

**Statutory Accounting Principles (E) Working Group  
Meeting Agenda  
March 23, 2026**

**A. Consideration of Maintenance Agenda – Pending List**

1. Ref #2025-13: Residential Mortgage Loans Held in Statutory Trusts
2. Ref #2026-01: Disclosure of FABNs and Similar Structures
3. Ref #2026-02: Valuation of Funds Withheld
4. Ref #2026-03EP: 2026 Spring Editorial and Maintenance Update

Ref #	Title	Attachment #
<b>2025-13 (Wil / Jake)</b>	<b>Residential Mortgage Loans Held in Statutory Trusts Issue Paper</b>	<b>A – Issue Paper</b>

Summary:

An issue paper has been drafted to detail for historical purposes the discussions and conclusions that occurred when developing the guidance for residential mortgage loans held in qualifying statutory trusts. The guidance for residential mortgage loans held in qualifying statutory trusts was adopted during the 2025 Fall National Meeting, and permits qualifying structures to be captured in *SSAP No. 37—Mortgage Loans*, with individual mortgage loan reporting on Schedule B. The guidance was adopted with a January 1, 2027, effective date, with early application permitted.

Recommendation:

**NAIC staff recommend that the Working Group expose the draft Qualifying Statutory Trusts issue paper for public comment.**

Ref #	Title	Attachment #
<b>2026-01 (Julie)</b>	<b>Disclosure of FABNs and Similar Structures</b>	<b>B – Referral /attach C – Agenda Item</b>

Summary:

This agenda item has been prepared to consider a February 17, 2026, referral received from the Macroprudential (E) Working Group to incorporate proposed disclosures for funding agreement backed notes (FABNs) and other funding agreement backed structures.

FABNs are debt instruments issued by Special Purpose Vehicles (SPVs) generally formed by life insurance companies. A life insurance company issues a funding agreement to the SPV, which is accounted for in accordance with *SSAP No. 52—Deposit-Type Contracts*, and the SPV then issues debt instruments (FABNs) that are backed by the principal and interest of the issued funding agreement. Although all funding agreements issued by the insurer are required to be captured in current reserves and detailed in Exhibit 7 – Deposit-Type Contracts, there is no current reporting of whether the issued funding agreements back FABNs or other similar structures. The Macroprudential (E) Working Group requests disclosures of this activity to allow for monitoring under their financial stability monitoring objectives. The referral identifies that the proposed disclosure will provide the Financial Stability (E) Task Force with the ability to identify transmission channels of potential risk to and from the insurance industry and the interconnectedness to the capital markets.

The disclosures recommended in the referral capture the total of all funding agreements that back SPV issuances, with reporting that divides based on the type of agreement, whether the SPV-issued debt instruments are puttable, and if the terms of the debt agreement differ from the backing funding agreement. The disclosure recommendation also captures information on the maturity distribution of the funding agreements that back SPV issuances, including whether the funding agreement has a fixed or floating rate. Lastly, as the SPV could issue debt instruments backed by a non-U.S. currency, the recommendation proposes to capture info on currency denominations and whether the foreign currency exposure is hedged.

The proposed disclosures detailed in the agenda item are consistent with the referral received from the Macroprudential (E) Working Group with the following two additions:

- The disclosure is proposed to be expanded to capture the amount of BACV collateral pledged by the reporting entity to the SPV under the funding agreement backed structures. From preliminary information received, this collateral pledged is common in funding agreement backed repurchase agreements and funding agreement backed loans.
- The SSAP No. 52 revisions are proposed to be expanded to include a “glossary” for the different funding agreement backed structures. (These descriptions are captured in the agenda item.)
  - Funding Agreement Backed Notes
  - Funding Agreement Backed Commercial Paper
  - Funding Agreement Backed Repurchase Agreements
  - Funding Agreement Backed Loans
  - Funding Agreements Issued into Muni Prepay Structures
  - Other Funding Agreements Backing SPV Issuances

Recommendation:

**NAIC staff recommend that the Working Group receive the referral and move this item to the active listing as a SAP clarification and expose the proposed SSAP No. 52 disclosure and glossary addition for comment. The Macroprudential (E) Working Group is sponsoring a corresponding blanks proposal which includes the additional collateral component described above.**

Ref #	Title	Attachment #
2026-02 (Robin)	Valuation of Funds Withheld	D – Agenda Item

Summary:

This agenda item is to address inconsistent guidance regarding the valuation of the liability for funds withheld in a life or health reinsurance agreement. Funds withheld assets are often held by the ceding entity as reinsurance collateral to mitigate credit exposure (with all types of reinsurers) and/or to secure credit for reinsurance on amounts ceded to unauthorized or certified reinsurers. Pursuant to the *Credit for Reinsurance Model Law (#785)* funds withheld can be used as acceptable collateral to secure reinsurance credit with a variety of reinsurance contract types.

In a funds withheld reinsurance contract, the ceding entity withholds assets for collateral that would otherwise be paid to the reinsurer, in addition, the reinsurer may also provide additional collateral if needed. If the reinsurer provides additional collateral it is typically referred to as funds deposited by the reinsurer. Because the funds

withheld or deposited by the reinsurer are payable under the reinsurance contract to the assuming reinsurer, the ceding entity reports a liability for the funds withheld. The guidance is related to the liability for the funds withheld reported by the ceding entity is inconsistent.

**Reporting - Assets** - The assets withheld from the reinsurer are reported in the investment schedules of the ceding entity at their statutory book adjusted carrying value in accordance with the applicable statements of statutory accounting principles (SSAPs).

**Reporting - Liabilities** - The ceding entity records a liability for funds withheld on the following liabilities lines:

- liability line **24.03 – Funds Held Under Reinsurance Treaties with Unauthorized and Certified Reinsurers**. The line 24.03 instructions reference Schedule S reinsurance columns which direct the use of fair value.
- liabilities line **24.07 – Funds Held Under Coinsurance** the instructions of this line do not reference a valuation, but reference that it is for other than amounts held on line 24.03.

*SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* and Model #785 both discuss funds withheld from reinsurers and funds deposited by reinsurers.

It would be reasonable to presume that when determining the “amount” of funds withheld, that it would represent the amount of the funds as reported on the asset side of the balance sheet, which would be statutory book value. However, that could result in a different basis of accounting for funds withheld based on reinsurer type, depending on how the instruction for Schedule S – Part 4 and Part 5 is interpreted. Further support for the presumption that funds withheld is intended to be reported at the same basis as the asset side of the balance sheet (statutory book value), is the mismatched accounting that would occur otherwise. If the funds withheld liability were to be reported at fair value while the assets remain at book value, it would result in a counterintuitive result.

The Schedule S Parts 4 and 5 collateral columns for funds withheld, letters of credit and funds in trust play an important role in determining if total collateral for unauthorized and certified reinsurers is adequate under Model #785 to allow credit for reinsurance. If the collateral is insufficient, a liability is reported on line 24.02 – Reinsurance in Unauthorized and Certified Reinsurers. To the extent the annual statement instructions are clarified for the valuation of funds withheld it affects amounts used in the calculation of this liability.

Recommendation:

**NAIC staff recommend that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to the instructions for the Life and Health annual statement on schedule S, Parts 3, 4 and 5, the liabilities page and SSAP No. 61 as detailed in the agenda item to clarify that funds withheld liabilities should be recorded equal to the book adjusted carrying value of the funds withheld assets. In addition, some legacy annual statement instructions for Schedule S Parts 4 and 5 regarding the use of SVO fair values are proposed for deletion as a clean-up item. Staff recommends that the Reinsurance (E) Task Force be notified of the exposure, with NAIC staff directed to prepare a Blanks proposal for exposure to allow for year-end 2026 adoption consideration.**

Ref #	Title	Attachment #
2026-03EP (Julie)	2026 Spring Editorial and Maintenance Update	E – Agenda Item

Summary:

This agenda item details the following editorial revisions:

- 1) Revisions to *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 52—Deposit-Type Contracts* to remove the word “funding” from the beginning of the paragraph that describes FHLB agreements. Only FHLB agreements that are deposit-type contracts shall be captured as “funding agreements.”
- 2) Revisions to various SSAPs to replace the term “CUSIP” with “Security Identifier.” In limited instances, the sentence structure has been slightly revised to indicate “investment (by Security Identifier)” for clarity.
- 3) Revisions to add “U.S.” before generally accepted accounting principles or GAAP as appropriate.

Recommendation:

**NAIC staff recommend that the Working Group expose the editorial revisions for public comment.**

**B. Consideration of Maintenance Agenda – Active Listing**

## 1. Ref #2024-15: ALM Derivatives

Ref #	Title	Attachment #
2024-15 (Julie)	Asset Liability Management (ALM) Derivatives	F – SSAP (Clean) G – SSAP (Tracked) H – Issue Paper

Summary:

Pursuant to the direction from the 2025 Fall National Meeting, NAIC staff has drafted proposed SSAP guidance and an issue paper for interest-rate hedging derivatives used for asset liability management. In accordance with the prior direction, the guidance has been developed to utilize an amortized cost measurement method approach as well as to exclude asymmetrical derivatives.

The documents provided include the clean version of the proposed SSAP, as well as a version that illustrates tracked changes from the ACLI draft previously exposed. Although a number of the revisions are to comply with SSAP form and terminology, or to remove guidance that seemed repetitive, key revisions include the following:

- Derivatives Removed from Ineffective Programs: Under the proposed guidance, deferred assets/liabilities will only be recognized if the derivative terminates while part of a highly effective program, or if removed (rebalanced) from a highly effective program. This is different from the ACLI draft where it was proposed that items removed from an ineffective program would still be permitted recognition as a deferred asset/liability. The ACLI proposal was that the company would go back to the prior period when the program was effective and determine the amount of deferred asset/liability that could be recognized at that time, and the difference to the current point in time would be a realized gain/loss. Due to tracking and administrative concerns, as well as that it is expected for programs to be effective, the proposed SSAP guidance only allows deferred asset/liability recognition if the derivative terminates or is removed when the program is highly effective. If the program becomes ineffective, then all derivative recognition from that point shall be recognized as immediate gains and losses and not be deferred.
- Accelerated Amortization: The proposed guidance permits amortization of deferred derivative gains and losses over a period not to exceed 10-years for all instances in which gains or losses are deferred. This is different from the ACLI draft where instances would exist that would require a shorter 5-year amortization period. The 5-year timeframe was developed to mirror SSAP No. 108 situations. However, as SSAP No. 108 uses a fair value measurement method, with ongoing deferral of assets and liabilities, and the proposed guidance uses an amortized cost approach with deferral only at termination / rebalancing of the derivatives, the shortened amortization timeframe was not deemed necessary.
- Disclosures: The proposed disclosures have been modified to eliminate proposed similarities from SSAP No. 108 that are not deemed relevant with the amortized cost approach or to match other revisions within the standard.

In addition to these modifications, the transition guidance, reporting proposal and admitted asset determination are specifically highlighted for regulator review and comment:

- Transition: Transition guidance has been proposed for reporting entities with open derivatives in an existing approved program as of the effective date. This guidance would allow those reporting entities to

make a one-time adjustment to reclassify recognized unrecognized gains and losses from derivative fair value changes to deferred assets and liabilities and begin amortization over a 10-year period. With the guidance, the then current fair value of the derivative would represent the initial amortized cost basis and follow the provisions in the guidance for future measurement. NAIC staff believes transition guidance is needed to be equitable across companies, particularly for companies that have not historically taken derivative gains/losses to IMR (which would have been in-line with the intent of SSAP No. 86).

- **Reporting:** NAIC staff is soliciting feedback on the reporting for these derivatives. It is currently proposed that new reporting lines be added to Schedule DB to separately capture these derivative structures. This would be consistent with past approaches when derivative categories are added. Alternatively, a code could be added to the “hedging other” reporting lines to identify whether the derivative qualifies under the ALM derivative guidance. As these derivatives are already captured as “hedging other” separating into new reporting lines doesn’t expand the extent derivatives are reported, but only adds new subtotals to Schedule DB, which would likely be easier for regulator review.
- **Admittance:** The proposed SSAP guidance permits admittance of all deferred losses recognized under the ALM derivative standard. This is proposed to not disincentivize prudent hedging activities. Comments are requested on this proposed guidance and if further disclosure (e.g., accumulated IMR, deferred derivatives, other “soft” assets) should occur to provide regulators with the aggregated amounts.

Recommendation:

**NAIC staff recommend that the Working Group expose the draft SSAP and Issue Paper for public comment, with a request for comments on the specific items noted. (The exposure will include both the clean SSAP and the version that shows tracked changes from the prior ACLI version.)**

**C. Any Other Matters**

**a. Financial Condition (E) Committee Referral and Response – (Robin) (Attachments I & J)**

At the NAIC 2025 Fall National Meeting, the Financial Condition (E) Committee adopted updated guidance for *2024-06 Risk Transfer Analysis of Combination Reinsurance Contracts (2024-06)*, clarifying accounting changes should follow SSAP No. 3. Discussions noted the ability to use permitted practices for transitioning agreements. Through these discussions, members of industry noted that some states do not issue permitted practices as a matter of policy, in which case such states would not have the tools to exercise the necessary flexibility should they feel it is warranted.

The Committee issued a referral on Jan. 12 (Attachment I) to the Statutory Accounting Principles (E) Working Group. The referral directed the Statutory Accounting Principles (E) Working Group to take steps to consider: 1) further education of how permitted practices may be used to address transition issues for 2024-06, and 2) if any tools were needed to accommodate states or jurisdictions that do not allow permitted practices as a matter of policy. The Committee noted it is not mandating or precluding any changes for the transition of the adopted guidance.

To address this referral, the Working Group chair directed the Jan. 26 distribution to the chief financial regulators of an example permitted practice to clarify permitted practices and encourage uniform reporting among states. A survey was conducted to see whether tools were needed for jurisdictions that, as a policy, do not grant permitted practices. The survey received forty-seven responses and the results of the survey were aggregated. All respondents stated that no additional flexibility other than that provided through the permitted practice process was needed. (Response -Attachment J)

As we have not identified any members needing further consideration of transition guidance, the Working Group concluded that no further steps are needed at this time and directed this update to be sent to the E Committee. Absent any further direction from the E Committee, the Working Group will consider this matter complete.

**Recommended Actions - Receive the referral and approve the referral response to the Financial Condition (E) Committee.**

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

The IMR Ad Hoc group has continued to meet regularly since their first meeting in Oct. 2023. Since the 2025 Fall National Meeting, the discussions have focused on the reporting of modco and funds withheld reinsurance transactions, market value adjustments, and a few other clarifying items. On February 24, 2025, the ad hoc group received an initial version of the revised *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* to reflect ad hoc group discussions. After considering comments from the ad hoc group, it is anticipated that the revised SSAP, draft issue paper, and documents that propose reporting revisions and revisions to other SSAPs will be presented for exposure to the full Working Group. It is expected that this will occur in the interim after the Spring National meeting. The ad hoc group has a call scheduled for March 30 to discuss a few lingering items, including viewpoints on the admittance cap. However, discussion and decisions on the admittance cap is expected to occur at the full Working Group level.

**c. Referral from Life Risk-Based Capital (E) Working Group (Robin)**

This is an update that NAIC staff will collaborate with interested parties in identifying possible clarifications to respond to the referral from the Life Risk-Based Capital (E) Working Group which was received at the 2025 Summer National Meeting. The referral forwarded comments received on proposal 2025-04-L Other Long-Term Assets (LR008). Specifically, the ACLI raised questions regarding AVR equity reporting lines for common stock in SCAs and other affiliates and requested clarifications to the AVR instructions. In simple summary, AVR line 15 is named SCA Common Stock – **Certain Other Subsidiaries** and line 16 is SCA Common Stock – **Other**, and the intent is to get clarification in determining what reported in each category. Some of the original language, which is from the 1990s seems to relate to SCA valuation categories, but over time, the distinction between the categories has become unclear.

**d. Review of U.S. GAAP Exposures (Jason/Robin)**

There are currently no exposure documents open for comment by the Financial Accounting Standards Board (FASB). Future exposed ASUs will be reviewed to determine whether comments are needed during the exposure process; otherwise, after issuance from FASB, items will be reviewed according to the SAP Maintenance Process as described in *Appendix F—Policy Statements*.

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

Julie Gann and Maggie Chang (NAIC) monitor IAIS AAWG discussions. The last meeting was February 9, 2026 with Maggie Chang participating. Most of the items discussed were not relevant to the US or the SAPWG. Some items that may be of interest include the following:

- The AAWG discussed clarification of crypto assets. Consideration will occur on whether to classify crypto assets as intangible assets under the Insurance Capital Standard or to exclude them from qualifying capital resources.
- The AAWG reviewed themes identified from the public consultation of the Insurance Capital Standard (ICS) implementation and revisions to Insurance Core Principle (ICP) 9, Supervisory Reporting, and ICP 20, Public Disclosure. The AAWG members are providing written feedback by Feb. 26, 2026.

**Comment Deadline:**

- **All Agenda Items: Comment Deadline – May 1, 2026**

This date permits consideration of comments during the SAPWG May call which is scheduled for May 18. Industry are requested to coordinate with NAIC staff if any items need a longer comment period.

The Blanks (E) Working Group call to adopt revisions for year-end 2026 is May 28 at 11 Central / Noon Eastern.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/03-23-26 Spring National Meeting/Meeting/0 - 12-9-2025 SAPWG Meeting Agenda.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2026/03-23-26%20Spring%20National%20Meeting/Meeting/0-12-9-2025%20SAPWG%20Meeting%20Agenda.docx)

Statutory Issue Paper No. xxx

## Qualifying Statutory Trusts

### STATUS

Discussion draft March 23, 2026

**Authoritative Guidance under Revision: SSAP No. 2, SSAP No. 37, and SSAP No. 40**

### Type of Issue:

Common Area

### SUMMARY OF ISSUE

1. The purpose of this issue paper is to document for the historical record the conceptual changes to statutory accounting guidance detailed in agenda item 2025-18: Residential Mortgage Loans Held in Statutory Trusts.
2. The conceptual revisions are primarily to *Statement of Statutory Accounting Principles (SSAP) No. 37—Mortgage Loans* which established new accounting guidance for residential mortgage loans held within qualifying statutory trusts effective January 1, 2027. The adopted revisions to *SSAP No. 2—Cash, Cash Equivalents, Drafts, and Short-Term Investments*, *SSAP No. 37*, and *SSAP No. 40—Real Estate Investments* are illustrated as tracked changes in Exhibit A, respectively.
3. Agenda item 2025-18 was drafted in response to interested parties' comments on agenda item 2024-21: Investment Subsidiaries. Comments from interested parties noted that a significant portion 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 laws, which allows for significant flexibility in structuring the trust. There are several reasons for reporting entities to hold residential mortgage loans in statutory trusts rather than through direct investment, but one of the main reasons communicated by industry is that the use of statutory trust to hold residential mortgages eliminates certain administrative issues. Were an insurer to invest directly in residential mortgages, they would have to maintain a state lending license for each state where they hold residential mortgage loan investments. However, if the insurer uses a statutory trust to hold its residential mortgage loan investments, a national or federal savings bank can be appointed as the trustee. Federal preemption exempts national banks and federal savings banks from state lending license requirements. When such an institution serves as trustee of a statutory trust, the origination, holding, and administration of residential mortgage loans by the trust are conducted in the bank's fiduciary capacity. Because the statutory trust holds legal title to the mortgage loans and the trustee bank exercises its federally authorized powers in administering those assets, the bank's activities are subject to federal banking law rather than state law.

