outside the U.S. states, territories and possessions, report the three-character (ISO Alpha 3) country abbreviations available in the listing in the appendix of these instructions.

Column 4 – Loan Type

If the loan was made to an officer or director of the reporting entity/subsidiary/affiliate, enter "E."

If the loan was made directly to a subsidiary or affiliate enter "S."

If the loan was made directly to a related party that doesn't meet the affiliate definition or the reporting entity has received domiciliary state approval to disclaim control/affiliation, enter "R."

If the residential mortgage loan is held in a qualifying statutory trust, enter "T".

If the mortgage loan is 100% first lien, enter "1".

If the mortgage loan is not a first lien, including those with a combination of first and subordinate liens, enter "2".

Otherwise, leave the column blank.

Column 24 – State of Domicile (Statutory Trust Only)

Report the two-character U.S. postal abbreviation for the U.S. state or territory the statutory trust is domiciled within.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/08-11-25 Summer National Meeting/Hearing/20 - 25-13 - Statutory Trusts.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2025/08-11-25%20Summer%20National%20Meeting/Hearing/20-25-13-Statutory%20Trusts.docx)

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

**Issue: Status Section Updates**

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:**

This agenda item is to provide updates to the Status Section on the cover page of the statements of statutory accounting principles (SSAPs). The two primary revisions are: 1) to change “substantively” revised to “conceptually” revised in the status section, and 2) to remove the issue paper references in the status section. Note that references to the issue papers will be maintained in the SSAPs, typically in the Effective Date section regarding the revisions documented in the issue papers, so historical tracking will still be maintained.

**Existing Authoritative Literature:**

The “How to Use this Manual” in the introductory section of the *Accounting Practices and Procedures Manual* contains the following regarding the cover page of the statements of statutory accounting principles (SSAPs):

Prior to January 1, 2022, the term used to describe a new SAP concept or a new SAP concept in an existing SSAP was “substantive” and the term used to describe a SAP clarification was “nonsubstantive.” The new terms will be reflected in materials to describe revisions to statutory accounting principles on a prospective basis and historical documents will not be updated to reflect the revised terms.

The cover page of each SSAP contains a STATUS section that can affect the implementation of each SSAP.

The STATUS section contains the following:

**TYPE OF ISSUE** – SSAPs designated as Common Area apply to all insurers. Although the nomenclature or terms provided in the prescribed annual statement forms may vary among different types of insurers, only one set of nomenclature or terms may have been used in the SSAP. For example, the Statement of Income found in the Property and Casualty Annual Statement shall be considered as synonymous with the Summary of Operations found in the Life and Health Annual Statement.

**ISSUED** – Date when the SSAP was adopted by the NAIC. SSAPs designated with Initial Draft were adopted by the NAIC Plenary in March 1998 as part of the Codification Project (SSAP Nos. 1-73). The date included for SSAP No. 74, and subsequent SSAPs, denotes when the Statutory Accounting Principles (E) Working Group adopted the SSAP.

**EFFECTIVE DATE** – Date representing when the SSAP is effective. Many times, there are additional details relative to the transition provided within the SSAP.

**AFFECTS/AFFECTED BY** – A useful tool for tracking relationships between statements and interpretations is contained within these sections. The “affects” section is used when a SSAP has previously been

amended to reflect new SAP concepts or superseded by other issued SSAPs. Nullified INTs are also noted in this section. Readers are referenced to another SSAP in the “affected by” section if the SSAP has been superseded or amended with a new SAP concept or with the issuance of a new SSAP. Text within paragraphs amended with new SAP concepts or superseded may also be “shaded” to notify readers that revised guidance is available.

**INTERPRETED BY** – This section includes a reference to the applicable interpretation (INT) of statutory accounting principles contained within Appendix B of the Manual which provides interpretative guidance as a result of issues raised by users of the Manual or related GAAP guidance. INTs are generally effective when adopted. Readers should note that the Manual only contains the INTs finalized through year end prior to publication, due to the fact that the Manual is published annually. Readers may use the NAIC website, as indicated on the inside front cover of the Manual, to keep abreast of recently issued INTs.

**RELEVANT APPENDIX A GUIDANCE** – This section identifies the relevant *Appendix A—Excerpts from NAIC Model Laws* guidance referenced within the SSAP.

Refer to the Relevant Literature and Effective Date and Transition sections of each SSAP for details of the development of new SSAPs or new SAP concepts, as well as changes as the result of SAP clarifications.

The following also appears in the "How to Use this Manual" section:

How to Use This Manual ...

***... to account for a certain item under NAIC SAP***

As the SSAPs represent the highest level of NAIC statutory authority, readers should begin their search there. The Index to SSAPs is a useful tool to identify which SSAP(s) address the issue. Once the pertinent SSAP has been identified, it can be used to locate other documents that may also address the issue. On the SSAP cover page, readers will be referred to other SSAPs if there have been **substantive** changes made to it or INTs if there have been interpretations of the SSAP. Within the body of the SSAP, readers may be referred to Appendix A or C for further guidance. There is a reference located at the end of each SSAP to issue paper(s) used in the development of the SSAP. The DISCUSSION section of the issue paper provides documentation supporting the conclusions reached in the SSAP. As supported by the statutory hierarchy, readers should only utilize the issue papers as support to the SSAP as they ARE NOT authoritative. The Statutory Hierarchy contains a detailed listing of levels of authoritative literature.

The following is an illustration of a SSAP Status section from *SSAP No. 32—Preferred Stock* in the *As of March 2025 Accounting Practices and Procedures Manual*:

Type of Issue.....	Common Area
Issued.....	Initial Draft; Substantively revised July 30, 2020
Effective Date .....	January 1, 2001; Substantive revisions detailed in Issue Paper No. 164 effective January 1, 2021
Affects.....	Supersedes SSAP No. 99 with guidance incorporated November 2010; Nullifies and incorporates INT 99-29
Affected by .....	No other pronouncements
Interpreted by .....	INT 06-02; INT 06-07
Relevant Appendix A Guidance .....	None

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** Agenda items 2021-26EP and 2021-14 were adopted in 2022 resulting in revisions to replace the term “substantive” with “new SSAP” or “new SAP concept” and to replace the term “nonsubstantive” with “SAP clarification” on a primarily prospective basis.

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

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

**Staff Review Completed by:** Robin Marcotte – NAIC Staff

**Staff Recommendation:** NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose the following revisions as illustrated or listed below.

**Status:**

On May 22, 2025, the Statutory Accounting Principles (E) Working Group exposed revisions to the Status section of the statements of statutory accounting principles and a minor consistency revision to the How to Use this Manual document as described below. These revisions are to update and streamline the Status section for changes in terminology etc. The chart of SSAPs where the status section is expected to be updated is noted below. However, if additional items are identified as the Manual is prepared for publication, the same procedures would apply. The revisions are proposed not to be tracked.

**The following revisions are proposed not to be tracked.**

1. Make an edit in the “How to Use” section to replace “substantive” with “conceptual,” which is consistent with prior 2022 revisions in *the Accounting Practices and Procedures Manual*.
2. Remove the issue paper references in the Status section.
3. Change “substantively revised” to “conceptually revised” in the Status section and in the Effective Date section of the applicable statements, if appropriate. Note this does not intend to change the use of the word “substantive” in historical documents. The Status section and/or the Effective Date section of SSAPs that currently refer to prior “substantive/substantively” revisions have been identified to be updated with “conceptual/conceptually” as appropriate to the context. The following chart of anticipated revisions is believed to be an accurate account; however, other items identified as the subsequent year’s Manual is being prepared for release would follow the same process.

4. Remove a disclosure referencing a 2010 effective date of the Status section of *SSAP No. 56—Separate Accounts*; as illustrated below. This wording is not needed in the Status section, as was a nonsubstantive revision, which is noted in paragraph 44 of *SSAP No. 56*.

**Proposed revision shown tracked:**

How to Use This Manual ...

***... to account for a certain item under NAIC SAP***

As the SSAPs represent the highest level of NAIC statutory authority, readers should begin their search there. The Index to SSAPs is a useful tool to identify which SSAP(s) address the issue. Once the pertinent SSAP has been identified, it can be used to locate other documents that may also address the issue. On the SSAP cover page, readers will be referred to other SSAPs if there have been ~~substantive-conceptual~~ changes made to it or INTs if there have been interpretations of the SSAP. Within the body of the SSAP, readers may be referred to Appendix A or C for further guidance. There is a reference located at the end of each SSAP to issue paper(s) used in the development of the SSAP. The DISCUSSION section of the issue paper provides documentation supporting the conclusions reached in the SSAP. As supported by the statutory hierarchy, readers should only utilize the issue papers as support to the SSAP as they ARE NOT authoritative. The Statutory Hierarchy contains a detailed listing of levels of authoritative literature.

