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.

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.

1. Reviewed Comments on Exposed Items

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

1. 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.

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.

1. 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.

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.

1. 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/ 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.

1. 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.

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.

1. 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 (BSBSA) 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.

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.

1. 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.

1. Ref #2024-15

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.

1. 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.

1. 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.

1. 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.

1. 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 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.

1. 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.

1. 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 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.

1. 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.

1. Agenda Item 2025-07

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.

1. 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.

1. Agenda Item 2025-09

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.

1. 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.

1. 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.

1. 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.

1. Consideration of Items on the Active Maintenance Agenda
2. 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.

1. 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 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.

1. 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.

1. 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.

1. 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.

1. 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*.

1. 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.

1. 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