### DISCUSSION

Initial Draft

4. The initial draft of this project was directed by the Working Group at the 2025 Spring National Meeting and was initially specific to DSTs. The primary objective was to create a narrow exception within SSAP No. 37 that would allow reporting entities to hold residential mortgage loans in certain kinds of trusts. Regulators emphasized the need for sufficient guardrails to prevent this exception from inadvertently creating new regulatory challenges or allowing risk-based capital (RBC) arbitrage involving risky or nonadmitted assets held in qualifying statutory

trusts. These guardrails led to the development of the qualifying statutory trust concept, which places restrictions on the types of assets and mortgage loans permitted within qualifying statutory trusts and prohibits both activities unrelated to the ownership and management of the residential mortgages and nested subsidiaries (the trust owning limited liability companies (LLCs) within LLCs). The goal and purpose of the qualifying statutory trust concept is to ensure that only statutory trusts meeting strict structural and operational criteria fall under the scope of SSAP No. 37.

5. The revisions initially proposed to SSAP No. 37 were developed through research and discussions with both the Working Group and interested parties. This draft allowed for certain statutory trusts holding exclusively residential mortgage loans to be within scope of SSAP No. 37 and reported on Schedule B - Mortgage Loans. While performing research, it was noted that several states have statutory trust laws with varying levels of similarity to Delaware. In consideration of this, the proposed guidance was expanded to include statutory trusts domiciled in other U.S. states. The initial draft also introduced the concept of a qualifying statutory trust, under which a statutory trust must meet and maintain specific qualifying characteristics to be within the scope of SSAP No. 37.

#### Foundational Concepts

6. The following are concepts foundational to understanding statutory trusts and the adopted guidance:
- a. **Statutory Trusts** – A statutory trust is an unincorporated association created pursuant to a state trust statute operating within a defined statutory framework governing formation, governance, liability limitations, and fiduciary oversight. Statutory Trusts typically involve three principal parties: the Trust itself, the Trustee who administers the trust, and Beneficial Owners who hold beneficial interests in the trust. Statutory trust may also have another separate party involved, the sponsor. The sponsor forms the trust and selects properties for acquisition, and while the trustee and sponsor are often the same entity, this is not always the case. One important consideration is that statutory trusts are highly flexible structures that may be customized through their governing instruments. The specific rights, powers, and obligations of the trustee and beneficial owners are determined by the trust agreement, subject to compliance with applicable statutory requirements. As a result, trust structures and governing provisions may vary significantly from one statutory trust to another. In a typically statutory trust structure, the Trust itself owns its assets, while the Trustee holds title only in a representative capacity on behalf of the Trust. Income generated by the Trust's are allocated and distributed to Beneficial Owners of the Trust in accordance with the terms of the trust agreement.
  - b. **Beneficial Interest/Ownership** – Beneficial ownership refers to an investor's interest in a statutory trust and their associated right to share in the economic benefits of the trust's assets, including profits, losses, and distributions. As provided in the trust agreement, beneficial owners are entitled to receive allocations of profits and losses, distributions, and other economic returns in proportion to their beneficial interests. Beneficial ownership confers economic and contractual rights only and does not include legal title to, or direct control over, the statutory trust's assets, which are owned by the trust and administered by the trustee in a fiduciary capacity.
  - c. **Series Statutory Trusts** – Some statutory trusts may be formed with designated separate series, where each series is intended to operate distinctly from the statutory trust as a whole and from other series within the same trust. Typically, the creation, rights, and limitations of series statutory trusts are to be expressly established in the statutory trust agreement, and each series is required to maintain separate and distinct records, assets, and liabilities, segregated from those of the

overall trust and from other series. One of the key features of a series statutory trust is its ability to insulate each of the series from liabilities incurred by other series.

It should be noted that inter-series limitation of liability is a conditional feature of a statutory trust. To be valid, series statutory trusts must be in compliance with applicable state statutory requirements, including explicit authorization in the governing instrument and maintenance of segregated books, records, and asset accounting. Statutory trust statutes vary by state, so investors and other stakeholders should review the specific statutory provisions and any additional requirements in the jurisdiction of domicile to determine what conditions must be met for a series to have enforceable liability segregation.

SSAP No. 37, footnote 3, provides the criterion which must be met and maintained for a series statutory trust to be considered qualifying.

#### Scope of Adopted Revisions

7. In the initial draft of the exposed revisions to SSAP No. 37, the proposed guidance limited qualifying statutory trusts to holding only fully owned first lien residential mortgage loans. Interested parties provided comments noting that the same requirements that apply to residential mortgage loans directly held and accounted for under SSAP No. 37 should apply to the residential mortgage loans (RMLs) owned through a trust. As 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. The Working Group agreed with this change and updated the draft revisions to allow that qualifying statutory trusts may hold any kind of RML which is already allowed under the scope of SSAP No. 37 as long as the residential mortgage loans are legally separate and divisible.

8. Interested parties requested at various points in the public comment process that the Working Group expand the scope of the proposed guidance to allow for both common law trusts and statutory trusts as both types can be used to hold RMLs on behalf of the insurer. The Working Group disagreed with this recommendation and did not incorporate this revision into the proposed guidance. The following was part of the Working Group discussion points regarding these comments:

Statutory trusts are created under and governed by specific state statutes, are recognized as separate 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 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 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.

9. During discussions it was noted that there was no specific guidance for RMLs held in trusts that do not meet the qualifying statutory trust criteria or any indication of which SSAP the insurer should reference. The draft revisions were updated to clarify that non-qualifying statutory trusts must comply with the applicable SSAP; however, 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 every possible trust type with a specific SSAP reference.

10. The revisions adopted to SSAP No. 37 require reporting entities to apply the guidance to all qualifying statutory trusts. In other words, application of the adopted guidance is not optional for statutory trusts which meet the qualifying criteria. This is consistent with the approach used for real estate held in LLCs in scope of SSAP No. 40. In addition, the adopted revisions also effectively remove qualifying statutory trusts from the subsidiary audit requirement that exists for SSAP No. 48 investments; however, the investments and related activity are required to be reported as if directly held by the reporting entity and would be subject to audit testing procedures as part of the reporting entity's audit.

#### Allowable Assets

11. During discussions, industry provided both formal and informal comments on which assets should be permitted in a qualifying statutory trust and on the appropriate reporting for real estate foreclosed upon by the statutory trust. Industry's position was that any real estate, cash and cash equivalents, or other assets related to investing in the RMLs, such as receivables and associated liabilities, should be reported as if held directly by the reporting entity since the investor bears all risks and rewards of ownership. The Working Group agreed that the assets allowed within a qualifying statutory trust should be expanded beyond those proposed in the initial draft, but emphasized that the guidance should reflect that qualifying statutory trusts are not to be used for purposes beyond holding and servicing RMLs and related activities. Accordingly, the Working Group made revisions to the proposed guidance to permit qualifying statutory trusts to hold cash equivalents (expanded from cash only) and to allow real estate to be held but only if it was acquired via foreclosure from a mortgage loan held by the trust (expanded from fully disallowed).

12. Additionally, the Working Group did not incorporate revisions proposed by industry to allow other assets to be received as income from RMLs held by the qualifying statutory trusts. The concern was that such language could effectively permit almost any type of asset to be held and reported within a qualifying statutory trust, so long as it is originated from RML proceeds.

13. The criterion described in SSAP No. 37, paragraph 2.b.v. prohibits a qualifying statutory trust from engaging in activities unrelated to the ownership and management of the residential mortgages. While foreclosed real estate may be held within qualifying statutory trusts, the trust's direct ownership of real estate is intended to be a temporary arrangement lasting only as long as is necessary to dispose of the property. Holding and operating a real estate property within the trust for an extended period of time would almost certainly generate operational and financial activity that would cause the statutory trust to lose its qualifying status.

14. One topic discussed at length by industry and the Working Group was whether qualifying statutory trusts should be allowed to hold foreclosed real estate within wholly owned LLCs. Interested parties noted that it is common practice for statutory trusts to set up an LLC to own foreclosed real estate. Since SSAP No. 40 permits single, wholly-owned real estate held in an LLC to be directly reported on Schedule A – Real Estate, the argument was made that a similar look-through provision should apply here, with the insurer reporting the real estate as directly owned. While bank trustees are generally comfortable holding legal title to mortgage loans and serving as lender of record, some are reluctant to hold title to foreclosed real estate due to potential property-related liabilities. As a result, trustees commonly transfer title of such assets to a single-member LLC 100% owned by the trust prior to foreclosure. Initially, regulators rejected this proposal due to the concerns that allowing LLCs within a qualifying statutory trust would increase complexity and reduce transparency. There were also concerns that companies could nest LLCs within a qualifying statutory trust, making it difficult to determine the actual assets held.

15. Following further discussions with regulators and industry after the 2025 Summer National Meeting, it was determined that restricting qualifying statutory trusts to only direct ownership of foreclosed real estate would lead to several legal and operational challenges, including lack of liability protection, trustee restrictions on holding real estate directly, and potential state transfer taxes and fees. While the Working Group recognized that allowing wholly-owned LLCs within qualifying statutory trusts adds complexity, it concluded that using wholly-owned LLCs to hold foreclosed real estate was the most practical approach to mitigate these risks and avoid costs that could otherwise undermine the statutory trust structure’s purpose. The adopted revisions allow qualifying statutory trusts to utilize wholly owned LLCs solely to hold foreclosed real estate and expressly prohibit nested LLCs by requiring that LLCs be owned directly by the statutory trust.

#### Reporting and Disclosures

16. During the initial drafting process, consideration was given to whether residential loans held in qualifying statutory trusts should be reported separately or on an aggregate basis on Schedule B. Aggregate reporting (i.e., by trust) was initially considered due to the high volume of residential mortgage loans and the relatively low individual loan balances compared to the mortgage loans typically purchased by reporting entities. However, it was ultimately determined that aggregate reporting would require significant structural changes to Schedule B. Even if the substantial reporting changes identified were implemented, the discussion identified unresolved questions which remained regarding whether individual mortgage additions and subtractions within a trust would still need to be reported separately. Regulators also expressed concerns that, while more streamlined, aggregate reporting would provide limited actionable information, potentially requiring routine requests for detailed mortgage activity listings to adequately evaluate activity within the trust. Based on this analysis, the initial draft required separate reporting of mortgage loans held within qualifying statutory trusts on Schedule B. This approach offers two major benefits in that regulators will have ready access to detailed mortgage loan information, and separate reporting does not require major structural changes to Schedule B.

17. The initial draft exposure included a disclosure of the fees paid to the servicer, which was intended to allow regulators to easily identify excessive fees. Interested parties noted that this information is confidential and could impact competitive market practices among servicers and that such a disclosure was not required for RMLs/CMLs directly owned and managed by a third-party servicer. The Working Group agreed that the disclosure was not necessary and removed it from the proposed revisions. The Working Group also noted that the potential for excessive fees would be most likely in situations where the servicer was an affiliate or related party, in which case the expenses would already be subject to the related party and affiliate disclosure required by SSAP No. 25. To clarify 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.”

#### Admittance and Pledging

18. Under the adopted guidance, assets held within a qualifying statutory trust would generally be reported as admitted. However, if the statutory trust itself pledges or otherwise encumbers trust assets to a third party, not on behalf of the insurer, the insurer’s investment in those assets is nonadmitted. This guidance is intended to prevent situations in which a third party could obtain a claim on trust assets. Accordingly, reporting entities should carefully consider the qualifying statutory trust admittance guidance when choosing between a leveraged statutory trust structure and an all-cash statutory trust structure. In practice:

- a. If the qualifying statutory trust pledges its assets as collateral to obtain financing for the trust, the insurer’s interest in the trust’s assets would be nonadmitted.
- b. If the insurer reporting entity pledges its beneficial interest in the qualifying statutory trust’s assets as collateral for its own borrowings (for example, pledging residential mortgage loans pledged as collateral for Federal Home Loan Bank borrowings), the trust assets remain admitted but are required to be reported as restricted assets.

#### Effective Date of Adopted Guidance

19. Interested parties recommended that the adopted guidance have an effective date of January 1, 2027, but also requested that early adoption be permitted. They noted that statutory trusts holding residential mortgage loans are already held by some reporting entities, and for reporting entities entering into these investments, early adoption would allow reporting on Schedule B, thereby avoiding future transfers between schedules to comply with statutory reporting requirements. This recommendation was discussed by the Working Group, and ultimately regulators agreed that since these investments are already being inconsistently reported by insurers, allowing early adoption is appropriate. This would enable balances to be reported and accounted for consistently among early adopters.

While the adopted revision includes changes to the Blanks to improve reporting of mortgage loans and foreclosed real estate held within qualifying statutory trust, no new reporting lines or columns were added. The proposed Schedule B reporting codes could not be added to the Blanks until the 2026 year-end reporting period; however, the Working Group does not anticipate any structural issues for companies electing early adoption in 2025 or throughout 2026. Once a reporting entity adopts the guidance, the qualifying statutory trust investments must be moved from their prior reporting location, such as Schedule BA for trusts structured as SSAP No. 48 entities or from Schedule D-2-2 for those structured as SCAs. The adopted revisions include transition guidance specifying movement at book adjusted carrying value (BACV) to avoid a gain or loss when transferring the investments.

#### **ACTIONS OF THE STATUTORY ACCOUNTING PRINCIPLES (E) WORKING GROUP**

20. 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.

21. On July 8, 2025, the Statutory Accounting Principles (E) Working Group received formal comments from interested parties on the draft exposed on May 22. These comments were in addition to informal interim discussions on the draft prior to the comment letter. A summary of those comments and responses from NAIC staff are detailed within the agenda item.

22. On August 11, 2025, the Statutory Accounting Principles (E) Working Group exposed an updated draft of revisions to expand the scope of SSAP No. 37 to include qualifying investment trusts holding residential mortgage loans to be reported Schedule B – Mortgage Loans. Key revisions include:

- a. 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.
- b. 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, and removal of the requirement for statutory trust series to hold the entire tranche of each residential loan.
- c. 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.
- d. 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.
- e. Eliminated the management fee disclosure as this information was determined to not be of significant importance to regulators.
- f. 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).

23. On October 22, 2025, the Statutory Accounting Principles (E) Working Group received formal comments from interested parties on the draft exposed on Aug. 10. All of the revisions recommended by interested parties in these comments were incorporated into the proposed revisions.

24. On December 9, 2025, the Statutory Accounting Principles (E) Working Group adopted revisions to broaden the scope of SSAP No. 37 to include qualifying investment trusts that hold RMLs and require reporting of RMLs held in qualifying statutory trusts on Schedule B – Mortgage Loans. Additional revisions to SSAP No. 2 and SSAP No. 40 establish guidance for the reporting of cash and cash equivalents and foreclosed real estate held within a qualifying statutory trust. The adopted guidance included the following key revisions:

- a. Added guidance to SSAP No. 37 and SSAP No. 40 permitting real estate acquired through foreclosure to be held within an LLC that is wholly and directly owned by a qualifying statutory trust. The proposed revisions to SSAP No. 40 further clarify that real estate must be owned by an LLC directly and wholly owned by either the reporting entity or a qualifying statutory trust. This means LLCs must be held directly by the qualifying statutory trust and cannot be layered (for example, an LLC wholly-owned by an LLC wholly-owned by the qualifying statutory trust).

- b. Added an additional reporting code to Schedule A to indicate whether a real estate investment is directly held by a qualifying statutory trust or an LLC directly held by a qualifying statutory trust.
- c. The proposed Schedule B reporting column for “State of Domicile” was deleted. Upon further review, NAIC concluded that this detail is more appropriately included as a note in the financial statements, rather than being required for each residential mortgage loan on Schedule B.
- d. Transition guidance was added for statutory trusts held prior to the effective date and considered qualifying by the guidance proposed by this agenda item. The transition guidance requires that reporting entities with qualifying statutory trusts transfer all trust activities, assets, and liabilities at book value and ensure each is properly reported in accordance with SSAP No. 37.

25. On **March 23, 2026**, the Statutory Accounting Principles (E) Working Group exposed a draft of the Statutory Trusts Issue Paper.

26. On March 5, 2026, the Blanks (E) Working Group adopted 2025-28BWG Modified which contained recommendations for the annual statement instructions for Schedule A and Schedule B.

#### **RELEVANT STATUTORY ACCOUNTING AND U.S. GAAP GUIDANCE**

##### **Statutory Accounting**

- *SSAP No. 2—Cash, Cash Equivalents, Drafts, and Short-Term Investments*
- *SSAP No. 37—Mortgage Loans,*
- *SSAP No. 40—Real Estate Investments*

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/Maintenance/Active Form A's/2025/25-13a - Statutory Trusts Issue Paper.docx>

**EXHIBIT A - ADOPTED REVISIONS TO STATEMENTS OF STATUTORY ACCOUNTING PRINCIPLES:**

**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 also include:

a. ~~\_\_\_\_\_~~ € Certain acquisition, development and construction arrangements (ADC) as defined in SSAP No. 38—Acquisition, Development and Construction Arrangements;

~~a.b.~~ Real estate held within a qualifying statutory trust(s), as defined in SSAP No. 37—Mortgage Loans, that was acquired through an in-substance repossession or foreclosure in accordance with SSAP No. 37, paragraph 18.

4. A single real estate property investment that is wholly owned by an LLC that is directly and wholly owned either by the reporting entity or a qualifying statutory trust shall be captured within this statement and reported on Schedule A, Real Estate, if all of the following criteria are met. Real estate owned through an LLC that meets the stated criteria shall follow all statutory requirements within this statement. Real estate owned through an LLC that does not meet the criteria shall be reported on Schedule BA, Other Long-Term Invested Assets. Regardless of whether reported on Schedule A or Schedule BA, all LLC's owned by the reporting entity shall be detailed in Schedule Y.

**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.

38. The guidance on residential mortgage loans within qualifying statutory trusts adopted in SSAP No. 37—Mortgage Loans also addresses certain types of foreclosed real estate within such trusts that are held, either directly or through an LLC that is directly and wholly owned by a qualifying statutory trust. The effective date and transition guidance for impacted real estate within these structures shall follow the guidance detailed in SSAP No. 37.

**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 an investment in a qualifying statutory trust as defined in paragraph 2.b. 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. 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. The accounting, reporting, and admittance guidance reflected for qualifying statutory trusts should not be inferred to apply to nonqualifying statutory trusts or any other type of trust.

- 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:

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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 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.)

- 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 an unincorporated association created as a trust under state statute, a common example of which would be Delaware statutory trusts. 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.
  - ii. The reporting entity must hold a 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>3</sup>. Such beneficial ownership interest must be evidenced by a certificate or registered as an uncertificated interest within the statutory trust register.
  - iii. Assets of the statutory trust may only consist of 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; residential real estate ~~of~~ which the statutory trust has acquired in accordance with paragraph 18 through an in substance repossession or foreclosure; 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:
    - (a) Mortgage loans held by the qualifying statutory trust shall be reported on Schedule B in accordance with this statement.
    - (b) Cash and cash equivalents held by the qualifying statutory trust shall be reported in accordance with SSAP No. 2—Cash, Cash Equivalents, Drafts and Short-Term Investments.