**Below is an illustration of the revisions to SSAP No. 32. Similar revisions will be made to the SSAPs noted in the chart of expected revisions on the following pages:**

*SSAP No. 32—Preferred Stock*

Type of Issue.....	Common Area
Issued.....	Initial Draft; <del>Substantively-Conceptually</del> revised July 30, 2020
Effective Date .....	January 1, 2001; <del>Substantive-Conceptual</del> revisions <del>detailed in Issue Paper No. 164</del> effective January 1, 2021
Affects.....	Supersedes SSAP No. 99 with guidance incorporated November 2010; Nullifies and incorporates INT 99-29
Affected by .....	No other pronouncements
Interpreted by .....	INT 06-02; INT 06-07
Relevant Appendix A Guidance .....	None

**Effective Date and Transition**

22. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*. The guidance in paragraphs 24-27 was previously included within *SSAP No. 99—Accounting for Securities Subsequent to an Other-Than-Temporary Impairment* and was effective for reporting periods beginning on January 1, 2009, and thereafter, with early adoption permitted. In 2010, the guidance from *SSAP No. 99* was incorporated within the impacted standards, with *SSAP No. 99* superseded. The original impairment guidance included in this standard, and the ~~substantive-conceptual~~ revisions reflected in *SSAP No. 99* are retained for historical purposes within Issue Paper No. 131. The guidance in paragraphs 2 and 4 to *SSAP No. 32* was

originally superseded January 1, 2005, by guidance included in *SSAP No. 88—Investments in Subsidiaries, Controlled and Affiliated Entities, A replacement of SSAP No. 46*, and then subsequently reflected in SSAP No. 97. In 2011, the guidance related to preferred stock of SCAs from SSAP No. 97 was incorporated into this statement and revised to reflect a definition of preferred stock. The original guidance included in this statement, and the substantive-conceptual revisions reflected in SSAP No. 88 and SSAP No. 97 (including the title change already reflected in SSAP No. 32) are retained for historical purposes within Issue Paper Nos. 32 and 118. Guidance in paragraph 18 was originally contained in *INT 99-29: Classification of Step-Up Preferred Stock* and was effective December 6, 1999.

23. On July 30, 2020, substantive-conceptual revisions, as detailed in *Issue Paper No. 164—Preferred Stock* were adopted. These revisions update definitions of preferred stock and reporting values based on characteristics of the preferred stock and are effective January 1, 2021, with early adoption permitted.

**Proposed additional revision to status section of SSAP No. 56—Separate Accounts:**

Type of Issue.....	Life, Accident and Health
Issued.....	Finalized March 13, 2000
Effective Date .....	January 1, 2001— <del>Revised disclosures adopted September 2009 were required within the 2010 annual financial statements</del>
Affects.....	Supersedes SSAP No. 80 with guidance incorporated August 2011
Affected by .....	No other pronouncements
Interpreted by .....	INT 00-03
Relevant Appendix A Guidance .....	A-200; A-250; A-255; A-270; A-585; A-588; A-620; A-695; A-812; A-820; A-821; A-822; A-830

**Chart of expected revisions**

The chart below is believed to be an accurate list of expected revisions; however, if additional items are identified as the subsequent year's AP&P Manual is being prepared for release, the same process would apply.

Remove Issue Paper Reference in the SSAP Status Section	Change "Substantively" to "Conceptually" in SSAP Status Section	Change "Substantively" to "Conceptually" in Effective Date/Other Section as Applicable
	2	Paragraph 22
	5	
	16	
	21	
22	22	Paragraph 54
	26	
30	30	
32	32	Paragraphs 22 and 23
35	35	Paragraph 22
40	40	Paragraph 36
41	41	Paragraph 24
	43	

51	51	Paragraph 58
54	54	
	61	
62	62	Paragraph 135
	86	
	93	
	94	Paragraph 19
100	100	Paragraph 67
103	103	
	104	Subparagraphs 132.b. through 132.d.
105	105	Paragraph 34

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/08-11-25 Summer National Meeting/Hearing/21 - 25-16 Status Section Updates.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2025/08-11-25%20Summer%20National%20Meeting/Hearing/21%20-%2025-16%20Status%20Section%20Updates.docx)

**Statutory Accounting Principles (E) Working Group  
Summer National Meeting  
Comment Letters Received**

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June 4, 2025

Chair Dale Bruggeman

Statutory Accounting Principles Working Group

RE: Ref #2025-01: Sale Leaseback Clarification

Via Email: Jake Stultz and Robin Marcotte, [jstultz@naic.org](mailto:jstultz@naic.org), [rmarcotte@naic.org](mailto:rmarcotte@naic.org)

Dear Mr. Bruggeman,

Thank you for the opportunity to comment on Proposal Ref# 2025-01: Sale Leaseback Clarification. The following is submitted on behalf of the member companies of the National Association of Mutual Insurance Companies (NAMIC) and the American Property Casualty Insurance Association (APCIA), collectively, “the Trades.”

NAMIC has more than 1,500-member companies representing 40 percent of the total U.S. property/casualty insurance market and write more than \$383 billion in annual premiums. Through NAMIC’s advocacy programs, it promotes public policy solutions that benefit NAMIC member companies and the policyholders they serve and fosters greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.

APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions – protecting families, communities, and businesses in the U.S. and across the globe.

The Trades appreciate the work that the NAIC staff has done on this issue to make it clear what type of transaction should fall under *SSAP No. 22 – Leases*. We are neutral on the edits that clarify that sale leasebacks with restrictions on access to cash do not qualify for the sale leaseback accounting method and must be accounted for by the seller using the financing method.

To make it clear that this edit does not overrule the guidance found in INT 01-31: regarding collateral pledged for their performance under a contract and for easier flow of reading, the Trades suggest the below edits. First, make the proposed clarification the new number (34) as opposed to a new subsection (c). This edit makes it clear to the reader that this type of transaction does not fall under the sale-leaseback accounting method. Second, the



insertion of a footnote at the end of the new number (34), referencing that nothing in the edit is meant to negate any guidance found in INT 01-31.

33. Sale-leaseback accounting shall be used by a seller-lessee only if a sale-leaseback transaction includes all of the following:
- a. A normal leaseback is a lessee-lessor relationship that involves active use of the property by the seller-lessee in consideration for payment of rent, including contingent rentals that are based on future operations of the seller-lessee. The phrase active use of the property by the seller-lessee refers to use of the property during the lease term in the seller-lessee's trade or business, provided that subleasing of the leased property is minor.
  - b. Admitted assets, if the buyer-lessor is a related party, or either admitted or nonadmitted assets if the buyer-lessor is not a related party. For purposes of this paragraph, related parties include those identified in SSAP No. 25 and entities created for the purpose of buying and leasing nonadmitted assets for the reporting entity and/or its affiliates.
34. ~~(c) A sale where the cash received by the seller has access restrictions does not meet the definition of a sale for sale leaseback accounting and shall be recorded as a financing arrangement as described in paragraph 39.~~<sup>1</sup>

**FOOTNOTE TO SAY:** <sup>1</sup> Nothing in this section shall be construed to negate the guidance found in INT 01-31 regarding collateral pledged for their performance under a contract.

We believe the above edits support the goal of the proposed changes to SSAP No. 22 and make it clear that there is no intent to open or change other guidance regarding collateral.

Thank you for your consideration and do not hesitate to reach out to us with any questions.



Colleen Scheele  
Senior Vice Policy President and Counsel, Tax and Fiscal Policy  
National Association of Mutual Insurance Companies

Jay Muska, Vice President Accounting and Financial Issues  
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June 6, 2025

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

RE: Interested Parties Comments on Exposure Drafts from the NAIC Spring National Meeting in Indianapolis

Dear Mr. Bruggeman:

Thank you and the NAIC Statutory Accounting Principles Working Group (the Working Group) for the opportunity to comment on the exposure drafts from the recent National NAIC meeting with comments due June 6th.

We offer the following comments.

**Ref #2023-14: SSAP No. 7 – Asset Valuation Reserve and Interest Maintenance Reserve**

This agenda item has been developed as a broad concept agenda item with the ultimate goal to incorporate accounting guidance for the asset valuation reserve (AVR) and the interest maintenance reserve (IMR) into *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. Historically, this statement has included a brief overview of the AVR and IMR with the calculation and reporting guidance determined as directed by individual SSAPs or in accordance with the Annual Statement (A/S) Instructions for Life, Accident and Health / Fraternal Companies. As the SSAPs are highest in the statutory hierarchy as level 1, and the A/S instructions are level 3, the governing accounting concepts should be captured in the SSAPs.

It has also been noted that there are some disconnects between the SSAPs and the IMR/AVR guidance included in the Annual Statement Instructions. This is likely due to SSAP accounting revisions, such as with the measurement of preferred stock, not being carried to the specific IMR/AVR guidance in the Annual Statement. This agenda item, and the intent to ensure accounting concepts are in the SSAPs, intends to address those aspects and should help mitigate future disconnects with guidance going forward.

Lastly, it has also been identified that there are limited financial reporting cross-checks to the reporting within the AVR. Although the instructions are specific as to how reporting lines should map to the AVR, instances have been noted in which a company has reported on one specific line for the investment schedule and then did not carry those amounts to the appropriate AVR reporting category. Although these may be inadvertent reporting errors, as the RBC for life companies pulls from the AVR reporting, it is imperative that the reporting per the investment schedules be reflected properly in the AVR. As such, this agenda item also proposes cross-checks to ensure consistent and accurate reporting.

On March 24, 2025, the Working Group exposed a hypothetical IMR memorandum which details the discussions and recommended conclusion of the Interest Maintenance Reserve (IMR) ad hoc group to remove hypothetical IMR. This item was exposed at the full Working Group level to request feedback. It is anticipated that if supported, the concepts and conclusions within the memo will be included in the IMR issue paper and revised statutory accounting guidance.

Interested parties (including the American Council of Life Insurers, or ACLI) agree with the removal of hypothetical IMR, the findings of the work memorialized in the Hypothetical IMR Memo, and the concepts and conclusions therein to be included in the IMR issue paper and revised statutory accounting guidance. At some point, clarification of the accounting treatment for legacy hypothetical IMR balances will need to be addressed.

#### **Ref #2025-01: Sale Leaseback Clarification**

The Working Group exposed revisions to *SSAP No. 22—Leases* to clarify that sale leasebacks with restrictions on access to the cash from the sales transaction do not qualify for sale leaseback accounting and must be accounted for by the seller using the financing method.

Interested parties agree that transactions involving cash or assets received by a seller that have restrictions as to use, do not meet the definition of a sale for sale leaseback accounting and should be recorded as a financing arrangement. Because the cash and assets received are not available to meet policyholder obligations, such assets may be considered nonadmitted in accordance with *SSAP No. 4 – Assets and Nonadmitted Asset*.