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<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 of a statutory trust to meet the criterion described in paragraph 2.b.ii., the trust agreement must explicitly provide that the liabilities of each series are enforceable only against the assets of that series, the reporting entity must hold 100% undivided beneficial ownership interest in all assets of that series, 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 Series A but only a 50% ownership interest in Series B, only the investment in Series A would meet this criterion.

- (c) Real estate held by the qualifying statutory trust shall be reported on Schedule A and classified as “Held for Sale” in accordance with SSAP No. 40—Real Estate Investments. Such properties must either be directly owned by the qualifying statutory trust or held by the qualifying statutory trust as single residential real estate investments that are directly and wholly owned through a limited liability company (LLC), provided they meet all requirements outlined in SSAP No. 40, paragraph 4.
- (d) Liabilities of the qualifying statutory trust shall be reported in accordance with the applicable statement of statutory accounting principles.
- (e) Revenue and expenses of the qualifying statutory trust 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 statutory trust must maintain all requisite documents and records in accordance with the applicable state statutes.
- 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 shall be reported as transactions of the reporting entity pursuant to the guidance in this statement.
- i-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. Assets of a qualifying statutory trust 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 qualifying 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

27. The following disclosures shall be made for mortgage loans acquired through a qualifying investment in a qualifying statutory trust:

- a. A description of the qualifying statutory trust(s). Mortgage loans held in qualifying statutory trusts must be separately reported on Schedule B in accordance with the annual statement instructions.
  - i. If the qualifying statutory trust(s) holds any amount of subprime mortgages, the reporting entity must disclose this fact in the description of the qualifying 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 qualifying statutory trusts within the scope of SSAP No. 25 shall also be disclosed.
  - ii. The description of each qualifying statutory trust must specify its state of domicile as well as each U.S. state(s) and/or foreign country, if applicable, in which the qualifying statutory trust holds residential mortgage loans .
  - 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 material litigation and any kind of material state or federal regulatory review and/or action concerning the qualifying statutory trust(s).
- c. Disclosure of financing transactions of any sort which are secured, directly or indirectly, by statutory trust assets.
- 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.

### **Effective Date and Transition**

32. This statement is effective for years beginning January 1, 2001. Initial recognition of the impairment losses resulting from the application of this statement shall apply to mortgage loans held at January 1, 2001, and be based on management’s best estimates as of that date. Insurers shall release all unamortized amounts included in IMR related to prepayment penalties upon adoption of Codification and recognize such change in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors. 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. The guidance in this paragraph related to unamortized amounts included in IMR was originally contained within INT 99-04: Recognition of Prepayment Penalties Upon Adoption of Codification and was effective March 8, 1999.

33. The adoption of ASU 2014-14 and the adoption with modification of ASU 2014-04 (detailed in paragraphs 18-22 and 26.e.) shall be applied prospectively from the date of adoption (March 28, 2015). With this prospective application, guidance adopted from ASU 2014-14 applies to all foreclosures that occur after the date of adoption, and guidance from ASU 2014-04 applies to all instances of the reporting entity receiving physical possession of real estate property collateralized by mortgage loans that occur after the date of adoption.

34. The guidance for qualifying statutory trusts adopted on December 9, 2025, shall be applied prospectively as of January 1, 2027, with early adoption permitted. For statutory trusts held prior to the effective date and considered qualifying per this statement, the insurer shall transfer all trust activities, assets, and liabilities at

book/adjusted carrying value and ensure each is reported in accordance with this statement. A change resulting from the adoption of this guidance shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors. Subsequent measurement of transferred assets and liabilities are subject to the applicable SSAPs as described in paragraphs 5.b.iii.(a)-(d).

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/03-23-26 Spring National Meeting/Meeting/A 25-13a - Statutory Trusts Issue Paper.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2026/03-23-26%20Spring%20National%20Meeting/Meeting/A%2025-13a%20-%20Statutory%20Trusts%20Issue%20Paper.docx)

**MEMORANDUM**

**TO:** Kevin Clark, Chair, Statutory Accounting Principles (E) Working Group  
Roy Eft, Chair, Blanks (E) Working Group

**FROM:** Robert Kasinow, Chair, Macroprudential (E) Working Group

**DATE:** February 17, 2026

**RE:** Funding Agreements backing Funding Agreement Backed Notes and Other Structures

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The Macroprudential (E) Working Group received, discussed, and exposed for public comment, a proposal to disclose funding agreements backing Funding Agreement Backed Notes (FABNs). ACLI had originally provided a suggested proposal, which the working group modified slightly and exposed for 30 days ending December 8, 2025. ACLI requested an additional 45 days at the 2025 Fall National Meeting, making comments due January 26, 2026. We received only one comment letter from ACLI on January 26, 2026, attached as a pdf in the email distribution with this memo. NAIC Committee Support has been working with ACLI on the development of the attached proposal.

This latest proposal has been revised to include four new categories of funding agreement backed structures for which we seek disclosure of the funding agreements that back them. The new categories are as follows:

- 1) Funding Agreement Backed Commercial Paper (FABCP)
- 2) Funding Agreement Backed Repurchase Agreements (FABRs)
- 3) Funding Agreement Backed Loans (FABLs)
- 4) Funding Agreements backing Muni Prepay Structures

The Macroprudential (E) Working Group refers this proposal to the Statutory Accounting Principles (E) Working Group on accounting and reporting aspects of the proposal as well as to the Blanks (E) Working Group regarding incorporation into the Annual Statement.

FABNs are debt instruments issued by Special Purpose Vehicles (SPVs) formed by life insurance companies. The life insurance regulated legal entities issue funding agreements to the SPV to pay principal and interest and the SPV in turn pays the principal and interest to the holders of FABNs.

The current insurance statutory Annual Statement reporting framework does not require the reporting of FABNs. However, under the current reporting system insurers do report the amount of funding agreements issued in the aggregate for all purposes, with separate disclosure of funding agreements issued in connection with FHLB advances. This proposal seeks separate reporting of funding agreements that back FABNs and other funding agreement backed structures.

The Macroprudential (E) Working Group is seeking additional funding agreement disclosures to monitor the activity in the FABN market in accordance with its financial stability monitoring objectives. This proposed disclosure will provide the FSTF the ability to identify transmission channels of potential risk to and from (inward and outward risks) the insurance industry and the interconnectedness to the capital markets.

## Disclosure Proposal

### **Exhibit 7 Footnote:**

(b) Funding Agreements that Back Special Purpose Vehicle (“SPV”) Issuances

1. Total Across All Categories  
\$ \_\_\_\_\_
2. Of the total, funding agreements that support funding agreement backed SPV issuances whereby the funding agreement contains a put feature or embedded option\* \$ \_\_\_\_\_

### **SSAP No. 52–Deposit-Type Contracts:**

Each reporting entity shall disclose information on funding agreements issued by such reporting entity that support funding agreement backed SPV Issuances. (This disclosure is required for all known instances, even in situations in which the SPV was not sponsored or formed by the reporting entity and when the relevant SPV is bankruptcy remote from the reporting entity.) The balance of funding agreements supporting funding agreement backed SPV issuances shall be reported before reinsurance.

- a. Balance of funding agreements (A) per type of issuance, (B) per type of issuance where the transaction contains a put feature or embedded option, and (C) per type of issuance where the terms of the SPV Issuance differ from the terms of the corresponding funding agreement:

- 5) Funding Agreement Backed Notes (FABN)
- 6) Funding Agreement Backed Commercial Paper (FABCP)
- 7) Funding Agreement Backed Repurchase Agreements (FABR)
- 8) Funding Agreement Backed Loans (FABL)
- 9) Funding Agreements Issued into Muni Prepay Structures
- 10) Other Funding Agreements Backing SPV Issuances (Other)

<b>a) Disclosure of Funding Agreements Backing SPV Issuances</b>	<b>Total Amount</b>	<b>Amount Puttable *</b>	<b>Amount with Different Terms**</b>
1) Funding Agreement Backed Notes (FABN)	\$	\$	\$
2) Funding Agreement Backed Commercial Paper (FABCP)	\$	\$	\$
3) Funding Agreement Backed Repurchase Agreements (FABR)	\$	\$	\$
4) Funding Agreement Backed Loans (FABL)	\$	\$	\$
5) Funding Agreements Issued into Muni Prepay Structures	\$	\$	\$
6) Other Funding Agreements Backing SPV Issuances (Other)	\$	\$	\$
<b>Total</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

(Total Amount should reflect the balance of all funding agreements backing SPV Issuances reported as Deposit-Type Contracts and agree to Exhibit 7.b.1.)

\* As used herein, a funding agreement is “Puttable” or contains a “put feature or embedded option” if such funding agreement contains a provision that allows a contract holder to withdraw from their account value at [book value] at any time, without being tied to a specific triggering event; under such provision, the insurer has no contractual alternatives to paying out at [book value].

\*\* Instances in which the terms of the funding agreement are designed to be different from the SPV issuances should be reported as an Amount with Different Terms (even in instances where the SPV is not sponsored or formed by the reporting entity such as funding agreements issued into muni prepay structures).

- b. For instances in which the SPV is sponsored or formed by the reporting entity and the terms (e.g., principal, interest rate, maturity, rating, or currency) of a funding agreement differ from the terms of the corresponding SPV Issuance, include a narrative description identifying the different terms. (For example, if the funding agreement matures in 3 years, but the FABL matures in 3 months, instances of different interest rates, etc.) *(No template illustration.)*

\*\*\* With respect to FABCP, please respond to this question by identifying instances in which the terms of an SPV Issuance do not match the terms of a deposit made under an FABCP master funding agreement.

\*\*\*\* With respect to funding agreements issued into muni prepay structures, no response is necessary given that the terms of the funding agreement are designed to be different from the SPV issuances.

- c. Disclose the maturity distribution of funding agreements backing SPV Issuances, separately identifying the funding agreements issues as fixed or floating interest rate prior to execution of any interest rate swaps: (The total reported should agree to the total reported for disclosure a.)

<b>Maturity Distribution of Funding Agreements Backing SPV Issuances</b>			
	Fixed Rate	Floating Rate	Total
1 Year or Less	\$	\$	\$
After 1 Year Through 5 Years	\$	\$	\$
After 5 Years Through 10 Years	\$	\$	\$
After 10 Years Through 20 Years	\$	\$	\$
Over 20 Years	\$	\$	\$
<b>Total</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

(Total should reflect the balance of all funding agreements backing SPV issuances reported as Deposit-Type Contracts. Include zero coupon funding agreements in the fixed rate column.)

- d. Identify if the SPV issuances backed by funding agreements are issued in a non-US currency. If so, disclose the currency denominations and whether all foreign currency exposure related to each currency denomination is hedged:

<b>Funding Agreements Backing SPV Issuances</b>		<b>Funding Agreements Backing SPV Issuances in USD:</b>
Year-End FA Balance (USD)		\$
Amount of Funding Agreements Backing SPV Issuances in Foreign Currency –		
	AUD	\$
	CAD	\$
	CHF	\$
	EUR	\$
	GBP	\$
	Other	\$
<b>Foreign Currency Total</b>		<b>\$</b>
<b>Total Funding Agreements Backing SPV Issuances</b>		<b>\$</b>

(Total should match Total Amount reported in a.)

- e. Is all foreign currency exposure related to funding agreements backing SPV issuances hedged via derivatives, asset matching, or otherwise mitigated? If not, please explain.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2026/03-23-26SpringNationalMeeting/Meeting/BMWGreferraltoSAPWGandBWGFABNs2-17-26.docx>



January 26, 2026

**Mr. Robert Kasinow, Chairman**

Macroprudential (E) Working Group  
National Association of Insurance Commissioners  
1100 Walnut Street, Suite 1500  
Kansas City, MO 64106-2197

Re: Funding Agreement Blanks Proposal

*Submitted Electronically*

Dear Mr. Kasinow:

The American Council of Life Insurers (ACLI) welcomes the opportunity to comment on the exposed Blanks Proposal for additional disclosures for funding agreements that support Funding Agreement Backed Notes (FABNs) issued by life insurance companies. We appreciate the Working Group's consideration of ACLI's draft disclosure for Exhibit 7 Additional Data for Funding Agreements Backing FABN. We would also like to take this time to express our gratitude towards regulators and NAIC for allowing a longer comment period to ensure the disclosure better reflects the universe of funding agreement backed Special Purpose Vehicle (SPV) issuances.

Following our review of the exposed proposal and discussion with NAIC staff, we offer the following observations and recommendations:

- To align with the FHLB reporting, ACLI suggests limiting the Exhibit 7 footnote to the total balance of all funding agreements that back SPV issuances and of that amount the total balance containing a put feature or embedded option.
- Furthermore, ACLI suggests the remaining details in the exposed disclosure be included in a new note to be added to the financial statutory statements.
- To ensure the disclosure better reflects the universe of funding agreement backed SPV issuances, ACLI recommends adding the total balance of funding agreements supporting funding agreement backed commercial paper (FABCP), funding agreement backed loans (FABL), funding agreements issued into muni prepay structures, and other funding agreements backing SPV issuances.
- ACLI acknowledges the regulatory concern with unhedged currency exposure. We understand the industry practice is to hedge all currency exposure. For this reason, as an alternative to the Hedged column in the Summary of Funding Agreements by Currency Denomination in the

**American Council of Life Insurers** | 300 New Jersey Avenue, NW, 10th Floor | Washington, DC 20001

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The American Council of Life Insurers (ACLI) 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 94 percent of industry assets in the United States.

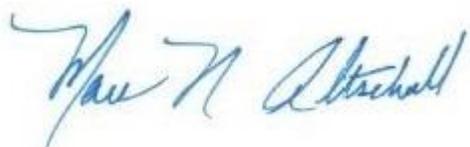
exposed disclosure, ACLI recommends inserting a global question confirming that all foreign currency exposure is hedged including a blank for an explanation where this is not the case.

- To ensure consistent reporting across the industry, ACLI suggests that the instructions be revised such that the interest rate basis (i.e., fixed rate versus floating rate) in the Maturity Distribution of Funding Agreements Backing SPV Issuances table be reported on a pre-swap basis (i.e., as issued before the execution of any interest rate swaps).
- Given that all the terms have been defined within the main text, ACLI suggests removing the Acronym Glossary.

Alongside our letter, we are submitting a revised version of the Disclosure reflecting the above suggestions.

We appreciate the opportunity to collaborate with the Working Group in developing this disclosure and the consideration of our recommendations.

Sincerely,

A handwritten signature in blue ink that reads "Marc Altschull". The signature is fluid and cursive, with the first name "Marc" and last name "Altschull" clearly legible.

Marc Altschull, CFA, FSA, MAAA  
Senior Actuary  
[marcaltschull@acli.com](mailto:marcaltschull@acli.com)  
202-624-2089

Exhibit 7 Footnote:

## (b) Funding Agreements that Back Special Purpose Vehicle (“SPV”) Issuances

1. Total Across All Categories \$ \_\_\_\_\_
2. Of the total, funding agreements that support funding agreements backed SPV issuances whereby the funding agreements contain a put feature or embedded option\* \$ \_\_\_\_\_

SSAP No. 52—Deposit-Type Contracts:

Each reporting entity shall disclose information on funding agreements issued by such reporting entity that support funding agreement backed SPV Issuances. (This disclosure is required for all known instances, even in situations in which the SPV was not sponsored or formed by the reporting entity and when the relevant SPV is bankruptcy remote from the reporting entity.) The balance of funding agreements supporting funding agreement backed SPV issuances shall be reported before reinsurance.

- a. Balance of funding agreements (A) per type of issuance, (B) per type of issuance where the transaction contains a put feature or embedded option, and (C) per type of issuance where the terms of the SPV Issuance differ from the terms of the corresponding funding agreement:

- 1) Funding Agreement Backed Notes (FABN)
- 2) Funding Agreement Backed Commercial Paper (FABCP)
- 3) Funding Agreement Backed Repurchase Agreements (FABR)
- 4) Funding Agreement Backed Loans (FABL)
- 5) Funding Agreements Issued into Muni Prepay Structures
- 6) Other Funding Agreements Backing SPV Issuances (Other)

a) Disclosure of Funding Agreements Backing SPV Issuances					Total Amount	Amount Puttable*	Amount with Different Terms**
	1)	Funding Agreement Backed Notes (FABN)			\$	\$	\$
	2)	Funding Agreement Backed Commercial Paper (FABCP)			\$	\$	\$
	3)	Funding Agreement Backed Repurchase Agreements (FABR)			\$	\$	\$
	4)	Funding Agreement Backed Loans (FABL)			\$	\$	\$
	5)	Funding Agreements Issued into Muni Prepay Structures			\$	\$	\$
	6)	Other Funding Agreements Backing SPV Issuances (Other)			\$	\$	\$
				<b>Total</b>	\$	\$	\$

(Total Amount should reflect the balance of all funding agreements backing SPV Issuances reported as Deposit-Type Contracts and agree to Exhibit 7.b.1.)

\* As used herein, a funding agreement is “Puttable” or contains a “put feature or embedded option” if such funding agreement contains a provision that allows a contract holder to withdraw from their account value at [book value] at any time, without being tied to a specific triggering event; under such provision, the insurer has no contractual alternatives to paying out at [book value].

\*\* Instances in which the terms of the funding agreement are designed to be different from the SPV issuances should be reported as an Amount with Different Terms (even in instances where the SPV is not sponsored or formed by the reporting entity such as funding agreements issued into muni prepay structures).

- b. For instances in which the SPV is sponsored or formed by the reporting entity and the terms (e.g., principal, interest rate, maturity, rating, or currency) of a funding agreement differ from the terms of the corresponding SPV Issuance, include a narrative description identifying the different terms. (For example, if the funding agreement matures in 3 years, but the FABL matures in 3 months, instances of different interest rates, etc.) *(No template illustration.)*

\*\*\* With respect to FABCP, please respond to this question by identifying instances in which the terms of an SPV Issuance do not match the terms of a deposit made under an FABCP master funding agreement.

\*\*\*\* With respect to funding agreements issued into muni prepay structures, no response is necessary given that the terms of the funding agreement are designed to be different from the SPV issuances.

- c. Disclose the maturity distribution of funding agreements backing SPV Issuances, separately identifying the funding agreements issues as fixed or floating interest rate prior to execution of any interest rate swaps: (The total reported should agree to the total reported for disclosure a.)

<b>Maturity Distribution of Funding Agreements Backing SPV Issuances</b>			
	Fixed Rate	Floating Rate	Total
1 Year or Less	\$	\$	\$
After 1 Year Through 5 Years	\$	\$	\$
After 5 Years Through 10 Years	\$	\$	\$
After 10 Years Through 20 Years	\$	\$	\$
Over 20 Years	\$	\$	\$
<b>Total</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

(Total should reflect the balance of all funding agreements backing SPV issuances reported as Deposit-Type Contracts. Include zero coupon funding agreements in the fixed rate column.)

- d. Identify if the SPV issuances backed by funding agreements are issued in a non-US currency. If so, disclose the currency denominations and whether all foreign currency exposure related to each currency denomination is hedged:

<b>Funding Agreements Backing SPV Issuances</b>		<b>Funding Agreements Backing SPV Issuances in USD:</b>
Year-End FA Balance (USD)		\$
Amount of Funding Agreements Backing SPV Issuances in Foreign Currency –		
	AUD	\$
	CAD	\$
	CHF	\$
	EUR	\$
	GBP	\$
	Other	\$
<b>Foreign Currency Total</b>		<b>\$</b>
<b>Total Funding Agreements Backing SPV Issuances</b>		<b>\$</b>

(Total should match Total Amount reported in a.)

- e. Is all foreign currency exposure related to funding agreements backing SPV issuances hedged via derivatives, asset matching, or otherwise mitigated? If not, please explain.

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

**Issue: Disclosure of FABNs and Similar Structures**

**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 has been prepared to consider a February 17, 2026, referral received from the Macroprudential (E) Working Group to incorporate proposed disclosures for funding agreement backed notes (FABNs) and other funding agreement backed structures.

FABNs are debt instruments issued by Special Purpose Vehicles (SPVs) generally formed by life insurance companies. A life insurance company issues a funding agreement to the SPV, which is accounted for in accordance with *SSAP No. 52—Deposit-Type Contracts*, and the SPV then issues debt instruments (FABNs) that are backed by the principal and interest of the issued funding agreement. Although all funding agreements issued by the insurer are required to be captured in current reserves and detailed in Exhibit 7 – Deposit-Type Contracts, there is no current reporting of whether the issued funding agreements back FABNs or other similar structures. The Macroprudential (E) Working Group requests disclosures of this activity to allow for monitoring under their financial stability monitoring objectives. The referral identifies that the proposed disclosure will provide the Financial Stability (E) Task Force with the ability to identify transmission channels of potential risk to and from the insurance industry and the interconnectedness to the capital markets.

In accordance with the Macroprudential (E) Working Group’s review, it was identified that different structures exist that are backed by funding agreements. Their proposed reporting captures the total of all funding agreements that back SPV issuances, with additional reporting that divides the amount based on the type of agreement:

- Funding Agreement Backed Notes
- Funding Agreement Backed Commercial Paper
- Funding Agreement Backed Repurchase Agreements
- Funding Agreement Backed Loans
- Funding Agreements Issued into Muni Prepay Structures
- Other Funding Agreements Backing SPV Issuances

These additional structures are detailed as follows:

- *Funding Agreement-Backed Commercial Paper:* Under funding agreement-backed commercial paper (FABCP) structures, the insurer issues a master funding agreement to an SPV. The assets backing the master funding agreement consist of commercial paper with maturities of 360 days or less that are purchased by the insurer with the FABCP investors’ cash proceeds. The principal and interest payments on FABCPs are generally structured to align with the dollar amount of commercial paper backing the transaction. However, the insurer may not always be able to fully invest the proceeds due to the short maturities and frequent rollovers of commercial paper, which can create a duration mismatch. The short-term nature and high liquidity of the underlying commercial paper partially mitigate this ALM mismatch.

- **Funding Agreement-Backed Repurchase Agreements:** In a funding agreement-backed repurchase (FABR) agreement transaction, an SPV purchases a funding agreement issued by an insurer and then uses that funding agreement to enter into a repurchase agreement (repo) with a bank counterparty. In addition, the insurer pledges collateral into an account controlled by the SPV to support the repurchase transaction. The bank counterparty may rehypothecate, or repledge, all or a portion of the collateral pool. This FABN structure expands repurchase capacity and balance sheet flexibility for the insurer while reducing the bank counterparty's regulatory capital charge.
- **Funding Agreement-Backed Loans:** Funding agreement-backed loan (FABL) structures work similarly to FABNs, except the SPV is established by the bank counterparty, not the insurer. Another key difference from FABNs is that the FABL SPV enters into a loan directly with a bank instead of issuing notes. Effectively, though, the cash flows of the loan and notes operate similarly. Additionally, with FABLs, the insurer pledges securities to a collateral account, for which the bank counterparty has a security interest pursuant to an account control agreement.
- **Funding Agreement-Backed Municipal Pre-Pay/Energy Bonds:** Funding agreement-backed municipal gas and electric prepayment bonds (FABMBs) are a specialized segment of the municipal bond market that allows municipalities to secure a long-term, discounted supply of energy from a utility company. The municipality issues a tax-exempt bond to investors and uses the proceeds to prepay for typically 20 to 30 years of energy delivery. The SPV is a single-purpose entity whose sole purpose is to execute the prepayment with the commodity supplier, which is typically the commodity trading entity of an investment bank. The insurer's funding agreement provides interest payments on the bonds until such payments are recouped from consumers paying their utility bills.

The proposed disclosure also captures details on whether the SPV-Issued debt instruments are puttable, and if the terms of the issued debt agreement differ from the backing funding agreement. The disclosure captures information on the maturity distribution of the funding agreements that back SPV issuances, including whether the funding agreement has a fixed or floating rate. Lastly, as the SPV could issue debt instruments backed by a non-US currency, the disclosure proposes to capture info on currency denominations and whether the foreign currency exposure is hedged.

**Existing Authoritative Literature:**

*SSAP No. 52—Deposit-Type Contracts* provides guidance for all contracts classified as deposit-type contracts as they do not subject the reporting entity to any risks arising from policyholder mortality or morbidity.

Although issued funding agreements are captured in scope of SSAP No. 52 for accounting and reporting, there are no disclosures on whether the issued funding agreements back debt issuances from SPVs.

**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):** This agenda items responds to a referral and proposed disclosures received from the Macroprudential (E) Working Group on Feb. 17, 2026.

**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 receive the Macroprudential (E) Working Group referral, move this item to the active listing categorized as a SAP clarification and expose proposed revisions to *SSAP No. 52—Deposit Type Contracts* to incorporate the recommended disclosures pursuant to the Macroprudential (E) Working Group referral as well as to add details of the different structures into a glossary for *SSAP No. 52*. Further, due to the collateral pledged under FABR and FABL arrangements, the SAP staff has proposed an additional disclosure to capture the collateral pledged under the agreements. This revision is shown shaded to highlight the change from the referral. The Macroprudential (E) Working Group is also sponsoring a blanks proposal to incorporate the reporting revisions. The intent is for the disclosures to be effective for year-end 2026.

#### Proposed Revisions to *SSAP No. 52—Deposit-Type Contracts*:

Disclosures are captured in paragraphs 18-23. The new disclosures are proposed to be included after the FHLB agreement disclosure (after paragraph 21) and before the retained asset disclosure. The remaining *SSAP* paragraphs will be renumbered according.

22. For FHLB agreements accounted for under this statement, include information for the FHLB funding agreements with other reporting and disclosure requirements for deposit-type contracts under this statement and complete additional disclosure requirements in *SSAP No. 30—Unaffiliated Common Stock*, paragraph 20.

23. Each reporting entity shall disclose information on funding agreements issued by such reporting entity that support funding agreement backed SPV Issuances. (This disclosure is required for all known instances, even in situations in which the SPV was not sponsored or formed by the reporting entity and when the relevant SPV is bankruptcy remote from the reporting entity.) The balance of funding agreements supporting funding agreement backed SPV issuances shall be reported before reinsurance.

a. Balance of funding agreements per type of issuance, per type of issuance where the transaction contains a put feature or embedded option<sup>1</sup>, ~~and~~ per type of issuance where the terms of the SPV Issuance differ from the terms of the corresponding funding agreement<sup>2</sup>, and the BACV amount of collateral pledged by the reporting entity by type of transaction:

- i. Funding Agreement Backed Notes (FABN)
- ii. Funding Agreement Backed Commercial Paper (FABCP)
- iii. Funding Agreement Backed Repurchase Agreements (FABR)
- iv. Funding Agreement Backed Loans (FABL)
- v. Funding Agreements Issued into Muni Prepay Structures
- vi. Other Funding Agreements Backing SPV Issuances (Other)

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<sup>1</sup> As used herein, a funding agreement is “Puttable” or contains a “put feature or embedded option” if such funding agreement contains a provision that allows a contract holder to withdraw from their account value at [book value] at any time, without being tied to a specific triggering event; under such provision, the insurer has no contractual alternatives to paying out at [book value].

<sup>2</sup> Instances in which the terms of the funding agreement are designed to be different from the SPV issuances should be reported as an Amount with Different Terms (even in instances where the SPV is not sponsored or formed by the reporting entity such as funding agreements issued into muni prepay structures).

- b. For instances in which the SPV is sponsored or formed by the reporting entity and the terms (e.g., principal, interest rate, maturity, rating, or currency) of a funding agreement differ from the terms of the corresponding SPV Issuance, include a narrative description identifying the different terms. For example, if the funding agreement matures in 3 years, but the FABL matures in 3 months, instances of different interest rates, etc. For FABCP, reporting entities shall identify instances in which the terms of the SPV issuance do not match the terms of the deposit made under an FABCP master funding agreement. This disclosure is not required for funding agreements backed by muni prepay structures as the terms of the funding agreement are designed to be different from the SPV issuances.
- c. Disclose the maturity distribution of funding agreements backing SPV Issuances, separately identifying the funding agreements issues as fixed or floating interest rate prior to execution of any interest rate swaps.
- d. For SPV issuances backed by funding agreements issued in a non-US currency, disclose the currency denominations and whether all foreign currency exposure related to each currency denomination is hedged.

Proposed Glossary to SSAP No. 52:

- Funding Agreement Backed Note: Funding agreement backed notes (FABNs) are notes or bonds issued by bankruptcy-remote special-purpose vehicles (SPVs) that are secured by funding agreements (FAs) issued by the sponsoring insurance company to the SPV. The insurance company pays principal and interest under the terms of the FA to the SPV, which the SPV uses to pay principal and interest on the FABN.
- Funding Agreement-Backed Commercial Paper: Under funding agreement-backed commercial paper (FABCP) structures, the insurer issues a master funding agreement to an SPV. The assets backing the master funding agreement consist of commercial paper with maturities of 360 days or less that are purchased by the insurer with the FABCP investors' cash proceeds. The principal and interest payments on FABCPs are generally structured to align with the dollar amount of commercial paper backing the transaction. However, the insurer may not always be able to fully invest the proceeds due to the short maturities and frequent rollovers of commercial paper, which can create a duration mismatch. The short-term nature and high liquidity of the underlying commercial paper partially mitigate this ALM mismatch.
- Funding Agreement-Backed Repurchase Agreements: In a funding agreement-backed repurchase (FABR) agreement transaction, an SPV purchases a funding agreement issued by an insurer and then uses that funding agreement to enter into a repurchase agreement (repo) with a bank counterparty. In addition, the insurer pledges collateral into an account controlled by the SPV to support the repurchase transaction. The bank counterparty may rehypothecate, or repledge, all or a portion of the collateral pool. This FABN structure expands repurchase capacity and balance sheet flexibility for the insurer while reducing the bank counterparty's regulatory capital charge.
- Funding Agreement-Backed Loans: Funding agreement-backed loan (FABL) structures work similarly to FABNs, except the SPV is established by the bank counterparty, not the insurer. Another key difference from FABNs is that the FABL SPV enters into a loan directly with a bank instead of issuing notes. Effectively, though, the cash flows of the loan and notes operate similarly. Additionally, with FABLs, the insurer pledges securities to a collateral account, for which the bank counterparty has a security interest pursuant to an account control agreement.

- Funding Agreement-Backed Municipal Pre-Pay/Energy Bonds: Funding agreement-backed municipal gas and electric prepayment bonds (FABMBs) are a specialized segment of the municipal bond market that allows municipalities to secure a long-term, discounted supply of energy from a utility company. The municipality issues a tax-exempt bond to investors and uses the proceeds to prepay for typically 20 to 30 years of energy delivery. The SPV is a single-purpose entity whose sole purpose is to execute the prepayment with the commodity supplier, which is typically the commodity trading entity of an investment bank. The insurer's funding agreement provides interest payments on the bonds until such payments are recouped from consumers paying their utility bills.

The following illustrates the Macroprudential (E) Working Group's sponsored blanks proposal to capture the new disclosure information with the additional collateral pledged component. This is included for information purposes. Comments to the SAPWG should focus on the disclosure concepts. Comments on the format on the blanks proposal shall be directed to the Blanks (E) Working Group.

## Note 11 - Debt

### Note 11D – Instruction:

D. Disclose information on funding agreements issued by such reporting entity that support funding agreement backed special purpose vehicle (SPV) issuances. (This disclosure is required for all known instances, even in situations in which the SPV was not sponsored for formed by the reporting entity and when the relevant SPV is bankruptcy remote from the reporting entity.) The balance of funding agreements supporting funding agreement backed SPV issuances shall be reported before reinsurance.

(1) Balance of funding agreements (A) per type of issuance, (B) per type of issuance where the transaction contains a put feature or embedded option, and (C) per type of issuance where the terms of the SPV issuance differ from the terms of the corresponding funding agreement:

- Funding Agreement Backed Notes (FABN)
- Funding Agreement Backed Commercial Paper (FABCP)
- Funding Agreement Backed Repurchase Agreements (FABR)
- Funding Agreement Backed Loans (FABL)
- Funding Agreements Issued into Muni Prepay Structures
- Other Funding Agreements Backing SPV Issuances (Other)

- (2) Please provide a narrative description for instances in which the SPV is sponsored or formed by the reporting entity and the terms (e.g., principal, interest rate, maturity, rating, or currency) of a funding agreement differ from the terms of the corresponding SPV issuance, identifying the different terms. (For example, if the funding agreement matures in 3 years, but the FABL matures in 3 months, instances of different interest rates, etc.)
- With respect to FABCP, please respond to this question by identifying instances in which the terms of an SPV issuance do not match the terms of a deposit made under an FABCP master funding agreement.
  - With respect to funding agreements issued into muni prepay structures, no response is necessary given that the terms of the funding agreement are designed to be different from the SPV issuances.
- (3) Disclose the maturity distribution of funding agreements backing SPV issuances, separately identifying the funding agreements issues as fixed or floating interest rate prior to execution of any interest rate swaps. (The total reported should agree to the total reported for disclosure 11D(1)).
- (4) Identify if the SPV issuances backed by funding agreements are issued in a non-U.S. currency. If so, disclose the currency denominations and whether all foreign currency exposure related to each currency denomination is hedged.
- (5) Is all foreign currency exposure related to funding agreements backing SPV issuances hedged via derivatives, asset matching, or otherwise mitigated? If not, please explain.

**Note 11B – Illustration:**

- D. Funding agreements issued by such reporting entity that support funding agreement backed special purpose vehicle (SPV) issuances:

(1) Funding agreements Backing SPV Issuances

	<u>1</u> <u>Total</u> <u>Amount</u>	<u>2</u> <u>Amount</u> <u>Puttable*</u>	<u>3</u> <u>Amount with</u> <u>Different Terms**</u>	<u>4</u> <u>BACV of Collateral</u> <u>Pledged by</u> <u>Reporting Entity</u>
a. <u>Funding Agreement Backed Notes (FABN)</u>	\$.....	\$.....	\$.....	\$.....
b. <u>Funding Agreement Backed Commercial Paper (FABCP)</u>	\$.....	\$.....	\$.....	\$.....
c. <u>Funding Agreement Backed Repurchase Agreements (FABR)</u>	\$.....	\$.....	\$.....	\$.....
d. <u>Funding Agreement Backed Loans (FABL)</u>	\$.....	\$.....	\$.....	\$.....
e. <u>Funding Agreements Issued into Muni Prepay Structures</u>	\$.....	\$.....	\$.....	\$.....
f. <u>Other Funding Agreements Backing SPV Issuances (Other)</u>	\$.....	\$.....	\$.....	\$.....
g. <u>Total (a+b+c+d+e+f)</u>	\$.....	\$.....	\$.....	\$.....

Life Filers - 11D(1)g Column 1 should equal Exhibit 7 Footnote (b) Line 1

\* As used herein, a funding agreement is "Puttable" or contains a "put feature or embedded option" if such funding agreement contains a provision that allows a contract holder to withdraw from their account value at (book value) at any time, without being tied to a specific triggering event; under such provision, the insurer has no contractual alternatives to paying out at book value.

\*\* Instances in which the terms of the funding agreement are designed to be different from the SPV issuances should be reported as an Amount with Different Terms (even in instances where the SPV is not sponsored or formed by the reporting entity such as funding agreements issued into muni prepay structures).

(3) Maturity Distribution of Funding Agreements Backing SPV Issuances

	<u>1</u> <u>Fixed Rate</u>	<u>2</u> <u>Floating Rate</u>	<u>3</u> <u>Total*</u>
a. <u>1 year of Less</u>	\$.....	\$.....	\$.....
b. <u>After 1 year through 5 years</u>	\$.....	\$.....	\$.....
c. <u>After 5 years through 10 years</u>	\$.....	\$.....	\$.....
d. <u>After 10 years through 20 years</u>	\$.....	\$.....	\$.....
e. <u>Over 20 years</u>	\$.....	\$.....	\$.....
f. <u>Total (a+b+c+d+e)</u>	\$.....	\$.....	\$.....

11D(3)f Column 3 should equal 11D(1)g Column 1

\* Total should reflect the balance of all funding agreements backing SPV issuances reported as Deposit-Type Contracts. Include zero coupon funding agreements in the fixed rate column.

(4) Funding Agreements (FA) Backing SPV Issuances in currency denominations.

	Funding Agreements Backing SPV Issuances (in USD)
a. Year-End FA Balance (USD)	\$.....
b. Amount of FA Backing SPV Issuances in Foreign Currency:	
1. AUD	\$.....
2. CAD	\$.....
3. CHF	\$.....
4. EUR	\$.....
5. GBP	\$.....
6. Other	\$.....
7. Total Foreign Currency (1+2+3+4+5+6+7)	\$.....
c. Total FA Backing SPV Issuances (a+b7)	\$.....

11D(4)c should equal 11D(1)g Column 1

**Exhibit 7 – Deposit Type Contracts**

The following is also proposed to be captured as a new footnote on Exhibit 7:

<u>(b) Funding agreements that back special purpose vehicle (SPV) issuances:</u>	
1. Total across all categories .....	\$.....
2. Of the total, funding agreements that support funding agreement backed SPV issuances whereby the funding agreement contains a put feature or embedded option	\$.....

**Staff Review Completed by:** Julie Gann, February 2026.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/Maintenance/Active Form A's/26-XX - FABN Disclosure.docx>

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

**Issue: Valuation of Funds Withheld Liability**

**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 inconsistent guidance regarding the valuation of the liability for funds withheld in a life or health reinsurance agreement. Funds withheld assets are often held by the ceding entity as reinsurance collateral to mitigate credit exposure (with all types of reinsurers) and/or to secure credit for reinsurance on amounts ceded to unauthorized or certified reinsurers. Pursuant to the *Credit for Reinsurance Model Law (#785)* funds withheld can be used as acceptable collateral to secure reinsurance credit with a variety of reinsurance contract types.

In a funds withheld reinsurance contract, the ceding entity withholds assets for collateral that would otherwise be paid to the reinsurer, in addition, the reinsurer may also provide additional collateral if needed. If the reinsurer provides additional collateral it is typically referred to as funds deposited by the reinsurer. Because the funds withheld or deposited by the reinsurer are payable under the reinsurance contract to the assuming reinsurer, the ceding entity reports a liability for the funds withheld. The identified inconsistent guidance is related to the liability for the funds withheld reported by the ceding entity.

**Reporting - Assets** - The assets withheld from the reinsurer are reported in the investment schedules of the ceding entity at their statutory book adjusted carrying value in accordance with the applicable statements of statutory accounting principles (SSAPs).

**Reporting - Liabilities** - The ceding entity records a liability for funds withheld on different lines based on the reinsurer’s classification as authorized; or unauthorized /certified under the requirements of Model #785.