#### **Ref #2025-02: ASU 2024-04, Induced Conversions of Convertible Debt Instruments**

The Working Group exposed revisions to *SSAP No. 15—Debt and Holding Company Obligations* to adopt with modification *ASU 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20), Induced Conversions of Convertible Debt Instruments* for statutory

accounting as this update provides clarifications on induced conversions and when the inducement shall be recognized as expense by the issuer.

Interested parties have no comment on this item.

### **Ref #2025-03: IMR Definition**

The Working Group exposed this agenda item with the proposed ACLI IMR definition along with an NAIC staff proposed IMR definition. This agenda item is considered a new Statutory Accounting Principles concept as the definition will be included in the IMR issue paper and revised *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* as part of the intent to include accounting-related concepts for IMR in the SSAP and not the annual statement instructions.

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

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

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

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

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

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

assumptions in accordance with the Accounting Practices and Procedures and Valuation Manual.

Although this definition was initially discussed at the IMR ad hoc group, it was noted that further discussion and revision may occur, and that the full Statutory Accounting Principles (E) Working Group would need to consider the proposed definition. The ACLI proposed definition is significantly expanded beyond what is currently in SSAP No. 7, paragraph 2.

The NAIC proposes additional changes to the ACLI definition (proposed changes from ACLI definition shown as tracked):

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

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

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

#### **NAIC discussion regarding the proposed modifications and overall definition:**

##### **1) The ACLI has specifically identified IMR as a “valuation adjustment” and not an asset or as a liability.**

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

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

(realized gains) do not represent liabilities under *SSAP No. 5—Liabilities, Contingencies and Impairment of Assets*, as it does not reflect a present obligation to transfer or provide an economic benefit to others.

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

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

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

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

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

NAIC staff notes that the sources of IMR (whether including non-accounting effective



hedges) and the scope to which items should be excluded can be further prescribed in the accounting guidance for recognizing IMR, but that they should not be captured in the broad IMR definition.

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

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

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

Interested parties (ACLI) have no objection to the NAIC's proposed definition of IMR for inclusion within SSAP No. 7.

However, we make the following observations:

All agree that IMR itself does not meet the definition of an asset or liability but rather is a valuation adjustment needed to maintain consistency between insurance liabilities (the assumptions for which are often unchanged from origin), and the assets needed to support them (where the assumptions can essentially be revisited any time there are fixed income realizations).

While we have no objections to removing non-economic from the proposed definition, we note that the ACLI document included with the exposure is important for understanding this concept as it shows, with proper reinvestment, a company is in the same economic position (or possibly in a better economic position) pre and post trade in a changing interest rate environment – e.g., IMR, whether positive or negative, is essentially a “reclassification” of unrealized losses on the balance sheet). This is invaluable information for those looking to understand the theoretical underpinnings of IMR.

Further, while we agree that the primary purpose of IMR, when it was adopted, was to prevent selling investments when they were in a gain position, caused by a decrease in interest rates (allowing a surplus benefit) when the funds received from the sale had to be reinvested at the lower interest rates as they would still be needed to satisfy future policyholder obligations – the logical impetus being surplus would be misstated. We also note that when IMR was developed, it was noted that IMR should be symmetrical, as in a declining interest rate environment, the proceeds received from the sale would be reinvested at the higher interest rates that can still satisfy future policyholder obligations notwithstanding that the realized losses would show a reduction of surplus. The ACLI document is also invaluable in understanding this concept and provides concrete numerical examples.

While the aforementioned is theoretically correct supporting symmetrical treatment of gains and losses, we acknowledge there may be situations where the assumptions in the real world do not play out in strict accordance with this theory and understand its proposed removal from the definition. The ACLI document proves invaluable in reinforcing the theoretical understanding of IMR as a valuation adjustment for consistent valuation of assets and liabilities, and therefore why it is inappropriate to view of negative IMR as an “asset” that cannot be used to pay claims.

We raise these points so those looking to truly understand the concept of IMR, its theory, and its interaction with AAT and PBR, can very simply grasp these concepts (via the ACLI document) under the NAIC’s largely “amortized cost” framework.

#### **Ref #2025-09: VM-22 Update Coordination**

The Working Group exposed revisions which add minor consistency revisions to *SSAP No. 51—Life Contracts* reflect updates to the Valuation Manual in *VM-22 PBR: Requirements for Principle-Based Reserves for Non-Variable Annuities*.

Interested parties have no comment on this item.

#### **Ref #2025-10: ASU 2023-07, *Improvements to Reportable Segment Disclosures***

The Working Group exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2023-07, Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures* as not applicable to statutory accounting.

Interested parties have no comment on this item.

#### **Ref #2025-11: ASU 2024-03 and ASU 2025-01, Reporting Comprehensive Income**

Working Group exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2024-03, Disaggregation of Income Statement Expenses* and *ASU 2025-01, Clarifying the Effective Date of ASU 2024-03* as not applicable to statutory accounting.

Interested parties have no comment on this item.

\* \* \* \*

Thank you for considering interested parties' comments. We look forward to working with you and the Working Group on these items. If you have any questions in the interim, please do not hesitate to contact either one of us.

Sincerely,

D. Keith Bell

Rose Albrizio

cc: Julie Gann, NAIC staff  
Robin Marcotte, NAIC staff  
Interested parties

**D. Keith Bell, CPA**

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June 23, 2025

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

RE: Interested Parties Comments on Exposure Drafts from the NAIC Spring National Meeting in Indianapolis

Dear Mr. Bruggeman:

Thank you and the NAIC Statutory Accounting Principles Working Group (the Working Group) for the opportunity to comment on the exposure drafts from the recent National NAIC meeting with comments due June 23rd.

We offer the following comments.

**Ref #2025-13: Residential Mortgage Loans Held in Statutory Trusts**

The Working Group exposed revisions to add qualifying investment trusts holding residential mortgage loans in scope of SSAP No. 37 – *Mortgage Loans* for reporting on Schedule B – Mortgage Loans.

Interested parties appreciate the time that NAIC staff has spent with us going over our questions and comments on this exposure. We kindly request an extension on providing formal comments to Thursday, July 3<sup>rd</sup>, so that we can provide a summary of all the items we have discussed through our ongoing dialogue on this exposure.

### **Ref #2025-14: Appendix D**

The Working Group exposed revisions to Appendix D – Nonapplicable GAAP Pronouncements to reject *ASU 2017-05, Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* as not applicable to statutory accounting.

Interested parties have no comment on this item.

### **Ref #2025-15: Appendix D**

The Working Group exposed revisions to Appendix D – Nonapplicable GAAP Pronouncements to reject *ASU 2025-02, Liabilities (Topic 405), Amendment to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 122* as not applicable to statutory accounting.

Interested parties have no comment on this item.

### **Ref #2025-16: SSAP Status Sections**

The Working Group exposed revisions to various SSAPs to remove issue paper references and change “Substantively” to “Conceptually” in the SSAP Status sections.

Interested parties note that previously the use of the term “substantive” meant that a new SSAP would be issued and “nonsubstantive” meant that the SSAP would be updated. Before adopting the new terms, we recommend that there be a better description of what the new terms mean in the context of new guidance versus updates to existing guidance.

### **Ref #2025-17EP: May 2025 Editorial Revisions**

The Working Group exposed editorial revisions to the SSAP No. 26 disclosure 40.f to match Schedule D; SSAP No. 41 to remove remaining references to a “CRP” designation in paragraph 11; SSAP No. 56 to delete disclosure 32.d. as it is no longer applicable; and INT 22-01 to remove former SSAP No. 43R - *Loan-Backed and Structured Security* terminology.

Interested parties have no comment on this item.

\* \* \* \*

Thank you for considering interested parties’ comments. We look forward to working with you and the Working Group on these items. If you have any questions in the interim, please do not hesitate to contact either one of us.

Statutory Accounting Principles Working Group

June 23, 2025

Page 3

Sincerely,

D. Keith Bell

Rose Albrizio

cc: Julie Gann, NAIC staff  
Robin Marcotte, NAIC staff  
Interested parties

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July 8, 2025

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

RE: Interested Parties Comments on SAPWG Ref #2025-13 *Residential Mortgage Loans Held in Statutory Trusts* (the “Exposure Draft”)

Dear Mr. Bruggeman:

Thank you and the NAIC Statutory Accounting Principles Working Group (the Working Group) for the opportunity to comment on the above-referenced item, which was exposed for comment by the Working Group during the NAIC 2025 Spring National Meeting.

Interested parties agree with reporting residential mortgage loans (RMLs) owned through a trust directly on Schedule B. The trust is created for the purposes of operational efficiency, with all the risks and rewards of the beneficial ownership interest in the assets belonging to the insurer. Therefore, look-through treatment, as if these are transactions of the reporting entity, seems most appropriate for this type of RML investment structure.

We are grateful for the time that NAIC staff has spent with us going over our questions and comments. We have summarized some of the most significant discussion points between the NAIC staff and interested parties below:

1. Regarding ownership of the trust’s assets, title to the RMLs is held by the trustee on behalf of the trust. The books and records of the trust then allocate a beneficial interest in each loan to a specific series. Same goes for any other assets of the trust. Some updates

will be needed to the current Exposure Draft to reflect how these structures operate from a legal perspective.