- Liability line **24.03 – Funds Held Under Reinsurance Treaties with Unauthorized and Certified Reinsurers**. The instructions for Line 24.03 reference specific columns of Schedule S Reinsurance - Part 4 reinsurance ceded to unauthorized companies - (Column 12 (Funds Withheld) and Column 13 (Other)) and Part 5 reinsurance ceded to certified reinsurers (Column 20 (Funds Withheld) and Column 21 (Other)) that should equal the amount in Line 24.03.
- If the reinsurer is **authorized** the ceding entity records a liability for funds withheld on the liabilities line **24.07 – Funds Held Under Coinsurance**. The instructions for this line indicate to “Report the amount of funds withheld from reinsurers under coinsurance treaties other than amounts reported on Line 24.03.” The instructions for Line 24.07 do not reference Schedule S, although Schedule S, Part 3 (reinsurance ceded) also includes Funds Withheld Under Coinsurance for all reinsurer types in column 15 (for Section 1), and column 14 (for Section 2).

The annual statement instructions do not reference an accounting basis for the funds withheld liability except for Schedule S – Part 4, column 12 and Part 5, column 20 which both have the same instructions indicating that securities held on deposit or held in a trust fund should be valued at fair market value:

**Funds Deposited By and Withheld From Reinsurers (bolding and underline added for emphasis):**

Where permissible to be taken as credit against the loss and reserve liabilities in Column 8, amounts deposited by the reinsurer with or for the reporting insurance company, letters of credit, and trust agreements. **Securities held on deposit or held in a trust fund should be valued at fair market value.**

NAIC-published market values must be used when available. Letters of credit and trust agreements are not to be included in assets or liabilities on Pages 2 or 3 or supporting pages and exhibits.

The Schedule S – Part 4, column 12 heading references funds deposited by and withheld from reinsurers. It is not clear whether this reference contemplates that funds deposited and funds withheld are two separate types of arrangements or one and the same. The instruction does not help provide clarity as it references “Securities held on deposit” but not funds withheld and further adds letters of credit and trust agreements despite there being separate columns for both in Columns 9 and 11 though there are no instructions for either column. The instruction is explicit that securities held on deposit or held in a trust fund are to be valued at fair value, but it is not clear whether funds withheld are intended to be included at fair value.

*SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* and Model #785 both discuss funds withheld from reinsurers and funds deposited by reinsurers. Depending on certain factors in a reinsurance agreement, the funds withheld by the ceding entity are not always adequate to meet the collateral requirements and it is sometimes necessary for the reinsurer to provide extra funds to meet their contractual collateral requirements. Model #785 is not explicit on the valuation of funds withheld; however it is explicit that the adequacy of collateral held in trust are measured using the fair value of the assets in trust.

Presuming the intention is for funds withheld to be covered by “securities held on deposit,” then that would indicate that funds withheld for unauthorized and certified reinsurers should be valued at fair value, which would flow to Line 24.03 on the liabilities page. However, multiple parties have indicated that they believe the liability is calculated based on the asset book value, prompting this review.

The instructions for all other types of reinsures reported on Line 24.07 simply says to “Report the amount of funds withheld from reinsurers under coinsurance treaties other than amounts reported on Line 24.03.” It would be reasonable to presume that when determining the “amount” of funds withheld, that it would represent the amount of the funds as reported on the asset side of the balance sheet, which would be statutory book value. However, that could result in a different basis of accounting for funds withheld based on reinsurer type, depending on how one interprets the instruction for Schedule S – Part 4 and Part 5.

The Schedule S Parts 4 and 5 collateral columns for funds withheld, letters of credit and funds in trust play an important role in determining if total collateral for unauthorized and certified reinsurers is adequate under Model #785 to allow credit for reinsurance. If the collateral is insufficient, a liability is reported on line 24.02 – Reinsurance in Unauthorized and Certified Reinsurers. To the extent the annual statement instructions are clarified for the valuation of funds withheld it affects amounts used in the calculation of this liability.

Further support for the presumption that funds withheld is intended to be reported at the same basis as the asset side of the balance sheet (statutory book value), is the mismatched accounting that would occur otherwise. If the funds withheld liability were to be reported at fair value while the assets remain at book value, it would result in

the counterintuitive result that anytime the fair value of the collateral increases, increasing the liability but leaving the assets unchanged, the ceding company would take a hit to surplus, despite the value of their collateral having increased.

**Existing Authoritative Literature:**

**Life, Accident & Health/Fraternal Annual Statement Instructions:**

**Liabilities**

**Line 24.02 – Reinsurance in Unauthorized and Certified Companies**

Total net amount from Schedule S, Part 4 (Column 8 minus Column 15) plus Schedule S, Part 5 (Column 26 x 1000).

**Line 24.03 – Funds Held Under Reinsurance Treaties with Unauthorized and Certified Reinsurers**

Total amount from Schedule S, Part 4 (Columns 12 and 13) plus Schedule S, Part 5 [(Columns 20 and 21) x 1000], (other than amounts of credit or trust agreements included therein)] to the extent that such funds were included as a part of the total assets on Page 2 of the statement and were not offset by a directly related credit offset on Page 2.

**Line 24.07 – Funds Held Under Coinsurance**

Report the amount of funds withheld from reinsurers under coinsurance treaties other than amounts reported on Line 24.03.

**Schedule S**

**Schedule S, Part 3 Section 1 - Column 15 – Funds Withheld Under Coinsurance**

Report the amount of funds withheld on coinsurance contracts.

**Schedule S, Part 3 Section 2 - Column 14 – Funds Withheld Under Coinsurance**

Report the amount of funds withheld on coinsurance contracts.

**Schedule S, Part 4 – Reinsurance Ceded to Unauthorized Companies**

Column 12 – Funds Deposited By and Withheld From Reinsurers

Include: Where permissible to be taken as credit against the loss and reserve liabilities in Column 8, amounts deposited by the reinsurer with or for the reporting insurance company, letters of credit, and trust agreements. Securities held on deposit or held in a trust fund should be valued at fair market value.

NAIC-published market values must be used when available. Letters of credit and trust agreements are not to be included in assets or liabilities on Pages 2 or 3 or supporting pages and exhibits.

Column 13 – Other

*(Drafting Note - no instructions are provided for this column)*

**Schedule S, Part 5 – Reinsurance Ceded to Certified Reinsurers**

Column 20 – Funds Deposited by and Withheld from Reinsurers

Include: Where permissible to be taken as credit against the loss and reserve liabilities in Column 14, amounts deposited by the reinsurer with or for the reporting insurance company, letters of credit and trust agreements. Securities held on deposit or held in a trust fund should be valued at fair market value.

NAIC-published market values must be used when available. Letters of credit and trust agreements are not to be included in assets or liabilities on Pages 2 or 3 or supporting pages and exhibits.

Column 21 – Other

Report other acceptable security held by or on behalf of the reporting company.

**SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance  
Accounting and Reporting of Reinsurance**

21. The obligation of reporting reinsurance in force and of determining unpaid premiums and incurred claims and other balances is generally on the ceding entity because it knows the current status of the policies it has written directly and reinsured. A lag will develop between the time of the entry of the underlying policy transaction on the books of the ceding entity and the transmittal of information and its entry on the books of the assuming entity. The assuming entity shall estimate any material unreported premiums and related costs.

22. The ceding entity must report these items in its balance sheet:

- a. Credits (deductions) to its policy and claim reserves and unpaid claims;
- b. Premiums or other amounts payable on reinsured risks;
- c. Amounts recoverable on claims, surrender values, dividends, experience rating refunds, taxes, commissions, and other expenses;
- d. Modified coinsurance reserves; and
- e. Amounts receivable or payable for funds withheld.

23. Similarly, in its balance sheet, the assuming entity must report:

- a. Reserves for reinsurance assumed reduced by any modified coinsurance reserves;

- b. Reinsurance premiums receivable or other amounts receivable;
  - c. Amounts payable for claims, surrender values, dividends, experience rating refunds, taxes, commissions, and other expenses; and
  - d. Amounts receivable or payable for funds withheld by the ceding entity.
24. While the premiums, commissions, expense allowances, reserves, claims, etc. will result in a net amount, the proper way to report them is in their separate classifications on the balance sheet. Each reinsurance agreement must be accounted for separately. Certain assets and liabilities are created by entities when they engage in reinsurance contracts. Reinsurance assets meet the definition of assets as defined by *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted to the extent they conform to the requirements of this statement.

### Accounting for Coinsurance With Funds Withheld Arrangements

40. The following accounting applies to coinsurance arrangements with funds withheld:
- a. Ceding Entity—Premiums paid or payable to the reinsurer net of any experience refunds shall reduce premium income. Policy benefit payments paid by the reinsurer shall reduce the ceding entity’s reported policy benefits. Expense allowances paid by the reinsurer shall be reported separately in the summary of operations as they are earned. A net reduction to policy reserves shall be taken for the portion of the obligation assumed by the reinsurer. Any amounts withheld by the ceding entity shall be recorded as a separate liability. Reporting entities filing the annual statement for life and accident and health insurers shall record any interest due or payable on the amounts withheld as a component of aggregate write-ins for miscellaneous deductions. Reporting entities filing the health annual statement shall record any interest due or payable on the amounts withheld as a component of aggregate write-ins for other income or expense.
  - b. Assuming Entity (Reinsurer)—Premiums received or receivable by the reinsurer net of any experience refunds shall increase premium income and policy benefit payments paid by the reinsurer shall increase the reported policy benefits. Expense allowances paid by the reinsurer shall be reported separately in the summary of operations when payable. The reinsurer shall record its share of the statutory policy reserves attributable to the business identified in the contract. Any funds withheld by the ceding entity shall be recorded as an accounts receivable. For reporting entities filing the annual statement for life and accident and health insurers shall record any interest earned or receivable on the funds withheld as a component of aggregate write-ins for miscellaneous income. Reporting entities filing the health annual statement shall record any interest earned or receivable on the funds withheld as a component of aggregate write-ins for other income or expense.
44. Credit for reinsurance ceded to a certified reinsurer is permitted if security is held by or on behalf of the ceding entity in accordance with the certified reinsurer’s rating assigned by the domestic state of the ceding insurance entity, and in accordance with requirements of Appendix A-785 of this manual. **Such deposits are to be held under the control of the ceding entity. Additionally, any securities held under such an arrangement must be investments that the ceding entity is allowed to make under the provision of the investment sections of the insurance statutes of its domiciliary state. Other permissible arrangements include irrevocable trusts or “clean” letters of credit.**

50. If the reinsurer is not authorized, otherwise approved or certified to do business, the reinsurance is considered to be unauthorized. A liability is established to offset credit taken in various balance sheet accounts for reinsurance ceded to unauthorized reinsurers. **Credit for reinsurance with unauthorized companies shall be permitted if the ceding entity holds securities or cash of the assuming entity equal to the reserve credit taken. Such deposits are to be held under the control of the ceding entity. Additionally, any securities held under such an arrangement must be investments that the ceding entity is allowed to make under the provision of the investment sections of the insurance statutes. Other permissible arrangements include irrevocable trusts or “clean” letters of credit. If the assuming entity is not licensed or is not an authorized reinsurer in the domiciliary state of the ceding entity or if the reinsurance does not meet required standards, the ceding entity must set up a net liability equal to the following:**

- a. Reserve credits taken including any IMR liability adjustment; plus
- b. Claim liability credits taken on paid and unpaid (in course of settlement) claims recoverable; plus
- c. Other asset increases or liability reductions resulting from amounts recoverable from the assuming entity including commissions, expense allowances, modified coinsurance reserve adjustments, experience rating refunds, and estimated incurred but not reported claim liabilities; less
- d. Deposits by or funds withheld from the reinsurer, as provided for in the reinsurance treaty and in compliance with the security requirements of Appendix A-785, pledged as security for the payment of reinsurance obligations. Such deposits or funds are typically held by the ceding entity or are placed in a trust or custodial account. Amounts placed in trust or custodial accounts are held subject to withdrawal by, and under the control of, the ceding entity; less
- e. Amounts of reinsurance recoverables covered by a clean, irrevocable letter of credit issued by a qualified U.S. financial institution as defined in Appendix A-785; less
- f. Amounts contractually due the assuming entity.

The net liability defined in paragraph 50 shall never be less than zero for any particular reinsurer. The change in liability for unauthorized reinsurance is a direct charge or credit to surplus.

#### **Funds Held Under Reinsurance Treaties with Unauthorized Reinsurers or Certified Reinsurers**

53. This liability is established for funds deposited by or contractually withheld from unauthorized reinsurers or certified reinsurers.

68. For each reinsurance agreement with an affiliated captive reinsurer (same definition as paragraph 67), provide the following information in the annual financial statements:

- a. Reserve credit taken by the reporting entity for variable annuities;
- b. The total amount of collateral supporting any reserve credit taken, if applicable;
- c. A description of the nature of the collateral (funds withheld by the reporting entity, assets placed in trust for the benefit of the cedent, letters of credit (LOC), etc.), if applicable as

well as a tabular presentation<sup>1</sup> of the value<sup>2</sup> of all assets held by or on behalf of the captive reinsurer that back the variable annuities liabilities (including capital).

#### Appendix A-785: Credit for Reinsurance

19. An asset or a reduction from liability for the reinsurance ceded by a domestic insurer to an assuming insurer not meeting the requirements under “Credit Allowed a Domestic Ceding Insurer” (paragraphs 7-18) shall be allowed in an amount not exceeding the liabilities carried by the ceding insurer. The reduction shall be in the **amount of funds held by or on behalf of the ceding insurer, including funds held in trust for the ceding insurer, under a reinsurance contract with the assuming insurer as security for the payment of obligations thereunder, if the security is held in the United States subject to withdrawal solely by, and under the exclusive control of, the ceding insurer; or, in the case of a trust, held in a qualified U.S. financial institution**, as defined under “Qualified U.S. Financial Institutions” at paragraph 54. This security may be in the form of:

- a. Cash;
- b. Securities listed by the Securities Valuation Office of the National Association of Insurance Commissioners, including those deemed exempt from filing as defined by the *Purposes and Procedures Manual of the NAIC Securities Valuation Office*, and qualifying as admitted assets;

51. A ceding insurer may take credit for **unencumbered funds withheld by the ceding insurer in the United States subject to withdrawal solely by the ceding insurer and under its exclusive control.**

#### A-791 Life and Health Reinsurance Agreements (Q/ A under paragraph 2g)

**Q – At the time assets are legally segregated under a coinsurance with funds withheld treaty, should they be valued at market value, statutory value, or some combination?**

**A – The assets should be valued at their statutory admitted value.**

**Q – When the assets are legally segregated, how are the funds withheld payables and receivables reported?**

**A – The payables and receivables are recorded in the same manner as in a funds withheld treaty where the assets are not legally segregated and will usually mirror the value of the funds withheld account. However, the funds withheld account, which reflects the statutory admitted value of the assets in the SAP, will fluctuate, and thus may differ from the reserves on the reinsured business.**

**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):** This issue was previously identified, but was also noted in the IMR Ad Hoc group discussions.

<sup>1</sup> List the major asset classes, such as bonds, unconditional LOC’s, conditional LOC’s and LOC-like instruments, parental guarantees, etc. Note which assets would not normally meet the definition of an admitted asset under SSAP No. 4.

<sup>2</sup> Indicate the basis of the valuation of the assets (carrying value, fair value, statutory, etc.).

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 Review Completed by:** Robin Marcotte – NAIC Staff

**Recommendation:**

NAIC staff recommend that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to the instructions for the Life and Health annual statement on schedule S, parts 3, 4 and 5, the liabilities page and SSAP No. 61 to clarify that funds withheld liabilities should be recorded equal to the book adjusted carrying value of the funds withheld assets. In addition, some legacy annual statement instructions for Schedule S parts 4 and 5 regarding the use of SVO fair values is proposed for deletion as a clean-up item. Staff recommends that the Reinsurance (E) Task Force be notified of the exposure, with NAIC staff directed to prepare a Blanks proposal for exposure to allow for year-end 2026 adoption consideration

**1. SSAP No. 61**

**Accounting for Coinsurance With Funds Withheld Arrangements**

40. The following accounting applies to coinsurance arrangements with funds withheld:

- a. Ceding Entity—Premiums paid or payable to the reinsurer net of any experience refunds shall reduce premium income. Policy benefit payments paid by the reinsurer shall reduce the ceding entity's reported policy benefits. Expense allowances paid by the reinsurer shall be reported separately in the summary of operations as they are earned. A net reduction to policy reserves shall be taken for the portion of the obligation assumed by the reinsurer. Any amounts withheld by the ceding entity shall be recorded as a separate liability. The liability is based on the book adjusted carrying value of the assets held by the ceding entity to the extent that such funds were included as a part of the total assets and were not offset by a directly related credit on the asset page. Reporting entities filing the annual statement for life and accident and health insurers shall record any interest due or payable on the amounts withheld as a component of aggregate write-ins for miscellaneous deductions. Reporting entities filing the health annual statement shall record any interest due or payable on the amounts withheld as a component of aggregate write-ins for other income or expense.
- b. Assuming Entity (Reinsurer)—Premiums received or receivable by the reinsurer net of any experience refunds shall increase premium income and policy benefit payments paid by the reinsurer shall increase the reported policy benefits. Expense allowances paid by the reinsurer shall be reported separately in the summary of operations when payable. The reinsurer shall record its share of the statutory policy reserves attributable to the business identified in the contract. Any funds withheld by the ceding entity shall be recorded as an accounts receivable. For reporting entities filing the annual statement for life and accident and health insurers shall record any interest earned or receivable on the funds withheld as a component of aggregate write-ins for miscellaneous income. Reporting entities filing the health annual statement shall record any interest earned or receivable on the funds withheld as a component of aggregate write-ins for other income or expense.

### Funds Held Under Reinsurance Treaties with Unauthorized Reinsurers or Certified Reinsurers

53. This liability is established for funds deposited by or contractually withheld from unauthorized reinsurers or certified reinsurers. The liability is based on the book adjusted carrying value of the assets held by the ceding entity to the extent that such funds were included as a part of the total assets and were not offset by a directly related credit on the asset page.

## 2. Update the life, accident & health/fraternal annual statement instructions for the

- a. **Liability line 24.03 Funds Held Under Reinsurance Treaties with Unauthorized and Certified Reinsurers** to add reference the use of BACV as follows:

Report the total ~~Total amount from~~ book adjusted carrying value of the funds withheld assets for unauthorized and certified reinsurers. This should match Schedule S, Part 4 (Columns 12 and 13) plus Schedule S, Part 5 [(Columns 20 and 21) x 1000], (other than amounts of credit or trust agreements included therein)] to the extent that such funds were included as a part of the total assets on Page 2 of the statement and were not offset by a directly related credit offset on Page 2.

- b. **Liabilities line 24.07 – Funds Held Under Coinsurance** to add reference the use of BACV as and add cross checks to the funds withheld columns in Schedule S Part 3 Section 1 and Section 2.

Report the amount of funds withheld from reinsurers under coinsurance treaties other than amounts reported on Line 24.03. The total amount of the book adjusted carrying of the funds withheld assets (for amounts not related to unauthorized or certified reinsurers) should match Schedule S, Part 3, Section 1 (Column 15) plus Schedule S, Part 3, Section 2 (Column 14) x 1000 (other than amounts of credit or trust agreements included therein)] to the extent that such funds were included as a part of the total assets on Page 2 of the statement and were not offset by a directly related credit on Page 2.