2. Interested parties believe that the same requirements that apply to RMLs directly held and accounted for under SSAP No. 37 – *Mortgage Loans* should apply to the RMLs owned through a trust. As stated above, since all the risks and rewards related to ownership of the RMLs pass through to the insurer, this makes the most sense from a reporting perspective. Therefore, second lien loans should be allowed and RML participations of less than 100% should be allowed as well, consistent with SSAP No. 37.
3. The trust should be allowed to pledge the RMLs for the benefit of the insurer. Suggested language was discussed to make this clear in the Exposure Draft.
4. The Exposure Draft included a request for input on the appropriate reporting for foreclosed real estate that becomes an asset of the trust. Interested parties believe that any real estate assets, cash, or other assets related to investing in the RMLs such as receivables as well as liabilities, should be reported as if held directly by the insurer since the insurer gets all the risks and rewards of ownership. We also understand that it may be common for the trust to set up an LLC to own foreclosed real estate. If that is the case, since SSAP No. 40 – *Real Estate Investments* allows for single, wholly-owned real estate held in an LLC to be directly reported on Schedule A, we believe the same look-through provision would apply here and the insurer would report the real estate as directly owned.
5. We suggest changing the name from statutory trust to a qualifying trust. A trust can be a statutory trust or a common law trust. We understand that a statutory trust can have series whereas common law trusts do not, but both types can be used to hold RMLs on behalf of the insurer.
6. Interested parties question whether disclosure of fees paid to the servicer is a critical disclosure. We have received feedback that this information is confidential and could impact competitive market practices among servicers. Since such disclosure is not required for RMLs/CMLs directly owned and managed by a third-party servicer, we suggest that this disclosure be removed. In addition, the last sentence of paragraph 2 b (iv) implies that the loans will not be disclosed individually as it states “the detail must contain at a minimum, the same information as would be required were the mortgage loans to be individually reported on Schedule B.” If the ultimate decision is to report the loans individually on Schedule B, then this sentence should be removed.
7. In item 27.b., interested parties believe the materiality qualifier should apply to both parts of the disclosure (litigation and state or federal regulatory review).



8. Interested parties suggest adding a code to the residential mortgage loan sections of Schedule B to note loans that are held in statutory trusts so that directly held loans versus loans held in trust are easily identifiable by the regulators.
9. Interested parties also suggest adding guidance in the Exposure Draft for RMLs held in trusts that do not meet the proposed criteria, so that it is clearer how those investments should be accounted for and reported.

\* \* \* \*

Thank you for considering interested parties' comments. We look forward to working with you and the Working Group on these items. If you have any questions in the interim, please do not hesitate to contact either one of us.

Sincerely,

D. Keith Bell

Rose Albrizio

cc: Julie Gann, NAIC staff  
Robin Marcotte, NAIC staff  
Wil Oden, NAIC staff  
Jake Stultz, NAIC staff  
Interested parties



July 14, 2025

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

Re: Net Negative (Disallowed) Interest Maintenance Reserve (INT 23-01)

**Submitted Electronically**

Dear Mr. Bruggeman:

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on INT 23-01 which delays the automatic nullification of the short-term interim solution that allows the limited admittance of negative IMR, from January 1, 2026, to January 1, 2027.

We are especially grateful for the thoughtful and disciplined engagement and open dialogue facilitated through the IMR Ad Hoc Working Group. The consistent cadence of meetings and the willingness of regulators and industry participants to constructively work together has been instrumental in addressing the complexities surrounding the admittance of net negative IMR. This collaboration will not only enhance the clarity of the guidance by reflecting new developments since enactment in 1992 but also facilitate the collective and holistic incorporation into SSAP No. 7, Asset Valuation Reserve and Interest Maintenance Reserve. It will also help ensure the permanent solution achieves a balanced and practical approach to statutory reporting.

We support INT 23-01 as drafted and believe the extension period will allow sufficient time for the achievement of the aforementioned objectives. ACLI maintains its commitment to work constructively with the Ad Hoc Group and NAIC to modernize the IMR guidance and ensure the admittance of negative IMR best reflects economic statutory surplus, with appropriate safeguards, in a way that does not disincentivize prudent investment and asset liability management behavior.

Sincerely,

A handwritten signature in cursive script that reads 'Shannon Jones'.

Shannon Jones, CPA  
Senior Director - Financial Reporting Policy  
[Shannonjones@acli.com](mailto:Shannonjones@acli.com)  
202-624-2029

American Council of Life Insurers | 101 Constitution Ave, NW, Suite 700 | Washington, DC 20001-2133

The American Council of Life Insurers is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 93 percent of industry assets in the United States.  
[acli.com](http://acli.com)



July 15, 2025

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

Re: Request for Comments on Exposure Draft 2024-06 – RT YRT-Combo Contracts

**Submitted Electronically**

Dear Mr. Bruggeman:

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the exposure draft titled *24-06 – RT YRT-Combo Contracts* and commends the Statutory Accounting Principles (E) Working Group (SAPWG) for its continued efforts to clarify statutory accounting guidance in this complex area. ACLI also values the thoughtful discussions and your consideration of our feedback and recommendations. Throughout this process, we have collectively sought to understand our respective concerns – regulatory concerns with combination reinsurance agreements and ACLI concerns with the SAPWG exposures on this topic – to arrive at a mutual understanding about how combination reinsurance agreements could achieve risk transfer.

The original draft of the SAPWG 2024-06 exposure suggested that all combination reinsurance agreements are non-proportional. Through our dialog, we concluded that, while this would be true for some combination agreements, it would not be true for others. We also concluded that:

1. Each agreement must be evaluated individually with each component (i.e., the coinsurance component and the YRT component) evaluated against its respective requirements under SSAP No. 61, and then
2. Collectively as a contract to ensure no deprivation of ceding insurer surplus could occur (rather than applying a likelihood of loss standard).

In contemplating the evolution of thought noted above, we respectfully recommend that any final guidance be made to apply on a prospective basis only. We note that the proposal for prospective application of any new guidance is not intended to shield in force transactions that are clearly in violation of risk transfer rules (e.g., those having automatic recapture provisions), and we would support language to that effect.

American Council of Life Insurers | 101 Constitution Ave, NW, Suite 700 | Washington, DC 20001-2133

The American Council of Life Insurers is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 93 percent of industry assets in the United States.  
[acll.com](https://acll.com)

We additionally suggest revisions to the proposed SSAP No. 61 and Appendix, A-791 language as documented in the attached version of the exposure. We note it would be helpful for the historical record to document the evolution of thought which led to the contemplated changes reflected in the exposure. This will help regulators, companies, and auditors better understand the intent behind the proposed changes to SSAP No. 61 and Appendix A-791 should any ambiguity in the interpretation of the new language persist. We have included footnotes in the attached version of the exposure for this purpose.

In summary we request SAPWG adopt any changes to existing guidance prospectively; make the changes to the proposed language to SSAP No. 61 and Appendix A-791; include the proposed footnotes documenting the "historical record"; and re-expose such changes to allow time for stakeholders to evaluate the final proposed revisions to ensure no unintended consequences arise.

We appreciate SAPWG's consideration of these comments and recommendations and look forward to continued engagement on this important topic. ACLI is committed to collaborating with the NAIC and state regulators and welcome further discussion.

Sincerely,



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

**Issue: Risk Transfer Analysis on Combination Reinsurance Contracts**

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:**

This agenda item is to address a December 2023, referral by the Valuation Analysis (E) Working Group (VAWG) regarding reinsurance risk transfer and reserve credit for a particular form of reinsurance being observed by regulators in the life industry. The referral noted that:

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. Individual 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

*SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* contains guidance for life and health reinsurance agreements. Additionally, SSAP No. 61R refers to Appendix A-791, *Life and Health Reinsurance Agreements* for risk transfer criteria applicable to all forms of life and health reinsurance other than Yearly Renewable Term (YRT) agreements and certain non-proportional contracts such as stop loss and catastrophe reinsurance. YRT agreements are required to comply with specific parts of A-791. Furthermore, contracts that do not meet the conditions for reinsurance accounting in SSAP No. 61R, including the applicable parts of A-791, receive deposit accounting.

As noted in the referral above, regulators have observed reinsurance transactions that combine both coinsurance and YRT, typically applicable to different underlying policies, but that are interdependent. There exists 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.

The concern raised by regulators is 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. The agreements are designed to compensate the cedant for aggregate experience only in tail scenarios, which is accomplished through the design of the aggregate experience refund. In most reasonably expected scenarios, the net effect of the reinsurance is such that the cedant pays a financing charge to the reinsurer for a designated period of time until an expected recapture date and no additional net funds exchange hands. As a result, taking a full proportional reserve credit on the coinsured component is not reflective of the actual risk being transferred. SSAP No. 61R, paragraph 36 notes that the reinsurance credit is only for the risk reinsured. As noted in the referral, there was 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. NAIC staff agrees with the VAWG consensus and proposes to incorporate a version of existing guidance from SSAP No. 62R that addresses this point. The inclusion of this guidance is intended to require risk transfer to be analyzed for the entire contract when multiple interdependent types of reinsurance are present.<sup>1</sup>

*SSAP No. 62R—Property and Casualty Reinsurance Exhibit A – Implementation Questions and Answers*, question 10 provides guidance on interdependent contract features. This agenda item proposes to incorporate key aspects of the SSAP No. 62R, Exhibit A question 10 into SSAP No. 61R to provide more clarity on evaluation of risk transfer on contracts with interdependent features. The answer requires that features of the contract(s) that directly or indirectly compensate the reinsurer or related reinsurers for losses be considered in determining if a particular contract transfers risk. The *SSAP No. 62R—Property and Casualty Reinsurance Exhibit A – Implementation Questions and Answers* question 10 provides the following:

10A: A contract is not defined, but is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract. **For example, the profit-sharing provisions of one contract may refer to experience on other contracts and, therefore, raise the question of whether, in substance, one contract rather than several contracts exist.**

The inconsistency that could result from varying interpretations of the term *contract* is limited by requiring that features of the contract or other contracts or agreements that directly or indirectly compensate the reinsurer or related reinsurers for losses be considered in evaluating whether a particular contract transfers risk. Therefore, if agreements with the reinsurer or related reinsurers, in the aggregate, do not transfer risk, the individual contracts that make up those agreements also would not be considered to transfer risk, regardless of how they are structured.

As historical background, the guidance for SSAP No. 62R, Exhibit A, question 10, originated from *GAAP EITF Topic D-34, Accounting for Reinsurance: Questions and Answers about FASB Statement No. 113* (EITF D-34) NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions to *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* as illustrated below. The proposed revisions incorporate guidance to SSAP No. 61R which is

<sup>1</sup> Subsequent discussions have yielded a more nuanced view of this statement such that it is acknowledged that not all combination agreements are nonproportional. Combination reinsurance transactions should be assessed for risk transfer purposes, taking into consideration the specific terms of these agreements by evaluating each type of reinsurance against its specific requirements and further evaluating the contract as a whole to ensure there is no potential for deprivation of the ceding insurer's surplus (rather than applying a likelihood of loss standard).

consistent with the guidance currently in SSAP No. 62R, Exhibit A Implementation Questions and Answers, question 10 and also add reference to A-791, paragraph 6 guidance in the YRT guidance paragraph. (See Authoritative Literature). FASB Statement No. 113 was adopted with modification in both SSAP No. 62R and SSAP No. 61R. Topic 944 Reinsurance Contracts in the current FASB Codification Implementation Guide continues to include the guidance from EITF D-34

The example reinsurance contract that VAWG observed contained yearly renewable term reinsurance. Per SSAP No. 61R, paragraph 19, only certain parts of *A-791 Life and Health Reinsurance Agreements* apply to YRT contracts. Specifically, YRT contracts only have to pass A-791, paragraphs 2.b., 2.c., 2.d., 2.h., 2.i., 2.j. or 2.k. to result in reinsurance accounting. In addition, paragraph 3 of A-791 on deferral of gain on cession of prior year blocks of business also applies. As described above, YRT contracts do not transfer all of the risk inherent in the contract as they typically only cover a percentage of the net amount at risk for typically one year. Note that the reinsurance accounting credit from a YRT contract per the guidance in SSAP No. 61R, paragraph 37 is computed as the one-year term mean reserve on the amount of insurance ceded. Therefore, a YRT credit is typically less than what a proportional coinsurance contract which transfers all significant risks would typically provide.

The VAWG reinsurance contract example also included coinsurance contracts which must pass all of A-791 to receive reinsurance accounting. The example contract contained a shared experience refund between the two contract types. This interdependent feature is a key element. NAIC staff agrees with VAWG that an interdependent reinsurance payment in a contract requires a single risk transfer assessment. However, the combined interdependent contract when assessed in aggregate would likely cause it to either not meet the conditions for reinsurance accounting or would result in a smaller reinsurance credit than VAWG observed some entities taking.

A-791, paragraph 2e contains the guidance which limits the amounts paid to the reinsurer to the income realized on the underlying reinsured policy and paragraph 2f contains the guidance on transferring all the significant risk of the business reinsured. Adding YRT coverage with coinsurance would likely result in a “fail” of the criteria in A-791 because not all of the significant risks of the underlying reinsured policies would be likely to be passed to the reinsurer (thus failing the criteria in A-791, paragraph 2f). Combining YRT and coinsurance in the same contract could also cause that contract to fail A-791 if the reinsurance contract charged more than the income on the underlying policy.<sup>2</sup>

In addition, A-791, paragraph 6 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. This paragraph does not currently apply to YRT but is recommended to apply.

#### **Existing Authoritative Literature:**

- *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*

#### **Types of Reinsurance Arrangements**

11. Once an entity has decided to reinsure amounts in excess of its desired retention, it may proceed in one of several basic arrangements—coinsurance, modified coinsurance, yearly renewable term or non-proportional. Such contracts may have funds withheld.

#### **Coinsurance**

12. In this arrangement, the risks are reinsured on the same plan as that of the original policy. The direct writer and the reinsurer share in the risk in the same manner. The ceding entity pays the reinsurer a proportional part of the premiums collected from the insured. In return, the reinsurer reimburses the ceding

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<sup>2</sup> Combination reinsurance transactions should be assessed for risk transfer purposes, taking into consideration the specific terms of these agreements by evaluating each type of reinsurance against its specific requirements and further evaluating the contract as a whole to ensure there is no potential for deprivation of the ceding insurer’s surplus.



entity for the proportional part of the death or accident and health claim payments and other benefits provided by the policy, including nonforfeiture values, policy dividends, experience rating refunds, commissions, premium taxes, and other direct expenses agreed to in the contract. The reinsurer must also establish the required reserves for the portion of the policy it has assumed. A single policy can be coinsured with more than one entity or under more than one reinsurance contract with the same entity as long as the combined total of reinsurance and the retention of the ceding entity is not more than 100% of the risk.

13. In coinsurance of participating policies, the reinsurer may reimburse the ceding entity for its portion of the dividends paid to the policyholder. In determining its schedule of dividends, the ceding entity takes into account the experience on the business as written. If the reinsurer reimburses dividends it will typically accept the ceding entity's schedule but may require input into the schedule. Changes to the schedule may have to be agreed to by the reinsurer. Coinsurance of all or a portion of a block of business also is used in situations where a severe strain is placed on the direct writing entity's surplus in the first policy year. For example, the premium received by the direct writer during the first policy year usually is insufficient to pay the high first-year commissions and other costs of issue and to establish the initial reserve. In such an example, coinsurance relieves some of the surplus strain of adding large amounts of new insurance.

### **Modified Coinsurance**

14. The "modified coinsurance" or "modco" arrangement is a variation of coinsurance. The ceding entity has transferred all or a portion of the net policy liabilities on the reinsured policies to the reinsurer, and the reinsurer is required to indemnify the ceding entity for the same amount. The assets necessary to support the reserves for the original policies are maintained by the ceding entity instead of the reinsurer. This is accomplished by designating in the contract the transfer of the net policy liabilities to the assuming entity and an immediate transfer back to the extent of the modco deposit. Under modified coinsurance, the assuming entity shall transfer to the ceding entity the increase in the reserve on the reinsured portion. This transaction reflects the reinsurer's risk with respect to the reinsured business and its obligation to maintain the reserves supporting such obligation. In some cases, a policy may be reinsured partially on a coinsurance arrangement and partially on a modified coinsurance arrangement. This may be accomplished through the use of two contracts or in a single contract.

### **Yearly Renewable Term (YRT)**

15. Under this arrangement of reinsurance, the ceding entity transfers the net amount at risk on the portion reinsured to the reinsurer and pays a one-year term premium. The "net amount at risk"—as defined in the contract—is usually the amount of insurance provided by the policy in excess of the ceding entity's reserve on it.

### **Non-Proportional**

16. Other forms of reinsurance are also available, such as catastrophe and stop loss coverage. 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. 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.

### **Transfer of Risk**

17. **Reinsurance agreements must transfer risk from the ceding entity to the reinsurer in order to receive the reinsurance accounting treatment discussed in this statement.** If the terms of the agreement violate the risk transfer criteria contained herein, (i.e., **limits or diminishes the transfer of risk by the ceding entity to the reinsurer**), **the agreement shall follow the guidance for Deposit Accounting. In addition, any contractual feature that delays timely reimbursement violates the conditions of reinsurance accounting.**

18. This paragraph applies to all life, deposit-type and accident and health reinsurance agreements except for yearly renewable term reinsurance agreements and non-proportional reinsurance agreements such as stop loss and catastrophe reinsurance. All reinsurance agreements covering products that transfer significant risk shall follow the guidance for reinsurance accounting contained in this statement. All

reinsurance contracts covering products that do not provide for sufficient transfer of risk shall follow the guidance for Deposit Accounting.

19. **Yearly renewable term (YRT)** reinsurance agreements that transfer a proportionate share of mortality or morbidity risk inherent in the business being reinsured and do not contain 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.**, shall follow the guidance for reinsurance accounting, including paragraphs 55-57 of this statement that apply to indemnity reinsurance. Contracts that fail to meet the requirements for reinsurance accounting shall follow the guidance for Deposit Accounting. For all treaties entered into on or after January 1, 2003, the deferral guidance in paragraph 3 of A-791 shall also apply to YRT agreements. Since YRT agreements only transfer the mortality or morbidity risks to the reinsurer, the recognition of income shall be reflected on a net of tax basis, as gains emerge based on the mortality or morbidity experience.

20. For non-proportional reinsurance agreements such as stop loss and catastrophe reinsurance agreements, contract terms shall be evaluated to assess whether they transfer significant risk to the reinsurer. For example, prepayment schedules and accumulating retentions from multiple years are contractual features inherently designed to delay the timing of reimbursement to the ceding entity limits the risk to the reinsurer. Regardless of what a particular feature might be called, any feature that can delay timely reimbursement violates the conditions for reinsurance accounting. Transfer of insurance risk requires that the reinsurer's payment to the ceding entity depend on and directly vary with the amount and timing of claims settled under the reinsured contracts. Contractual features that can delay timely reimbursement prevent this condition from being met. Reinsurance accounting shall apply to all non-proportional agreements that transfer significant risk and do not contain any provisions that protect the reinsurer from incurring a loss. Contracts that fail to meet the requirements for reinsurance accounting shall follow the guidance for Deposit

### **Credits for Ceded Reinsurance**

36. The credit taken by the ceding entity under the coinsurance arrangement is calculated using the same methodology and assumptions used in determining its policy and claim reserves. It is, of course, only for the percentage of the risk that was reinsured. Under modified coinsurance, the reserve credit is reduced by the modco deposit retained by the ceding entity. If the entity reinsures on a yearly renewable term basis, it is itself buying insurance for the portion of the ceded amount at risk. The amount of yearly renewable term reinsurance that is required on a given policy generally decreases each year as the entity's reserve increases. The net amount at risk may increase, however, on interest sensitive products such as universal life. The amount at risk on accident and health yearly renewal term reinsurance will remain level and the reinsurance premium will increase each year.