## 3. Schedule S, Part 3 Section 1 - Column 15 – Funds Withheld Under Coinsurance

Report the book adjusted carrying value of the amount of funds withheld on coinsurance contracts.

## 4. Schedule S, Part 3 Section 2 - Column 14 – Funds Withheld Under Coinsurance

Report the book adjusted carrying value of the amount of funds withheld on coinsurance contracts.

## 5. Schedule S, Part 4 – Reinsurance Ceded to Unauthorized Companies

Column 12 – Funds Deposited By and Withheld From Reinsurers

Include: Where permissible to be taken as credit against the loss and reserve liabilities in Column 8, amounts deposited by the reinsurer with or for the reporting insurance company, letters of credit, and trust agreements. Securities withheld from the

reinsurer or held on deposit should be valued at the book adjusted carrying value of the funds held by the ceding entity. ~~Funds~~ ~~or~~ held in a trust fund should be valued at fair ~~market~~ value.

~~NAIC published market values must be used when available.~~ Letters of credit and trust agreements are not to be included in assets or liabilities on Pages 2 or 3 or supporting pages and exhibits.

### Schedule S, Part 5 – Reinsurance Ceded to Certified Reinsurers

#### Column 20 – Funds Deposited by and Withheld from Reinsurers

Include: Where permissible to be taken as credit against the loss and reserve liabilities in Column 14, amounts deposited by the reinsurer with or for the reporting insurance company, letters of credit, and trust agreements. Securities withheld from the reinsurer or held on deposit should be valued at the book adjusted carrying value of the funds held by the ceding entity. ~~Funds~~ ~~or~~ held in a trust fund should be valued at fair ~~market~~ value.

~~NAIC published market values must be used when available.~~ Letters of credit and trust agreements are not to be included in assets or liabilities on Pages 2 or 3 or supporting pages and exhibits.

**NAIC Accounting Practices and Procedures Manual  
Editorial and Maintenance Update  
2026 Spring National Meeting**

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. 15 SSAP No. 52	<p><b><i>SSAP No. 15—Debt and Holding Company Obligations</i></b> <b><i>SSAP No. 52—Deposit-Type Contracts</i></b></p> <p>Delete the word “Funding” at the beginning of the paragraph that describes FHLB agreements. Only FHLB agreements that are deposit-type contracts shall be captured as “funding agreements.” This has caused confusion with reporting. As noted in both paragraphs, agreements in debt form are captured in SSAP No. 15.</p>
Various	<p><b><i>Revise “CUSIP” to “Security Identifier”</i></b></p> <p>As investments are reported using other indicators besides a CUSIP (e.g., CINS, PPN, ISIN, etc.), an initiative is to replace terminology to reflect “Security Identifier” to reflect all possible sources.</p>
Various	<p>Revisions to add “U.S.” before generally accepted accounting principles or GAAP as appropriate.</p>

**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. 15—Debt and Holding Company Obligations and SSAP No. 52—Deposit-Type Contracts:**

Delete the word “funding” at the beginning of the paragraph. Only FHLB agreements that are deposit-type contracts shall be captured as “funding agreements.”

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

19. ~~Funding~~ Agreements issued to a federal home loan bank (FHLB) shall be evaluated on an individual basis, and shall be accounted for according to the substance of the individual arrangement and entity licensing. If the arrangement is in substance a funding agreement, including that the funds are used in an investment spread capacity, it shall be accounted for consistent with other funding agreements in accordance with *SSAP No. 52—Deposit-Type Contracts*. If the arrangement is in substance a borrowing agreement, it shall be accounted for in accordance with this statement, consistent with other borrowed money.

**SSAP No. 52—Deposit-Type Contracts:**

17. ~~Funding a~~Agreements issued to a Federal Home Loan Bank (FHLB) shall be evaluated on an individual basis and shall be accounted for according to the substance of the individual arrangement and entity licensing. If the arrangement is in substance a funding agreement, including that the funds are used in an investment spread capacity, it shall be accounted for consistent with other funding agreements in accordance with this statement. If the arrangement is in substance a borrowing agreement, it shall be accounted for in accordance with *SSAP No. 15—Debt and Holding Company Obligations*, consistent with other borrowed money.

2. **Various SSAP Reference to Replace CUSIP with Security Identifier:**

***SSAP No. 21—Other Admitted Assets: Paragraph 27n***

27n. For securities sold, redeemed, or otherwise disposed as a result of a callable feature (including make whole call provisions), disclose the number of ~~investments~~CUSIPs sold ~~(by Security Identifier)~~, disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee.

***SSAP No. 26—Bonds: Paragraphs 35b & 35c, 40l, footnote 23, and Exhibit B Table Header:***

35b. Designated use of a systematic value is an irrevocable election per qualifying investment (by ~~Security Identifier~~CUSIP) at the time investment is originally acquired<sup>19</sup>. Investments owned prior to being identified by the SVO as a qualifying SSAP No. 26 investment are permitted to be subsequently designated to the systematic value measurement method. This designation shall be applied as a change in accounting principle pursuant to SSAP No. 3—Accounting Changes and Corrections of Errors, which requires the reporting entity to recognize a cumulative effect to adjust capital and surplus as if the systematic value measurement method had been applied retroactively for all prior periods in which the investment was held. The election to use systematic value for investments shall be made before the yearend reporting of the investment in the year in which the SVO first identifies the investment as a qualifying SSAP No. 26 investment.

35c. Once designated for a particular investment, the systematic value measurement method must be retained as long as the qualifying investment is held by the reporting entity and the investment remains within the scope of this statement with an allowable NAIC designation per paragraph 35.a. Upon a full sale/disposal of an SVO-identified investment (elimination of the entire ~~CUSIP~~ ~~Security Identifier~~ investment), after 90 days the reporting entity can reacquire the SVO-identified investment and designate a different measurement method. If the reporting entity was to reacquire the same investment within 90 days after it was sold/disposed, the reporting entity must utilize the measurement method previously designated for the investment. Subsequent/additional purchases of the same SVO-identified investment (same ~~CUSIP~~~~Security Identifier~~) already held by a reporting entity must follow the election previously made by the reporting entity. If an investment no longer qualifies for a systematic value measurement because the NAIC designation has declined, then the security must be subsequently reported at the lower of “systematic value” or fair value. If the security has been removed from the SVO-identified listings, and is no longer in scope of this statement, then the security shall be measured and reported in accordance with the applicable SSAP.

40l For securities sold, redeemed or otherwise disposed as a result of a call or tender offer feature (including make-whole call provisions), disclose the number of ~~investments~~CUSIPs sold ~~(by Security Identifier)~~, disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee;

Footnote 23: The guidance in this statement allows different measurement methods by qualifying investment ([by Security Identifier CUSIP](#)), but it is anticipated that companies will generally utilize a consistent approach for all qualifying investments.

Exhibit B Table Header:

<a href="#">CUSIP Security Identifier</a>	ASOF_DATE	CALL_TYPE	CASHFLOW_DATE	INTEREST	PRINCIPAL	CASHFLOW
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**SSAP No. 34—Investment Income Due and Accrued: Footnote 1**

Footnote 1: In disclosing the cumulative amount of PIK interest, identify the specific amounts of PIK interest by lot and aggregate the amounts by [CUSIP/PPN Security Identifier](#) that have a net increase to the original par value. The net increase includes PIK interest added to the par value less disposals (i.e., repayments; sales) that are first applied to any PIK interest outstanding. As a practical expedient, an insurer may calculate the cumulative amount of PIK interest on a bond by subtracting the original principal/par value from the current principal/par value, but not less than \$0.

**SSAP No. 43—Asset-Backed Securities: Paragraphs 39a, 40b, 40c, 44d, QA Question 8**

39a. Financial Modeling: Pursuant to the P&P Manual, the NAIC identifies select securities where financial modeling must be used to determine the NAIC designation. For a modeled RMBS/CMBS legacy security, meaning one which closed prior to January 1, 2013, the NAIC designation is based on financial modeling incorporating the insurers’ carrying value. For a modeled RMBS/CMBS non-legacy security, meaning one which closed after December 31, 2012, or modeled CLO, the NAIC designation and NAIC designation category assigned by the NAIC Securities Valuation Office must be used. For those RMBS/CMBS legacy securities that are financially modeled, the insurer must use NAIC [CUSIP Security Identifier](#) specific modeled breakpoints provided by the modelers in determining initial and final designation for these identified securities. As specified in the P&P Manual, a modeled legacy security RMBS or CMBS tranche that has no expected loss, as compiled and published by the NAIC Securities Valuation Office, under any of the selected modeling scenarios would be assigned an NAIC 1 designation and NAIC 1.A designation category regardless of the insurer’s book/adjusted carrying value. The three-step process for modeled RMBS/CMBS legacy securities is as follows:

- i. Step 1: Determine Initial Designation – The current amortized cost (divided by remaining par amount) of an asset-backed security is compared to the modeled breakpoint values assigned to each NAIC designation and NAIC designation category for each [CUSIP Security Identifier](#) to establish the initial NAIC designation.
- ii. Step 2: Determine Carrying Value Method – The carrying value method, either the amortized cost method or the lower of amortized cost or fair value method, is then determined as described in paragraph 11 based upon the initial NAIC designation from Step 1.
- iii. Step 3: Determine Final Designation – The final NAIC designation is determined by comparing the carrying value (divided by remaining par amount) of a security

(based on paragraph 39.a.ii.) to the NAIC ~~CUSIP~~-Security Identifier specific modeled breakpoint values assigned to the NAIC designation and NAIC designation category for each ~~CUSIP~~-Security Identifier or is mapped to an NAIC designation category, according to the instructions in the P&P Manual. This final NAIC designation shall be applicable for statutory accounting and reporting purposes and the NAIC designation category will be used for investment schedule reporting and establishing RBC and AVR charges. The final NAIC designation is not used for establishing the appropriate carrying value method in Step 2 (paragraph 39.a.ii.).

40. For securities that will be financially modeled under paragraph 39, the guidance in this paragraph shall be applied in determining the reporting method for such securities acquired in the current year for quarterly financial statements. Securities reported as of the prior-year end shall continue to be reported under the prior year end methodology for the current year quarterly financial statements. For year-end reporting, securities shall be reported in accordance with paragraph 39, regardless of the quarterly methodology used.
- a. Reporting entities that acquired the entire financial modeling database for the prior-year end are required to follow the financial modeling methodology (paragraph 39.a.) for all securities acquired in the subsequent year that were included in the financial modeling data acquired for the prior year-end.
  - b. Reporting entities that acquired identical securities (identical ~~CUSIP~~Security Identifier) to those held and financially modeled for the prior year-end are required to follow the prior year-end financial modeling methodology (paragraph 39.a.) for these securities acquired subsequent to year-end.
  - c. Reporting entities that do not acquire the prior-year financial modeling information for current-year acquired individual ~~CUSIPs~~investments (by Security Identifier), and are not captured within paragraphs 40.a. or 40.b., are required to follow the analytical procedures for non-financially modeled securities (paragraph 39.b. as appropriate) until the current year financial modeling information becomes available and then follow the procedures for financially modeled securities (paragraph 27, as appropriate). Reporting entities that do acquire the individual investment (by Security Identifier) ~~CUSIP~~-information from the prior-year financial modeling database shall use that information for interim reporting.
  - d. Reporting entities that acquire securities not previously modeled at the prior year-end are required to follow the analytical procedures for non-financially modeled securities (paragraph 39.b. as appropriate) until the current year financial modeling information becomes available and then follow the procedures for financially modeled securities (paragraph 27, as appropriate).
- 44o. For securities sold, redeemed or otherwise disposed as a result of a callable feature (including make whole call provisions), disclose the number of investments~~CUSIPs~~ sold (by Security Identifier), disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee;

QA -Question 8:

**8. Question** – Do ABS purchased in different lots result in a different NAIC designation for the same [CUSIP Security Identifier](#)? Can reporting entities use a weighted average method determined on a legal entity basis?

- 8.1 Under the financial modeling process (applicable to qualifying RMBS/CMBS reviewed by the NAIC Structured Securities Group), the amortized cost of the security impacts the “final” NAIC designation used for reporting and RBC purposes. As such, securities subject to the financial modeling process acquired in different lots can result in a different NAIC designation for the same [CUSIP Security Identifier](#). In accordance with the current instructions for calculating AVR and IMR, reporting entities are required to keep track of the different lots separately, which means reporting the different designations. For reporting purposes, if a SSAP No. 43 security (by [CUSIP Security Identifier](#)) has different NAIC designations by lot, the reporting entity shall either 1) report the aggregate investment with the lowest applicable NAIC designation or 2) report the investment separately by purchase lot on the investment schedule. If reporting separately, the investment may be aggregated by NAIC designation. (For example, all acquisitions of the identical [CUSIP investment \(by Security Identifier\)](#) resulting with an NAIC 1 designation may be aggregated, and all acquisitions of the identical [CUSIP investment \(by Security Identifier\)](#) resulting with an NAIC 3 designation may be aggregated.)

**INT 07-01: Application of the Scientific (Constant Yield) Method in Situations of Reverse Amortization:**  
**Paragraph 14 Example**

14. Parity occurs because the accrual date, usually the last day of the month, is many days prior to the payment date, typically 15, or 25 days for a mortgage backed security, and up to 45, or 55 days (or longer) for a collateralized mortgage obligation. The following is a simplified example using a mortgage backed security. The assumption is that the security is purchased at a slight premium (price = 100.1000). Because of day delay, however, the parity price is not 100, but is approximately 99.90.

[CUSIP Security Identifier](#): 123456-AB-1 (Made up)  
Description: Sample Mortgage Backed Security  
Final payment date: 01/15/2006  
Int Rate: 5.50%  
Day Delay: 44  
CPR: 6%  
Purchase Date: 2/15/2004  
Purchase Price: 100.1000  
Par Purchased: 1,000,000.00  
Annual Yield (SIA) 5.16841%  
Periodic (monthly) Yield 0.43070%  
Interest Rate 5.500%

**INT 19-02: Freddie Mac Single Security Initiative: Paragraph 2b**

- 2b Most elements of the new 55-day security received upon exchange will exactly match those of the PC or Giant being exchanged – most fundamentally, the cash flows of the 55-day security will ultimately be backed by the same loans as the original PC or Giant. Each new 55-day security will mostly have the same characteristics as the corresponding PC such as unpaid principal balance, pool factor, and weighted average coupon. The 55-day security will have a new ~~CUSIP~~Security Identifier, prefix, pool number, and issuance date.

**INT 22-01: Freddie Mac When Issued K-Deal (WI Trust) Certificates: Paragraphs 3f, 8 and 9**

- 3f In the event that the investor elects to exchange the WI Trust certificates to the K-Deal SPCs, the investor receives an equivalent principal amount of the K-Deal SPCs of the same class. Although the investment will have a change in ~~CUSIP~~Security Identifier, any such exchange is not deemed to be a taxable event as described in the respective Offering Circular Supplements for the WI Certificates. As such investors will not recognize a gain or loss on the exchange and investors will be treated as continuing to own the interests that were owned immediately prior to the exchange. Stated differently, any gains or losses on the exchanged WI-Certificates are “rolled into” the investors’ new K-Deal Certificate position.

8. If a reporting entity elects to convert WI Trust SPC securities into K-Deal SPC securities, the guidance in the Annual Statement Instructions, Schedule D, Part 3 and Part 4, shall be followed. Per that guidance, the transition from a WI Trust to a K-Deal shall not be reported as a disposal or acquisition. As the terms and cost basis of the SPC certificates would be identical, and the change would only reflect a ~~CUSIP-number~~Security Identifier change, a disposal and reacquisition shall not be recorded.

9. Excerpt from Annual Statement Instructions, Schedule D, Part 3 and 4:

This schedule should include a detailed listing of all securities that were purchased/acquired during the current reporting year that are still owned as of the end of the current reporting year (amounts purchased and sold during the current reporting year are reported in detail on Schedule D, Part 5, and only in subtotal in Schedule D, Part 3). This should include all transactions that adjust the cost basis of the securities. Thus, it should not be used for allocations of TBAs to specific pools subsequent to initial recording in Schedule D, Part 3, or other situations such as ~~CUSIP-number~~Security Identifier changes.

Statement of Statutory Accounting Principles No. 109

Asset Liability Management (ALM) Derivatives

STATUS

Type of Issue.....	Common Area
Issued.....	xxx xx, 202x
Effective Date.....	January 1, 2027
Affects.....	No other pronouncements
Affected by.....	No other pronouncements
Interpreted by.....	No other pronouncements
Relevant Appendix A Guidance .....	None

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<b>STATUS</b> .....	<b>1</b>
<b>SCOPE OF STATEMENT</b> .....	<b>1</b>
<b>SUMMARY CONCLUSION</b> .....	<b>1</b>
Terms/Concepts (for purposes of this statement).....	2
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SCOPE OF STATEMENT

1. This statement allows special accounting treatment for limited derivatives hedging asset/liability duration differences subject to fluctuations as a result of interest rate sensitivity (referred to as asset liability management (ALM) derivatives). The provisions within this statement are separate and distinct from the guidance in SSAP No. 86—*Derivatives* and SSAP No. 108—*Derivatives Hedging Variable Annuity Guarantees*, as the items subject to the scope of this guidance, and the provisions within, would not qualify for hedge effectiveness under SSAP No. 86 or SSAP No. 108. The provisions provided within this statement are only permitted if all components of the statement are met and shall not be inferred as an acceptable statutory accounting approach for derivative transactions that do not meet the stated qualifications or that are not specifically addressed within this guidance.

SUMMARY CONCLUSION

2. This statement establishes statutory accounting principles to address derivative transactions hedging asset/liability duration differences subject to fluctuations as a result of interest rate sensitivity.

3. The statutory accounting guidance within this statement is considered a special accounting provision, which permits a highly effective derivative distinction different from U.S. GAAP, and allows realized fair value gains and losses from these highly effective hedging transactions to be reported as

deferred liabilities and assets and amortized into net realized gains or losses over time. Consistent with U.S. GAAP, realized losses do not represent assets under *SSAP No. 4—Assets and Nonadmitted Assets*, as they do not reflect a present right to an economic benefit. Also consistent with U.S. GAAP, realized gains do not represent liabilities under *SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets*, as they do not reflect a present obligation to transfer or provide an economic benefit to others. Reporting realized gains as deferred liabilities and realized losses as deferred assets is a statutory concept that reflects an exception to the asset and liability definitions under SSAP Nos. 4 and 5. This treatment is consistent with SSAP No. 86, which allows a basis adjustment to the hedged item when effectiveness criteria is met in order to reflect the impact of the hedge. The treatment is surplus neutral when initially recorded, followed by amortization coinciding with the hedged item.

4. Reporting entities that meet the requirements of this statement are permitted to report the recognized net deferred assets, representing realized fair value losses, as admitted assets. The net deferred liabilities, representing realized fair value gains, shall be recognized as liabilities.

**Note:** Confirm admitted asset treatment with SAPWG. May discuss individual or aggregate limits.

### **Terms/Concepts (for purposes of this statement)**

5. The following terms reflect concepts specific to this statement. This listing only details the key concepts. Specific guidelines are reflected throughout the guidance.