37. The reserve credit taken by the ceding entity is reported as a reduction to the reserves and not as an asset of the entity. **The ceding entity's reserve credit and assuming entity's reserve for yearly renewable term reinsurance shall be computed as the one year term mean reserve on the amount of insurance ceded. The ceding entity must use the same mortality and interest bases which were used for valuing the original policy before reinsurance.** The credit may also be computed on a pro rata basis if the result is not materially different from the credit computed on the mean reserve basis. For all types of reinsurance, the ceding entity also takes credit for other amounts due from the reinsurer such as unpaid claims and claims incurred but not reported. If contemplated by the reinsurance contract, recognition of related assets and liabilities must occur (policy loans, due and deferred premiums, etc.).

38. Non-proportional reinsurance is entered into on an annual basis to limit the claims experience of the ceding entity and thereby protect its financial integrity. When the period of the arrangement exceeds one year, the contract must be carefully reviewed to determine if the end result more closely follows proportional reinsurance. **No reserve credit is taken for non-proportional reinsurance unless the aggregate attachment point has in fact been penetrated. In order for an entity to reflect reserve credits on a prospective basis, the entity will need to demonstrate that the present value of expected recoveries using realistic assumptions, to be realized from the reinsurer are in excess of the present value of the reinsurance premiums guaranteed to be paid by the ceding entity under the terms of the contract.** Because non-proportional reinsurance aggregates experience, and does not indemnify the ceding entity for each policy loss, the use of statutory assumptions underlying the insured policies is inappropriate for determining any reserve credit to be taken by the ceding entity. Historical experience,

pricing assumptions and asset shares shall be considered in determining if the reinsurer may be reasonably expected to pay any claims. The reserve credit taken shall only reflect these reasonable expectations. **This treatment of non-proportional reinsurance is similar to the way property and casualty (P&C) reinsurance is considered. This is because these modes of reinsurance more closely follow P&C indemnification principles than life insurance formula basis, and because these coverages are very similar to excess insurance on P&C products. In determining the appropriate reserve credit, the probability of a loss penetrating to the reinsurer's level of coverage (using reasonable assumptions) must be multiplied by the expected amount of recovery.** This is the same as reserve credits on coinsurance where the probability of a claim (i.e., mortality) is multiplied by the expected return (i.e., death benefit). In that the coverage is for aggregate experience, the mortality assumptions underlying any one policy risk are inappropriate to analyze the appropriate credits for non-proportional coverage.

- **SSAP No. 61R, adopts FAS 113 with modifications.**

#### **Relevant Literature**

86. This statement adopts with modification *FASB Statement No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*. The statutory accounting principles established by this statement differ substantially from GAAP, reflecting much more detailed guidance, as follows:

- a. Reserve credits taken by ceding companies as a result of reinsurance contracts are netted against the ceding entity's policy and claim reserves and unpaid claims;
- b. First year and renewal ceding commissions on indemnity reinsurance of new business are recognized as income. Ceding commissions on ceded in-force business are included in the calculation of initial gain or loss;
- c. As discussed in SSAP No. 50, statutory accounting defines deposit-type contracts as those contracts which do not include any mortality or morbidity risk. GAAP defines investment contracts as those that do not subject the insurance enterprise to significant policyholder mortality or morbidity risk. (The distinction is any mortality or morbidity risk for statutory purposes vs. significant mortality or morbidity risk for GAAP purposes.) Therefore, a contract may be considered an investment contract for GAAP purposes, and that same contract may be considered other than deposit-type for statutory purposes. A reinsurance treaty covering contracts that have insignificant mortality or morbidity risk (i.e., contracts classified as other than deposit-type contracts for statutory purposes, but investment contracts for GAAP purposes) that does not transfer that mortality or morbidity risk, but does transfer all of the significant risk inherent in the business being reinsured (e.g., lapse, credit quality, reinvestment or disintermediation risk) qualifies for reinsurance accounting for statutory reporting purposes, but would not qualify for reinsurance accounting treatment for GAAP purposes;
- d. Initial gains on indemnity reinsurance of in-force blocks of business have unique accounting treatment. A portion of the initial gain (equal to the tax effect of the initial gain in surplus) is reported as commissions and expense allowances on reinsurance ceded in the statement of operations. The remainder of the initial gain is reported on a net-of-tax basis as a write-in for gain or loss in surplus in the Capital and Surplus Account. In subsequent years, the ceding entity recognizes income on the reinsurance ceded line for the net-of-tax profits that emerged on the reinsured block of business with a corresponding decrease in the write-in for gain or loss in surplus;
- e. This statement prohibits recognition of a gain or loss in connection with the sale, transfer or reinsurance of an in-force block of business between affiliated entities in a non-economic transaction. Any difference between the assets transferred by the ceding entity and the liabilities, including unamortized IMR, shall be deferred and amortized under the interest method;

- f. This statement requires that a liability be established through a provision reducing surplus for unsecured reinsurance recoverables from unauthorized reinsurers;
  - g. This statement prescribes offsetting certain reinsurance premiums.
87. This statement incorporates Appendices A-785 and A-791.

- **SSAP No. 61R, Glossary Excerpts:**

*Net Amount at Risk*

The excess of the death benefit of a policy over the policy reserve. It is the amount which must come from surplus in the event of a death claim.

*Non-Proportional Reinsurance*

Reinsurance that is not secured on individual lives for specific individual amounts of reinsurance, but rather reinsurance that protects the ceding entity's overall experience on its entire portfolio of business, or at least as broad as noted in paragraph 19 of SSAP No. 61 segment of it. The most common forms of non-proportional reinsurance are stop loss reinsurance and catastrophe reinsurance.

Non-proportional reinsurance is a form of casualty insurance. Usually neither the premium nor continuance of coverage is guaranteed beyond a specified term.

*Pool*

A method of allocating reinsurance among several reinsurers. Using this method, each reinsurer receives a specified percentage of risk ceded into the pool. Percentages may vary by reinsurer.

*Proportional Reinsurance*

Reinsurance on a particular life for a specified amount or share generally, though not necessarily, secured at the time the policy is issued to the insured. The continuation of coverage guarantees for the reinsurance generally parallel those in the life insurance coverage reinsured. Most life reinsurance conducted in the United States is done so on a proportional basis.

*Yearly Renewable Term (YRT)*

A form of life reinsurance under which the mortality or morbidity risks, but not the permanent plan reserves, are transferred to the reinsurer for a premium that varies each year with the amount at risk and the ages of the insureds. The amount of reinsurance, which may change annually, is generally the amount of insurance provided by the policy in excess of the primary insurer's reserve.

- **SSAP No. 62R—Property and Casualty Reinsurance Exhibit A – Implementation Questions and Answers**

10. Q: For purposes of evaluating whether a contract with a reinsurer transfers risk, what constitutes a contract?

- A: A contract is not defined, but is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract. For example, the profit-sharing provisions of one contract may refer to experience on other contracts and, therefore, raise the question of whether, in substance, one contract rather than several contracts exist.

The inconsistency that could result from varying interpretations of the term *contract* is limited by requiring that features of the contract or other contracts or agreements that directly or indirectly compensate the reinsurer or related reinsurers for losses be considered in evaluating whether a particular contract transfers risk. Therefore, if agreements with the reinsurer or related reinsurers, in the aggregate, do not transfer risk, the individual contracts that make up those agreements also would not be considered to transfer risk, regardless of how they are structured.

**The original GAAP source of the above in SSAP No. 62R is *EITF D-34 Accounting for Reinsurance: Questions and Answers about FASB Statement No. 113, question 13***

13. Q—For purposes of evaluating whether a contract with a reinsurer transfers risk, what constitutes a contract?

A—Statement 113 does not define what constitutes a "contract," which is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract. For example, the profit-sharing provisions of one contract may refer to experience on other contracts and, therefore, raise the question of whether, in substance, one contract rather than several contracts exist.

Statement 113 limits the inconsistency that could result from varying interpretations of the term contract by requiring that features of the contract or other contracts or agreements that directly or indirectly compensate the reinsurer or related reinsurers for losses be considered in evaluating whether a particular contract transfers risk. Therefore, if agreements with the reinsurer or related reinsurers, in the aggregate, do not transfer risk, the individual contracts that make up those agreements also would not be considered to transfer risk, regardless of how they are structured.

Certain guidance relevant to determining the boundaries of a contract is provided in the accounting literature. As described in paragraph 8 of Statement 113, provisions of other related contracts may be considered part of the subject contract under certain circumstances. Likewise, paragraphs 59 and 60 of Statement 113 indicate that the Board did not intend for different kinds of exposures combined in a program of reinsurance to be evaluated for risk transfer and accounted for together, because that would allow contracts that do not meet the conditions for reinsurance accounting to be accounted for as reinsurance by being designated as part of a program. In addition, Question 12 above refers to the fact that an amendment of a contract may create a new contract. [Revised 12/98.]

The legal form and substance of a reinsurance contract generally will be the same, so that the risks reinsured under a single legal document would constitute a single contract for accounting purposes. However, that may not always be the case. Accordingly, careful judgment may be required to determine the boundaries of a contract for accounting purposes. [Revised 12/98.]

If an agreement with a reinsurer consists of both risk transfer and non-risk transfer coverages that have been combined into a single legal document, those coverages must be considered separately for accounting purposes. [Revised 12/98.]