- a. **Derivative Instrument:** An agreement, instrument or series or combination thereof: (1) To make or take delivery of, or assume or relinquish, a specified amount of one or more underlying interests, or to make a cash settlement in lieu thereof; or (2) That has a price, performance, value, or cash flow based primarily upon the actual or expected price, level, performance, value, or cash flow of one or more underlying interests. Derivatives with asymmetrical payoff profiles and/or derivative premiums at inception (e.g., options) are not eligible for the accounting provisions in this standard (i.e., swaps, forwards, and futures are typically eligible for the accounting treatment in this standard if they do not contain these features).
- b. **Dynamic Hedging Approach:** A dynamic hedging strategy allows for the portfolio of derivatives comprising the hedging instrument to be rebalanced in accordance with changes to the hedged item to adhere to the specified, documented hedging strategy.
- c. **Hedged Item:** The hedged item is the duration difference between the designated asset portfolio and designated product liability portfolio that are both exposed to interest rate risk (with the ultimate hedged item being the interest rate sensitivity of the liability portfolio that the assets support). The hedged item may relate to the duration of an open or flexible portfolio (e.g., group of contracts with different characteristics and liability durations) that allows for addition of newly issued contracts, subtraction of surrenders and fluctuations in balances. The portfolio of product liabilities may consist of an entire book of business or declared components thereof<sup>1</sup>.

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<sup>1</sup> Product liability contracts (e.g., PRT's) that have been signed/executed are eligible as the hedged item if highly probable of closing in the near term, include disincentives for non-performance and have historically closed at a near 100% success rate. For example, on January 1, the company signs a PRT contract that it will assume a client's portfolio assets and pension liabilities on March 31. The agreed upon portfolio assets have a different duration than the liabilities, so the company proceeds with hedging the difference on January 1. If the transaction meets the aforementioned probable criteria, the hedge can qualify for the treatment in this statement if it meets the other criteria in this statement, although the portfolio will not be assumed until March 31.

- d. Hedging Instrument: The hedging instrument shall reflect a specified derivative, or a portfolio of specified derivatives, that hedges the duration difference of the designated asset and liability portfolios. The hedging instrument may reflect a dynamic hedging strategy in which a portfolio of derivatives comprising the hedging instrument is rebalanced in accordance with changes to the hedged item.

### Special Accounting Provision

6. The special accounting provision within this statement permits reporting entities to utilize a form of “macro-hedging” in which a portfolio of derivatives hedges the duration difference between an asset portfolio and a portfolio of product liabilities (i.e., an ALM Hedge<sup>2</sup>), which could include the entire book of business or subsections thereof, pursuant to a Clearly Defined Hedging Strategy (throughout this issue paper also referred to as “CDHS” or “hedging strategy”). This is considered a macro-hedge, as the designated hedged item is attached to a portfolio of product liability contracts with different characteristics and liability durations. Under this special accounting provision, the portfolio of contracts giving rise to the hedged item is not required to be static but can be revised to remove assets/derivatives/policies and/or include new assets/derivatives/policies to allow for continuous risk management (hedging) of the product liabilities in accordance with the specific risks being hedged and the hedge objectives of the specified, documented hedging strategy. In designating the hedged item, reporting entities are permitted to exclude specific components of the asset, derivative, and/or liability portfolios, but such exclusions must be documented at hedge inception.

7. This special accounting provision permits reporting entities to utilize a specified derivative, or a portfolio of specified derivatives, as the hedging instrument within an ALM Hedge to hedge the interest rate sensitivity, or a specific percentage<sup>3</sup> of the interest rate sensitivity, of the designated hedged item. Hedged items include various interest rate sensitive products where duration can be reliably measured using one of the metrics in paragraph 11. The hedging instrument may reflect a dynamic hedging strategy in which a portfolio of derivatives comprising the hedging instrument is rebalanced in accordance with changes to the hedged item to adhere to the specified, documented hedging strategy.

8. With the provisions in this standard to allow for flexibility in the hedged item coupled with a dynamic hedging approach (rebalancing of derivative hedging instruments), there is a greater risk of misrepresentation of successful risk management and achievement of a highly effective hedging relationship. Although this risk cannot be eliminated, the following provisions intend to ensure governance of the program and provide sufficient tools to allow for regulator review:

- a. Prior to implementing a hedging program for application within scope of this standard, the reporting entity must obtain explicit approval from the domiciliary state commissioner allowing use of this special accounting provision. The domiciliary state commissioner may subsequently disallow use of this special accounting provision at their discretion. Although this guidance does not restrict the state domiciliary commissioner on when to prohibit future use, disallowance should be considered upon finding that the reporting entity’s documentation, controls, measurement, prior execution of strategy or historical results are not adequate to support future use.
- b. Certification by a financial officer of the company (CFO, treasurer, CIO, or designated person with authority over the actual trading of assets and derivatives) that the hedging

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<sup>2</sup> As detailed in paragraph 10, these hedges are required to be highly effective in achieving the elimination of the duration mismatch between the designated asset and liability portfolios during documented hedge period.

<sup>3</sup> In identifying the hedged risk, reporting entities must identify whether they are hedging the full, or a portion of (e.g., 40%), the interest rate sensitivity.

strategy meets the definition of a Clearly Defined Hedging Strategy and that the Clearly Defined Hedging Strategy is the hedging strategy being used by the company in its actual day-to-day risk mitigation efforts. This provision does not require reporting entities to use the special accounting provision within this standard.

9. Eligibility for the special accounting provision within this standard is strictly limited to highly effective ALM derivatives that follow a Clearly Defined Hedging Strategy, meeting all the required provisions of this statement allowing the reporting entity to reduce the duration differences between the designated asset and liability portfolios. In order to qualify as a Clearly Defined Hedging Strategy (which may be dynamic, static, or a combination thereof), the strategy shall at a minimum, identify:

- a. The specific risks being hedged (including a measure of hedge coverage, e.g., percentage of interest rate sensitivity being hedged),
- b. The hedging objectives,
- c. The material risks that are not hedged,
- d. The financial instruments used to hedge the risks,
- e. The hedging strategy's trading rules, including permitted tolerances from hedging objectives,
- f. The metrics, criteria, and frequency for measuring effectiveness,
- g. The conditions under which hedging will not take place, and for how long the lack of hedging can persist,
- h. The group or area, including whether internal or external, responsible for implementing the hedging strategy,
- i. Areas where basis, gap, or assumption risk related to the hedging strategy have been identified, and
- j. The circumstances under which hedging strategy will not be effective in hedging the risks.

10. While an initially documented hedging strategy may subsequently change, any change in hedging strategy, which includes changes in the hedged item pursuant to paragraph 5c, shall be documented, with notification to the domiciliary state commissioner and include an effective date of the change in strategy. Reporting entities that elect to change a documented hedging strategy prior to the end of the three-month minimum timeframe shall identify the hedging strategy, and all hedging instruments executed under the strategy, as ineffective. The three-month timeframe begins with the stated effective date of the hedging strategy. Changes in a documented hedging strategy that occur after a three-month timeframe do not necessitate an ineffective determination as long as hedged items and hedging instruments under the revised/new strategy continue to meet the requirements of a highly effective ALM hedge. Reporting entities are permitted to have more than one hedging strategy implemented, but all implemented strategies must qualify as a component of a Clearly Defined Hedging Strategy pursuant to paragraph 7.

### Assessing Hedge Effectiveness

11. The provisions within this standard require the entity to use a specific method, as detailed in paragraph 10, to assess hedge effectiveness at least quarterly (e.g., at the beginning and end of each quarter) with ongoing assessment consistent with the originally documented risk management strategy.

12. Both at inception, and on an ongoing basis, the hedging relationship must be highly effective in reducing duration differences between designated asset and liability portfolios during the period that the hedge is designated. Reporting entities electing to use this special accounting provision must calculate the duration of the hedged item (liability portfolio) and compare it to the duration of the designated supporting asset portfolio with and without the designated hedging derivatives at inception and on an ongoing basis (i.e., at the beginning and end of each quarter, since asset/derivative/liability amounts may change during the normal course of business with the dynamic hedge strategy needing to remain highly effective). Only if the designated hedging derivatives are highly effective at reducing the duration difference between the asset and liability portfolios at the beginning and end of each quarter, can this special accounting provision be utilized. This comparison is specific to the designated hedged risks and exposures; therefore, if only a portion of the duration/interest rate risk is hedged or if the designated hedge only includes specific components of the hedged liabilities, for determining hedge effectiveness, the effectiveness comparisons are limited to those designated items. If an entity's defined risk management strategy for a particular hedging relationship excludes specific components of the hedging derivative from the assessment of hedge effectiveness, the excluded open components shall be reported at fair value with gains or losses recognized as unrealized gains or losses.

13. The term "highly effective" describes a reduction of the duration difference between the asset and liability portfolios that is accomplished by the hedging derivatives with between an 80%-125% effective rate. One of the following methods shall be designated as the approach for each hedging program to determine whether the program is highly effective:

- a. "Modified Duration" is the effect that a 100-basis-point (1%) change in interest rates will have on the price of an instrument (e.g., if an instrument has a modified duration of 5, a 1% change in interest rates would be expected to cause a 5% change in the instrument's price in the opposite direction); so if an asset portfolio has a modified duration of 9 and a liability portfolio has a modified duration of 10, a highly effective derivative portfolio hedging this difference would place the modified duration of the assets with derivatives at between 9.8 and 10.25 (80%-125% of the modified duration difference). Alternatively, if asset portfolio duration is 9 and a liability duration is 11, an entity can elect to hedge only half the difference (between 9 and 11, i.e., 10). In which case, a duration of the assets with derivatives of between 9.8 and 10.25 would be highly effective.
- b. "Macaulay Duration" is the weighted average time until cash flows are received and is measured in years; so if an asset portfolio has a Macaulay duration of 9 years and a liability portfolio has a Macaulay Duration of 10 years, a highly effective derivative portfolio hedging this difference would place the Macaulay Duration of the assets with derivatives at between 9.8 years and 10.25 years (80%-125% of the Macaulay duration difference).
- c. "Dollar Value One (DV01)" measures the dollar change in an instrument's price for a one basis point (0.01%) change in rates; so if an asset portfolio has a DV01 of \$9M and a liability portfolio has a DV01 of \$10M, a highly effective derivative portfolio hedging this difference would place the DV01 of the assets with derivatives at between \$9.8M and \$10.25M (80%-125% of the DV01 difference).

**Measurement/Recognition of Gains and Losses of Derivative Instruments**

14. All designated highly effective hedging instruments shall be reported in the financial statements at amortized cost. This includes the derivatives, including those reflected in portfolios, deemed to be highly effective in accordance with paragraph 11. If the reporting entity has excluded specific derivative components from the assessment of hedge effectiveness pursuant to paragraph 4, the excluded derivative components shall be measured and reported at fair value, with changes in fair value recognized as unrealized gains or losses.

15. Amortized cost treatment shall discontinue in the following scenarios with recognition as follows:

- a. **Maturities/Terminations:** Derivatives that mature or are terminated while part of a highly effective program with a fair value other than zero shall be recognized as a deferred asset (loss) or a deferred liability (gain). The derivative maturity/termination fair value will initially be surplus neutral with the deferred asset/liability offset by cash received/paid at maturity/termination.
- b. **De-Designation - Rebalancing:** For derivatives de-designated from a current highly effective hedging relationship, the derivative fair value at the time of removal shall be recognized as an asset or liability offset by a deferred asset or deferred liability, resulting with a surplus neutral impact. All subsequent (post de-designation) derivative fair value changes shall be recognized as unrealized gains/losses without deferral unless the derivative is immediately allocated (re-designated) to another highly effective derivative program in scope of this standard. Derivatives that are not immediately allocated are precluded from being subsequently used as a highly effective hedging instrument and shall follow a fair value accounting measurement method until the derivative matures or is terminated<sup>4</sup>.
- c. **De-Designation - Ineffectiveness:** For derivatives de-designated from, or captured within, a program that no longer qualifies as highly effective, the derivative shall discontinue the amortized cost treatment and be recognized at fair value, with the change in fair value recognized as an unrealized gain or loss. The derivative shall be captured in scope of SSAP No. 86, with all subsequent derivative fair value changes recognized as unrealized gains and losses. For these derivatives, no deferral of assets or liabilities is permitted.

16. The ability to recognize a deferred asset or liability under paragraph 13 is limited to only the portion of the hedging instruments attributed to the hedged risk. An amount equal to the net deferred asset and deferred liability recognized pursuant to paragraph 13 (net amount from all hedging strategies/programs captured within this guidance) shall be allocated from unassigned funds to special surplus.

17. The derivatives captured within this guidance essentially reflect quarterly hedges inside a clearly pre-defined program (with effectiveness tests at the beginning and end of each quarter). Programs that fail effectiveness at any time are not permitted to apply the provisions of this statement. If the program is revised to enable effectiveness, the revised program shall be considered a new program and shall be separately documented. The new program is required to be separate and distinct from the prior ALM

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<sup>4</sup> For purposes of applying this provision, derivatives reallocated (re-designated) to a highly effective qualifying derivative program in the quarter following de-designation are permitted as immediate allocations. Due to operational complexities with applying different measurement methods to open derivatives (as fair value is required upon de-designation), once a derivative has been removed from a highly effective derivative program beyond this quarter timeframe, the derivative cannot be reallocated to a highly effective derivative program utilizing an amortized cost measurement method.

derivative program and is only permitted if the required approvals are obtained. Application of this statement, with deferral of qualifying derivative gains and losses, is only permitted from the effective date of the revised program.

18. Deferred assets and deferred liabilities recognized under paragraph 13 shall be amortized using a straight-line method into net realized capital gains and losses over a finite amortization period. The amortization timeframe shall equal the weighted average life of the hedged liability portfolio but shall not exceed a period of 10 years. Amortization shall begin in the following quarter after initial recognition of a deferred asset or deferred liability under the qualifying program.

- a. Reporting entities are required to separately track, with a schedule to show the initial deferred amount and amortization schedule, of the deferred assets and deferred liabilities recognized and outstanding at each reporting date.
- b. The amount reported on the financial statement at each reporting date shall reflect the net amount (net as either a deferred asset or deferred liability) for each hedging strategy captured within scope of this guidance. Reporting entities that have more than one hedging strategy could have both deferred assets and deferred liabilities in the financial statements based on the net position of the separate hedging strategies.
- c. Reporting entities are permitted to amortize a greater portion of the deferred assets and/or deferred liabilities into net realized capital gains and losses at any time in advance of the scheduled amortization period.
  - i. If electing to accelerate amortization, reporting entities are required to accelerate amortization equally between deferred assets and deferred liabilities within a single hedging strategy. For example, a reporting entity is not permitted to accelerate amortization of the deferred liabilities (recognizing the gains from fair value changes) and not accelerate amortization of the deferred assets (continuing to defer losses from fair value changes). If a reporting entity only has a single hedging strategy which only reflects deferred assets or deferred liabilities, the reporting entity is permitted to accelerate amortization without restrictions.
  - ii. If a reporting entity has more than one hedging strategy, and the strategies have offsetting net positions (both deferred assets and deferred liabilities are recognized in the financial statements), a reporting entity's election to accelerate amortization must be applied equally to programs with offsetting net positions. (For example, a decision to accelerate amortization of a program with a net deferred liability must be applied equally to a program with a deferred asset that best corresponds to the deferred liability<sup>5</sup>.) In these situations, the guidance in paragraph 14.c.i. is also applicable, whereas the accelerated amortization must also apply equally to the deferred assets and deferred liabilities within each individual hedging program. If a reporting entity with more than one hedging strategy only has net deferred assets or net deferred liabilities recognized, the reporting entity is permitted to accelerate amortization to a single program in a manner consistent with the guidelines in paragraphs 14.c.i.

19. For outstanding (non-expired) derivative instruments that were removed from a highly effective hedging strategy (de-designated - rebalancing), subsequent gains and losses from fair value fluctuations

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<sup>5</sup> The intent of this guidance is to ensure that the ability to accelerate amortization does not result with elections that simply result in favorable financial statement presentation.

shall not impact previously recognized deferred assets or deferred liabilities. The deferred assets and deferred liabilities shall be “locked” and amortized under the remaining schedule unless the reporting entity elects to terminate or accelerate amortization. Subsequent to the removal from a highly effective strategy, fair value fluctuations from the outstanding derivative instruments are subject to the guidance in SSAP No. 86 and shall be recognized as unrealized gains or unrealized losses. Only if the derivative is immediately re-designated as part of a highly effective hedging strategy qualifying under this standard pursuant to paragraph 13.b, can the derivative retain an amortized cost measurement method, with the resulting fair value change at de-designation or termination/maturity reported as a deferred asset or deferred liability under this statement.

### Derivative Income

20. Derivative income from hedging instruments in scope of this statement shall follow the recognition provision of SSAP No. 86.

21. Pursuant to the documented hedging strategy as an ALM Hedge, derivative income shall be considered as part of the overall hedging strategy and included in the assessments on whether the strategy is highly effective.

### Disclosures

22. A reporting entity that has derivatives accounted for under this special accounting provision, or that has unamortized deferred assets or deferred liabilities pursuant to this guidance shall disclose the following within the financial statements:

- a. For each hedge program under this statement, discussion of the hedged item, including information on the liabilities’ duration sensitivity to interest rate risk, along with similar information on the assets supporting these liabilities and the designated hedging instruments being used to hedge the duration risk. Discussion of the hedging instruments shall identify whether a hedging instrument is a single instrument or portfolio, as well as information on the hedging strategy including whether there have been changes in strategy from the prior reporting period, along with detailed information on the changes), and assessment of hedging effectiveness (e.g., beginning and end of quarter asset duration without derivatives, asset duration with derivatives, liability duration, percentage of difference hedged, etc.) and compliance with the “Clearly Defined Hedging Strategy”. Identification shall occur on whether the hedged item is intended to be fully hedged under the hedging strategy, or if the strategy is only focused on a portion of the asset/liability duration difference. Hedging strategies shall be identified as highly effective or not highly effective. If the strategy for a particular hedging relationship excludes a specific component of the gain or loss, or related cash flows, from the assessment of hedge effectiveness, details on the excluded components shall be disclosed.
- b. Aggregate disclosure of the original cost and fair value of hedging instruments (including all instruments within a portfolio), including fair value changes during the reporting period.
- c. Disclosure that details a roll-forward of deferred assets and deferred liabilities, showing the beginning balance, additions, current period amortization, and ending balance, with a percentage comparison to total capital and surplus. This disclosure shall also identify the expected amortization for the next 10 years, including any accelerated amortization

elected by the reporting entity. This disclosure shall identify the fair value of the excluded components of the hedging instruments, and the fair value change for those components reflected in unrealized gain and unrealized loss.