## **Topic 944 Reinsurance Contracts in the current FASB Codification Implementation Guide continues to include the guidance from EITF D-34**

### **Reinsurance Contracts Implementation Guidance**

#### **What Constitutes a Contract**

##### **944-20-55-27**

This implementation guidance discusses, for purposes of evaluating whether a contract with a reinsurer transfers risk, what constitutes a contract, which is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract.

##### **944-20-55-28**

For instance, the profit-sharing provisions of one contract may refer to experience on other contracts and, therefore, raise the question of whether, in substance, one contract rather than several contracts exist.

##### **944-20-55-29**

The guidance in the Financial Services—Insurance Topic on reinsurance limits the inconsistency that could result from varying interpretations of the term contract by requiring that features of the contract or other contracts or agreements that directly or indirectly compensate the reinsurer or related reinsurers for losses be considered in evaluating whether a particular contract transfers risk. Therefore, if agreements with the

**reinsurer or related reinsurers, in the aggregate, do not transfer risk, the individual contracts that make up those agreements also would not be considered to transfer risk, regardless of how they are structured.**

944-20-55-30

Certain guidance relevant to determining the boundaries of a contract is provided in the accounting literature.

944-20-55-31

Paragraph 944-20-15-40 states that provisions of other related contracts may be considered part of the subject contract under certain circumstances.

944-20-55-32

Different kinds of exposures combined in a program of reinsurance shall not be evaluated for risk transfer and accounted for together, because that would allow contracts that do not meet the conditions for reinsurance accounting to be accounted for as reinsurance by being designated as part of a program.

944-20-55-33

In addition, paragraph 944-20-15-65 refers to the fact that an amendment of a contract may create a new contract.

944-20-55-34

The legal form and substance of a reinsurance contract generally will be the same, so that the risks reinsured under a single legal document would constitute a single contract for accounting purposes. However, that may not always be the case. Accordingly, careful judgment may be required to determine the boundaries of a contract for accounting purposes.

944-20-55-35

Paragraph 944-20-15-56 states that, if an agreement with a reinsurer consists of both risk transfer and nonrisk transfer coverages that have been combined into a single legal document, those coverages shall be considered separately for accounting purposes.

- ***A-791 Life and Health Reinsurance Agreements***

**A-791, paragraph 1, provides the following:**

1. This Appendix shall not apply to assumption reinsurance, yearly renewable term reinsurance or certain nonproportional reinsurance such as stop loss or catastrophe reinsurance.

**Q – Aside from assumption reinsurance, what other types of reinsurance are exempt from the accounting requirements?**

**A – Yearly renewable term (YRT) and certain nonproportional reinsurance arrangements, such as stop loss and catastrophe reinsurance are exempt** because these do not normally provide significant surplus relief and therefore are outside the scope of this Appendix. If a catastrophe arrangement takes a reserve credit for actual losses beyond the attachment point or the unearned premium reserve (UPR) of the current year's premium, there will most likely be no regulatory concern.

**Similarly, if a YRT treaty provides incidental reserve credits for the ceding insurer's net amount at risk for the year with no other allowance to enhance surplus, there will most likely be no regulatory concern. For purposes of this exemption, a treaty labeled as YRT does not meet the intended definition of YRT if the surplus relief in the first year is greater than that provided by a YRT treaty with zero first year reinsurance premium and no additional allowance from the reinsurer.**

Additional pertinent information applicable to all YRT treaties and to non-proportional reinsurance arrangements is contained in paragraphs 19 and 20 of SSAP No. 61R.

**A-791, paragraph 2e contains the guidance which limits the reinsurance to the amount realized on the reinsured policy.**



2. No insurer shall, for reinsurance ceded, reduce any liability or establish any asset in any statutory financial statement if, by the terms of the reinsurance agreement, in substance or effect, any of the following conditions exist:

e. The reinsurance agreement involves the possible payment by the ceding insurer to the reinsurer of amounts other than from income realized from the reinsured policies. For example, it is improper for a ceding company to pay reinsurance premiums, or other fees or charges to a reinsurer which are greater than the direct premiums collected by the ceding company;

**A-791, paragraph 2f contains the guidance on transferring all of the significant risk of the business reinsured.**

2. No insurer shall, for reinsurance ceded, reduce any liability or establish any asset in any statutory financial statement if, by the terms of the reinsurance agreement, in substance or effect, any of the following conditions exist:

f. The treaty does not transfer all of the significant risk inherent in the business being reinsured. The following table identifies for a representative sampling of products or type of business, the risks which are considered to be significant. For products not specifically included, the risks determined to be significant shall be consistent with this table.

**Risk categories:**

i. Morbidity

ii. Mortality

iii. Lapse

This is the risk that a policy will voluntarily terminate prior to the recoupment of a statutory surplus strain experienced at issue of the policy.

iv. Credit Quality

This is the risk that invested assets supporting the reinsured business will decrease in value. The main hazards are that assets will default or that there will be a decrease in earning power. It excludes market value declines due to changes in interest rate.

v. Reinvestment

This is the risk that interest rates will fall and funds reinvested (coupon payments or monies received upon asset maturity or call) will therefore earn less than expected. If asset durations are less than liability durations, the mismatch will increase.

vi. Disintermediation

This is the risk that interest rates rise and policy loans and surrenders increase or maturing contracts do not renew at anticipated rates of renewal. If asset durations are greater than the liability durations, the mismatch will increase. Policyholders will move their funds into new products offering higher rates. The company may have to sell assets at a loss to provide for these withdrawals.

+ - Significant 0 - Insignificant

**RISK CATEGORY**

	i.	ii.	iii.	iv.	v.	vi.
Health Insurance - other than LTC/LTD* +	0	0	+	0	0	0

Health Insurance - LTC/LTD*	+	0	+	+	+	0
Immediate Annuities	0	+	0	+	+	0
Single Premium Deferred Annuities	0	0	+	+	+	+
Flexible Premium Deferred Annuities	0	0	+	+	+	+
Guaranteed Interest Contracts	0	0	0	+	+	+
Other Annuity Deposit Business	0	0	+	+	+	+
Single Premium Whole Life	0	+	+	+	+	+
Traditional Non-Par Permanent	0	+	+	+	+	+
Traditional Non-Par Term	0	+	+	0	0	0
Traditional Par Permanent	0	+	+	+	+	+
Traditional Par Term	0	+	+	0	0	0
Adjustable Premium Permanent	0	+	+	+	+	+
Indeterminate Premium Permanent	0	+	+	+	+	+
Universal Life Flexible Premium	0	+	+	+	+	+
Universal Life Fixed Premium	0	+	+	+	+	+
Universal Life Fixed Premium	0	+	+	+	+	+
dump-in premiums allowed	0	+	+	+	+	+
*LTC = Long Term Care Insurance						
LTD = Long Term Disability Insurance						

6. The reinsurance agreement shall contain provisions which provide 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;** and
  - Any change or modification to the agreement shall be null and void unless made by amendment to the agreement and signed by both parties.

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** The referral from VAWG was formally received by the Working Group on January 10, 2024 and NAIC staff was directed to draft an agenda item for discussion.

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

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

**Staff Review Completed by:** Robin Marcotte – NAIC Staff - February 2024

**Staff Recommendation:**

NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions to *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* as illustrated below. The proposed revisions incorporate guidance to SSAP No. 61R which is consistent with the guidance currently in SSAP No. 62R, Exhibit A Implementation Questions and Answers, question 10 and also add reference to A-791, paragraph 6 guidance in the YRT guidance paragraph.

As described in the summary of issues, NAIC staff agrees that risk transfer analysis of a reinsurance contract or contracts with interdependent features that directly or indirectly compensate the reinsurer, requires that all parts of the contract be evaluated in aggregate. Appendix A-791, paragraph 6 already contains guidance that the agreement must constitute the entire agreement. While NAIC staff agrees with the concern that VAWG raised regarding some entities taking too large of a reinsurance credit, the existing guidance in SSAP No. 61R regarding risk transfer requires that reporting entities should not take reinsurance credit for



amounts greater than the risk ceded should be sufficient to address those concerns. However, NAIC staff would be willing to develop a more extensive implementation guidance or other revisions if desired.

**Status:**

On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions to incorporate guidance to *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* that is consistent with the guidance currently in *SSAP No. 62R—Property and Casualty Reinsurance*, Exhibit A Implementation Questions and Answers, question 10. This guidance requires risk transfer to be evaluated in aggregate for contracts with interrelated contract features such as experience rating refunds. The revisions also adds a reference in *Appendix A-791 Life and Health Reinsurance Agreements (A-791)*, paragraph 6 regarding the entirety of the contract. In addition, the Working Group directed NAIC staff to notify the Valuation Analysis (E) Working Group, the Life Actuarial (A) Task Force and the Reinsurance (E) Task Force of the exposure.

**Proposed Revisions SSAP No. 61R:**

**Transfer of Risk**

17. Reinsurance **agreements must transfer risk from the ceding entity to the reinsurer in order to receive the reinsurance accounting treatment discussed in this statement.** If the terms of the agreement violate the risk transfer criteria contained herein, **(i.e., limits or diminishes the transfer of risk by the ceding entity to the reinsurer), the agreement shall follow the guidance for Deposit Accounting. In addition, any contractual feature that delays timely reimbursement violates the conditions of reinsurance accounting.**

18. For purposes of evaluating whether a contract with a reinsurer transfers risk, what constitutes a contract is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract. For instance, the profit-sharing provisions of one contract may refer to experience on other contracts and, therefore, raise the question of whether, in substance, one contract rather than several contracts exist. The inconsistency that could result from varying interpretations of the term contract is limited by requiring that features of the contract or other contracts or agreements that directly or indirectly compensate the reinsurer or related reinsurers for losses be considered in evaluating whether a particular contract transfers risk. Therefore, if agreements with the reinsurer or related reinsurers in the aggregate do not transfer risk, the individual contracts that make up those agreements also would not be considered to transfer risk, regardless of how they are structured.

19. This paragraph applies to all life, deposit-type and accident and health reinsurance agreements except for yearly renewable term reinsurance agreements and non-proportional reinsurance agreements such as stop loss and catastrophe reinsurance. All reinsurance agreements covering products that transfer significant risk shall follow the guidance for reinsurance accounting contained in this statement. All reinsurance contracts covering products that do not provide for sufficient transfer of risk shall follow the guidance for Deposit Accounting.

20. **Yearly renewable term (YRT)** reinsurance agreements that transfer a proportionate share of mortality or morbidity risk inherent in the business being reinsured and do not contain 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.,** shall follow the guidance for reinsurance accounting, including paragraphs 55-57 of this statement that apply to indemnity reinsurance. Contracts that fail to meet the requirements for reinsurance accounting shall follow the guidance for Deposit Accounting. For all treaties entered into on or after January 1, 2003, the deferral guidance in paragraph 3 of A-791 shall also apply to YRT agreements. YRT agreements shall follow the requirements of A-791, paragraph 6, regarding the entire agreement and the effective date of agreements. Since YRT agreements only transfer the mortality or morbidity risks to the reinsurer, the recognition of income shall be reflected on a net of tax basis, as gains emerge based on the mortality or morbidity experience.

20. For non-proportional reinsurance agreements such as stop loss and catastrophe reinsurance agreements, contract terms shall be evaluated to assess whether they transfer significant risk to the reinsurer. For example, prepayment schedules and accumulating retentions from multiple years are contractual features inherently designed to delay the timing of reimbursement to the ceding entity limits the

risk to the reinsurer. Regardless of what a particular feature might be called, any feature that can delay timely reimbursement violates the conditions for reinsurance accounting. Transfer of insurance risk requires that the reinsurer's payment to the ceding entity depend on and directly vary with the amount and timing of claims settled under the reinsured contracts. Contractual features that can delay timely reimbursement prevent this condition from being met. Reinsurance accounting shall apply to all non-proportional agreements that transfer significant risk and do not contain any provisions that protect the reinsurer from incurring a loss. Contracts that fail to meet the requirements for reinsurance accounting shall follow the guidance for Deposit Accounting.

On August 13, 2024, the Statutory Accounting Principles (E) Working Group re-exposed this agenda item to allow for further discussion. 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.

The Working Group requested industry input on the following:

1. Industry examples.
2. Details on both the dollar impact and the number of existing YRT combination contracts might not meet risk transfer from the exposed revision.
3. Specific language regarding the concept that interdependent contract features should be analyzed in aggregate.

On December 17, 2024, the Statutory Accounting Principles (E) Working Group received a preliminary overview of the comments received from the August 2024 exposure. The Working Group directed NAIC staff to schedule a joint meeting with the Life Actuarial (A) Task Force to further discuss the referral from the Valuation of Assets (E) Working Group and the comments received.

On April 10, 2025, the Statutory Accounting Principles (E) Working Group and the Life Actuarial (A) Task Force held a joint meeting. The meeting discussed this agenda item and agenda item 2024-05: A-791 Paragraph 2.c.; heard a presentation from the American Council of Life Insurers (ACLI) on statutory risk transfer considerations and heard a presentation on combined coinsurance funds withheld YRT agreements from the LATF chair.

The Working Group chair indicated that the Working Group will consider different options in in how a future recommendation is presented. For example, a new paragraph, as proposed; or provide more detailed explanations in an A-791 Q&A format; or even combine both approaches. He stated that he is not in favor of using an interpretation, which the Statutory Accounting Principles (E) Working Group occasionally does. He stated that, instead, incorporating changes into a new paragraph in SSAP No. 61 or expanding the A-791 Q&A seems like a more practical approach. He and the Task Force chair noted that many of these issues require a qualitative rather than purely quantitative evaluation. It is about recognizing when something does not seem right, when something raises yellow or even red flags. This approach can help ensure they address the nuances effectively.

On June 2, 2025 the Statutory Accounting Principles (E) Working Group exposed by email vote, the May 30, 2025 recommendation. The exposed revisions to SSAP No. 61 and to A-791 QA are illustrated below.

#### **May 30, 2025 Recommendation for Email Vote Exposure**

On May 30, 2025, a small group of SAPWG and Life Actuarial (A) Task Force regulators recommended exposure of revisions to *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance and the QA of Appendix A-791, Life and Health Reinsurance Agreements* as illustrated below. The revisions to SSAP No. 61 have been revised and expanded from the prior exposures and is shown tracked as new revisions. The revisions to A-791 have not been previously exposed.

*SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* as illustrated below

## Transfer of Risk

17. Reinsurance agreements must transfer risk from the ceding entity to the reinsurer in order to receive the reinsurance accounting treatment discussed in this statement.

a. If the terms of the agreement violate the risk transfer criteria contained herein, (i.e., limits or diminishes the transfer of risk by the ceding entity to the reinsurer), the agreement shall follow the guidance for Deposit Accounting. In addition, any contractual feature that delays timely reimbursement violates the conditions of reinsurance accounting.

b. **For purposes of evaluating whether a reinsurance agreement/contract (for this paragraph “contract”) transfers risk under statutory accounting, the determination of what constitutes a contract is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract. Multiple contracts, whether on one or multiple blocks of policies, must be evaluated together for risk transfer purposes where considerations to be exchanged under one contract depend on the performance of the other contract(s) whether they are entered into together, or separately, directly or indirectly, that achieve one overall planned effect.**

~~b.~~ **For contracts that contemplate reinsurance on both a YRT and coinsurance basis, where there are interdependent features such as a combined experience refund or an inability to independently recapture, each of the YRT and coinsurance reinsurance components satisfying risk transfer requirements on their respective bases is necessary but not sufficient for the contract as a whole to satisfy risk transfer. When evaluated in its entirety, such contract(s) cannot 1) potentially deprive the ceding insurer of surplus at the reinsurer’s option or automatically upon the occurrence of some event; 2) potentially require payments to the reinsurer for amounts other than the income realized from the reinsured policies, nor; 3) contain any of the other conditions prohibited by Appendix A-791 related to risk transfer.**

18. This paragraph applies to all life, deposit-type and accident and health reinsurance agreements except for yearly renewable term reinsurance agreements and non-proportional reinsurance agreements such as stop loss and catastrophe reinsurance. All reinsurance agreements covering products that transfer significant risk shall follow the guidance for reinsurance accounting contained in this statement. All reinsurance contracts covering products that do not provide for sufficient transfer of risk shall follow the guidance for Deposit Accounting.

19. Yearly renewable term (YRT) reinsurance agreements that transfer a proportionate share of mortality or morbidity risk inherent in the business being reinsured and do not contain 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., shall follow the guidance for reinsurance accounting, including paragraphs 55-57 of this statement that apply to indemnity reinsurance. Contracts that fail to meet the requirements for reinsurance accounting shall follow the guidance for Deposit Accounting. For all treaties entered into on or after January 1, 2003, the deferral guidance in paragraph 3 of A-791 shall also apply to YRT agreements. YRT agreements shall follow the requirements of A-791, paragraph 6, regarding the entire agreement and the effective date of agreements. Since YRT agreements only transfer the mortality or morbidity risks to the reinsurer, the recognition of income shall be reflected on a net of tax basis, as gains emerge based on the mortality or morbidity experience. See paragraph 17b. for additional requirements if a YRT agreement has interdependent contract features with reinsurance on a different basis (such as coinsurance).

### *Appendix A-791, Life and Health Reinsurance Agreements first Q&A*

1. This Appendix shall not apply to assumption reinsurance, yearly renewable term reinsurance or certain nonproportional reinsurance such as stop loss or catastrophe reinsurance.

**Q – Aside from assumption reinsurance, what other types of reinsurance are exempt from the accounting requirements?**

**A – Yearly renewable term (YRT) and certain nonproportional reinsurance arrangements, such as stop loss and catastrophe reinsurance are exempt because these do not normally provide significant surplus relief and therefore are outside the scope of this Appendix. If a catastrophe arrangement takes a reserve credit for actual losses beyond the attachment point or the unearned premium reserve (UPR) of the current year's premium, there will most likely be no regulatory concern.**

Similarly, if a YRT treaty provides incidental reserve credits for the ceding insurer's net amount at risk for the year with no other allowance to enhance surplus, there will most likely be no regulatory concern. For purposes of this exemption, a treaty labeled as YRT does not meet the intended definition of YRT if the surplus relief in the first year is greater than that provided by a YRT treaty with zero first year reinsurance premium and no additional allowance from the reinsurer.

Combination reinsurance transactions should be assessed for risk transfer purposes, taking into consideration the specific terms of these agreements by evaluating each type of reinsurance against its specific requirements and further evaluating the contract as a whole to ensure there is no potential for deprivation of the ceding insurer's surplus. For contracts that contemplate reinsurance on both a YRT and coinsurance basis, where there are interdependent features such as a combined experience refund or an inability to independently recapture, risk transfer can only occur if there is no potential ~~for payments for the ceding insurer to make YRT premium payments~~ out of surplus at the reinsurer's option or automatically upon the occurrence of some event, meaning that in all cases there would be an established liability or realized income to absorb ~~any possible YRT premium~~ payments. The YRT premium simply being at or below the valuation net premium ~~does may~~ not ensure that payments from surplus are not possible.

Additional pertinent information applicable to all YRT treaties and to non-proportional reinsurance arrangements is contained in paragraphs 19 and 20 of SSAP No. 61.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/12-17-2024/Exposures/24-06-RTYRT-Combocontracts.docx>