- d. For hedging strategies no longer identified as highly effective previously captured within scope of this standard, information on the determination of ineffectiveness, including variations from prior assessments resulting in the change from classification as a highly effective hedge. This disclosure shall also identify outstanding hedging instruments previously captured within scope of this standard and subsequently identified as no longer part of a highly effective hedging strategy. (Open derivative transactions no longer captured within the special accounting provision would be subject to the accounting and reporting guidance within SSAP No. 86.) This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy had been identified by the reporting entity as no longer highly effective.
- e. For situations in which the reporting entity has elected to terminate the hedging strategy and/or discontinue the special accounting provisions permitted within this SSAP, the reporting entity shall disclose the key elements in the reporting entity's decision to terminate, identifying changes in the reporting entity's objectives or perspectives from initial application. This disclosure shall also identify outstanding hedging instruments previously captured within scope of this standard and the accounting impact as a result of the termination/discontinuation. (Open derivative transactions no longer captured within the special accounting provision would be subject to the accounting and reporting guidance within SSAP No. 86.) This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy or the election to use the special accounting provision in this SSAP had been terminated

### Effective Date and Transition

23. This statement is effective January 1, 2027. The guidance in this statement is permitted to be applied on a prospective basis for approved qualifying hedge programs in place on or after the effective date. The guidance in paragraph 25 permits a one-time transition provision for approved qualifying programs that have existing open derivatives with recognized unrealized gains and losses. After initial transition, reporting entities are not permitted to retroactively allocate recognized unrealized gains or losses to deferred assets or liabilities. The transition provisions do not permit reporting entities to reverse previously recognized realized gains and losses for recognition as deferred assets or deferred liabilities regardless of if the hedging program would have qualified in scope of the statement.

24. On the effective date, reporting entities with open derivatives in an existing approved program that qualifies as a highly effective hedge in scope of this statement are permitted to make a one-time adjustment to reclassify recognized unrealized gains and losses from derivative fair value changes to deferred assets and deferred liabilities and begin amortization over a 10-year period. This is permitted even though the derivative is still open. With the reclassification, the derivative's then current fair value shall represent the initial amortized cost basis and follow the provisions of this statement for future measurement. As such, future fair value fluctuations in the derivative shall not be recognized as unrealized gains or losses unless the derivative no longer qualifies in scope of this statement. At derivative maturity or qualifying de-designation (rebalancing), the change in fair value from initial application and the maturity/de-designation date shall be recognized as a deferred asset or liability pursuant to paragraphs 15.a and 15.b.

25. On the effective date, reporting entities with existing programs that do not qualify, or for which the reporting entity elects not to apply this guidance, shall continue to report the open derivatives in

scope of SSAP No. 86, with recognition of derivative fair value changes as unrealized gains or losses. Reporting entities that make a subsequent decision to apply the concepts of this statement to the derivative program are not permitted to reclassify previously recognized unrealized gains and losses to deferred assets and liabilities. Those unrealized gains and losses shall be retained with recognition as realized gains or losses upon termination of the derivative. For these situations, reporting entities shall freeze future recognition of unrealized gains or losses from fair value fluctuations, with the then current fair value of the derivative designated as the amortized cost for subsequent treatment under this statement.

26. Realized derivative gains and losses previously allocated to the interest maintenance reserve (IMR) for programs that would qualify as effective hedges under this statement shall be retained in IMR and amortized over a remaining period not to exceed 10 years. Upon the effective date of the revised *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*, gains and losses for derivative strategies within this statement are not permitted to be allocated to the IMR.

## REFERENCES

### RELEVANT ISSUE PAPERS

- *Issue Paper No. XX—Special Accounting Treatment for Limited Derivatives*

Statement of Statutory Accounting Principles No. 109

Asset Liability Management (ALM) Derivatives

The tracking shown in this document illustrates differences from the previously exposed ACLI proposed draft. In addition to some broad references within, the related issue paper also discusses the changes.

STATUS

Type of Issue.....	Common Area
Issued.....	xxx xx, 202x
Effective Date.....	January 1, 2027
Affects.....	No other pronouncements
Affected by.....	No other pronouncements
Interpreted by.....	No other pronouncements
Relevant Appendix A Guidance .....	None

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<b>STATUS .....</b>	<b>1</b>
<b>SCOPE OF STATEMENT .....</b>	<b>1</b>
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SCOPE OF STATEMENT

1. ~~Current statutory accounting guidance for derivatives qualifying for hedging effectiveness is in SSAP No. 86—Derivatives and SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees.~~ This statement allows special accounting treatment for limited derivatives hedging asset/liability duration differences subject to fluctuations as a result of interest rate sensitivity ~~{a.k.a. (referred to as: asset liability management (ALM) derivatives)}~~. The provisions within this statement are separate and distinct from the guidance in ~~SSAP No. 86—Derivatives~~ [SSAP No. 86](#) and ~~SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees~~ [SSAP No. 108](#), as the items subject to the scope of this guidance, and the provisions within, would not qualify for hedge effectiveness under SSAP No. 86 or SSAP No. 108. The provisions provided within this statement are only permitted if all ~~of the~~ components of the statement are met and shall not be inferred as an acceptable statutory accounting approach for derivative transactions that do not meet the stated qualifications or that are not specifically addressed within this guidance.

**SUMMARY CONCLUSION**

2. This statement establishes statutory accounting principles to address derivative transactions hedging asset/liability duration differences subject to fluctuations as a result of interest rate sensitivity.

3. The statutory accounting guidance within this statement is considered a special accounting provision, which permits a highly effective derivative distinction different from U.S. GAAP, and allows realized fair value gains and losses from these highly effective hedging transactions to be reported as deferred liabilities and assets and amortized into net realized gains or losses over time. Consistent with U.S. GAAP, realized losses do not represent assets under SSAP No. 4—Assets and Nonadmitted Assets, as they do not reflect a present right to an economic benefit. Also consistent with U.S. GAAP, realized gains do not represent liabilities under SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets, as they do not reflect a present obligation to transfer or provide an economic benefit to others. Reporting realized gains as deferred liabilities and realized losses as deferred assets is a statutory concept that reflects an exception to the asset and liability definitions under SSAP Nos. 4 and 5. This treatment is consistent with SSAP No. 86, which allows a basis adjustment to the hedged item when effectiveness criteria is met in order to reflect the impact of the hedge. The treatment is surplus neutral when initially recorded, followed by amortization coinciding with the hedged item.

4. Reporting entities that meet the requirements of this statement are permitted to report the recognized net deferred assets, representing realized fair value losses, as admitted assets. The net deferred liabilities, representing realized fair value gains, shall be recognized as liabilities.

Note: Confirm admitted asset treatment with SAPWG. May discuss individual or aggregate limits.

~~The statutory accounting guidance within this statement is considered a special accounting provision, only permitted if all the components in the standard are met and shall not be inferred as an acceptable statutory accounting approach for situations that do not meet the stated qualifications or that are not specifically addressed within this guidance.~~

**Terms/Concepts (for purposes of this statement)**

~~3.5.~~ The following terms reflect concepts specific to this statement. This listing only details the key concepts. Specific guidelines are reflected throughout the guidance.

- a. Derivative Instrument: An agreement, instrument or series or combination thereof: (1) To make or take delivery of, or assume or relinquish, a specified amount of one or more underlying interests, or to make a cash settlement in lieu thereof; or (2) That has a price, performance, value, or cash flow based primarily upon the actual or expected price, level, performance, value, or cash flow of one or more underlying interests. Note: ~~d~~Derivatives with asymmetrical payoff profiles and/or derivative premiums at inception (e.g., options) are not eligible for the accounting provisions in this standard (i.e., swaps, forwards, and futures are typically eligible for the accounting treatment in this standard if they ~~don't do not~~ contain ~~the aforementioned~~ these features).
- b. Dynamic Hedging Approach: A dynamic hedging strategy allows for the portfolio of derivatives comprising the hedging instrument to be rebalanced in accordance with changes to the hedged item ~~in order to~~ to adhere to the specified, documented hedging strategy.
- ~~a-c.~~ Hedged Item: The hedged item is the duration difference between the designated asset portfolio and designated product liability portfolio that are both exposed to interest rate risk

## Asset Liability Management (ALM) Derivatives

(with the ultimate hedged item being the interest rate sensitivity of the liability portfolio that the assets support). The hedged item may relate to the duration of an open or flexible portfolio (e.g., group of contracts with different characteristics and liability durations) that allows for addition of newly issued contracts, subtraction of surrenders and fluctuations in balances. The portfolio of product liabilities may consist of an entire book of business or declared components thereof<sup>1</sup>.

~~b.d.~~ Hedging Instrument: The hedging instrument shall reflect a specified derivative, or a portfolio of specified derivatives, that hedges the duration difference of the designated asset and liability portfolios. The hedging instrument may reflect a dynamic hedging strategy in which a portfolio of derivatives comprising the hedging instrument is rebalanced in accordance with changes to the hedged item.

**Special Accounting Provision**

~~4.6.~~ The special accounting provision within this statement permits reporting entities to utilize a form of “macro-hedging” in which a portfolio of derivatives hedges the duration difference between an asset portfolio and a portfolio of product liabilities (i.e., an ALM Hedge<sup>2</sup>), which could include the entire book of business or subsections thereof, pursuant to a Clearly Defined Hedging Strategy (throughout this issue paper also referred to as “CDHS” or “hedging strategy”). This is considered a macro-hedge, as the designated hedged item is attached to a portfolio of product liability contracts with different characteristics and liability durations. Under this special accounting provision, the portfolio of contracts giving rise to the hedged item is not required to be static but can be revised to remove assets/derivatives/policies and/or include new assets/derivatives/policies to allow for continuous risk management (hedging) of the product liabilities in accordance with the specific risks being hedged and the hedge objectives of the specified, documented hedging strategy. In designating the hedged item, reporting entities are permitted to exclude specific components of the asset, derivative, and/or liability portfolios, but such exclusions must be documented at ~~the~~ hedge inception.

~~5.7.~~ This special accounting provision permits reporting entities to utilize a specified derivative, or a portfolio of specified derivatives, as the hedging instrument within an ALM Hedge to hedge the interest rate sensitivity, or a specific percentage<sup>3</sup> of the interest rate sensitivity, of the designated hedged item. Hedged items include various interest rate sensitive products where duration can be reliably measured using one of the metrics in **paragraph 11**. The hedging instrument may reflect a dynamic hedging strategy in which a portfolio of derivatives comprising the hedging instrument is rebalanced in accordance with changes to the hedged item ~~in order to~~ adhere to the specified, documented hedging strategy. ~~Fair value fluctuations not attributed to the hedged risk, including fair value changes from excluded open components, shall be recognized as unrealized gains or losses. (Moved to paragraph 12.)~~

~~6.8.~~ With the provisions in this standard to allow for flexibility in the hedged item coupled with a

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<sup>1</sup> Product liability contracts (e.g., PRT’s) that have been signed/executed are eligible as the hedged item if highly probable of closing in the near term, include disincentives for non-performance and have historically closed at a near 100% success rate. For example, on January 1, the company signs a PRT contract that it will assume a client’s portfolio assets and pension liabilities on March 31. The agreed upon portfolio assets have a different duration than the liabilities, so the company proceeds with hedging the difference on January 1. If the transaction meets the aforementioned probable criteria, the hedge can qualify for the treatment in this statement if it meets the other criteria in this statement, although the portfolio will not be assumed until March 31.

<sup>2</sup> As detailed in **paragraph 10**, these hedges are required to be highly effective in achieving the elimination of the duration mismatch between the designated asset and liability portfolios during documented hedge period.

<sup>3</sup> In identifying the hedged risk, reporting entities must identify whether they are hedging the full, or a portion of (e.g., 40%), the interest rate sensitivity.

dynamic hedging approach (rebalancing of derivative hedging instruments), there is a greater risk of misrepresentation of successful risk management and achievement of a highly effective hedging relationship. Although this risk cannot be eliminated, the following provisions intend to ensure governance of the program and provide sufficient tools to allow for regulator review:

- a. Prior to implementing a hedging program for application within scope of this standard, the reporting entity must obtain explicit approval from the domiciliary state commissioner allowing use of this special accounting provision. The domiciliary state commissioner may subsequently disallow use of this special accounting provision at their discretion. Although this guidance does not restrict the state domiciliary commissioner on when to prohibit future use, disallowance should be considered upon finding that the reporting entity's documentation, controls, measurement, prior execution of strategy or historical results are not adequate to support future use.
- b. Certification by a financial officer of the company (CFO, treasurer, CIO, or designated person with authority over the actual trading of assets and derivatives) that the hedging strategy meets the definition of a Clearly Defined Hedging Strategy and that the Clearly Defined Hedging Strategy is the hedging strategy being used by the company in its actual day-to-day risk mitigation efforts. This provision does not require reporting entities to use the special accounting provision within this standard.

7-9. Eligibility for the special accounting provision within this standard is strictly limited to highly effective ALM derivatives that follow a Clearly Defined Hedging Strategy, meeting all the required provisions of this [statement](#) ~~SSAP~~ allowing the reporting entity to reduce the duration differences between the designated asset and liability portfolios. In order to qualify as a Clearly Defined Hedging Strategy (which may be dynamic, static, or a combination thereof), the strategy shall at a minimum, identify:

- a. The specific risks being hedged (including a measure of hedge coverage, e.g., percentage of interest rate sensitivity being hedged),
- b. The hedging objectives,
- c. The material risks that are not hedged,
- d. The financial instruments used to hedge the risks,
- e. The hedging strategy's trading rules, including permitted tolerances from hedging objectives,
- f. The metrics, criteria, and frequency for measuring effectiveness,
- g. The conditions under which hedging will not take place, and for how long the lack of hedging can persist,
- h. The group or area, including whether internal or external, responsible for implementing the hedging strategy,
- i. Areas where basis, gap, or assumption risk related to the hedging strategy have been identified, and
- j. The circumstances under which hedging strategy will not be effective in hedging the risks.

~~8.10.~~ While an initially documented hedging strategy may subsequently change, any change in hedging strategy, which includes changes in the hedged item pursuant to paragraph 5c~~a change in hedge target~~, shall be documented, with notification to the domiciliary state commissioner and include an effective date of the change in strategy. Reporting entities that elect to change a documented hedging strategy prior to the end of the three-month minimum timeframe shall identify the hedging strategy, and all hedging instruments executed under the strategy, as ineffective. The three-month timeframe begins with the stated effective date of the hedging strategy. Changes in a documented hedging strategy that occur after a three-month timeframe do not necessitate an ineffective determination as long as hedged items and hedging instruments under the revised/new strategy continue to meet the requirements of a highly effective ALM hedge. Reporting entities are permitted to have more than one hedging strategy implemented, but all implemented strategies must qualify as a component of a Clearly Defined Hedging Strategy pursuant to paragraph 7.

### Assessing Hedge Effectiveness

~~9.11.~~ The provisions within this standard require the entity to use a specific method, as detailed in paragraph 10, to assess hedge effectiveness at least quarterly (e.g., at the beginning and end of each quarter) with on-going assessment consistent with the originally documented risk management strategy.

~~10.12.~~ Both at inception, and on an ongoing basis, the hedging relationship must be highly effective in reducing duration differences between designated asset and liability portfolios during the period that the hedge is designated. Reporting entities electing to use this special accounting provision must calculate the duration of the hedged item (liability portfolio) and compare it to the duration of the designated supporting asset portfolio with and without the designated hedging derivatives at inception and on an ongoing basis (i.e., at the beginning and end of each quarter, since asset/derivative/liability amounts may change during the normal course of business with the dynamic hedge strategy needing to remain highly effective). Only if the designated hedging derivatives are highly effective at reducing the duration difference between the asset and liability portfolios at the beginning and end of each quarter, ~~then can~~ this special accounting provision ~~can~~ be utilized. This comparison is specific to the designated hedged risks and exposures; therefore, if only a portion of the duration/interest rate risk is hedged or if the designated hedge only includes specific components of the hedged liabilities, for determining hedge effectiveness, the effectiveness comparisons are limited to those designated items. If an entity's defined risk management strategy for a particular hedging relationship excludes specific components of the hedging derivative from the assessment of hedge effectiveness, the excluded open components shall be reported at fair value with gains or losses recognized as unrealized gains or losses.

~~11.13.~~ The term "highly effective" describes a reduction of the duration difference between the asset and liability portfolios that is accomplished by the hedging derivatives with between an 80%-125% effective rate. For example: One of the following methods shall be designated as the approach for each hedging program to determine whether the program is highly effective:

- a. "Modified Duration" is the effect that a 100-basis-point (1%) change in interest rates will have on the price of an instrument (e.g., if an instrument has a modified duration of 5, a 1% change in interest rates would be expected to cause a 5% change in the instrument's price in the opposite direction); so if an asset portfolio has a modified duration of 9 and a liability portfolio has a modified duration of 10, a highly effective derivative portfolio hedging this difference would place the modified duration of the assets with derivatives at between 9.8 and 10.25 (80%-125% of the modified duration difference). Alternatively, if asset portfolio duration is 9 and a liability duration is 11, an entity can elect to hedge only half the difference (between 9 and 11, i.e., 10). ~~(In~~ which case, a duration of the assets with derivatives of between 9.8 and 10.25 would be highly

effective}).

- b. “Macaulay Duration” is the weighted average time until cash flows are received and is measured in years; so if an asset portfolio has a Macaulay duration of 9 years and a liability portfolio has a Macaulay Duration of 10 years, a highly effective derivative portfolio hedging this difference would place the Macaulay Duration of the assets with derivatives at between 9.8 years and 10.25 years (80%-125% of the Macaulay duration difference).
- c. “Dollar Value One (DV01)” measures the dollar change in an instrument's price for a one basis point (0.01%) change in rates; so if an asset portfolio has a DV01 of \$9M and a liability portfolio has a DV01 of \$10M, a highly effective derivative portfolio hedging this difference would place the DV01 of the assets with derivatives at between \$9.8M and \$10.25M (80%-125% of the DV01 difference).

### Measurement/Recognition of Gains and Losses of Derivative Instruments

12.14. All designated highly effective hedging instruments ~~(all derivatives, including those reflected in portfolios)~~ shall be reported in the financial statements at amortized cost. This includes the derivatives, including those reflected in portfolios, deemed to be highly effective in accordance with paragraph 11. If the reporting entity has excluded specific derivative components from the assessment of hedge effectiveness pursuant to paragraph 4, the excluded derivative components shall be measured and reported at fair value, with changes in fair value recognized as unrealized gains or losses.

13.15. Amortized cost treatment ~~will~~ shall discontinue in the following scenarios with recognition as follows:

- a. Maturities/Terminations:— Derivatives that mature or are terminated while part of a highly effective program with a fair value other than zero will ~~shall~~ be recognized as a deferred asset ~~(loss)s (admitted) and or~~ a deferred liability ~~(gain).ies~~ The (i.e., derivative maturity/termination fair value would ~~will~~ initially be surplus neutral with the deferred asset/liability offset by cash received/paid at maturity/termination).
- b. De-Designation - Rebalancing:— For derivatives de-designated from a ~~previous~~ current highly effective hedging relationship ~~due to ineffectiveness or by election~~, the derivative fair value at the time of removal will ~~shall~~ be recognized as an asset or ~~/~~ liability offset by a deferred asset ~~(admitted) and or~~ deferred liability, resulting with a surplus neutral impact. (i.e., fair value recognition is initially surplus neutral). All ~~prospective subsequent~~ (post de-designation) derivative fair value changes ~~shall be~~ are recognized as unrealized gains/losses without deferral unless the derivative is immediately allocated (re-designated) to another highly effective derivative program in scope of this standard. Derivatives that are not immediately allocated are precluded from being subsequently used as a highly effective hedging instrument and shall follow a fair value accounting measurement method until the derivative matures or is terminated<sup>4</sup>.included as part of a subsequent highly effective hedge (see 13.c below). Note—a deferred asset/liability can only be recognized for the fair value change up to the last measurement date indicating high effectiveness as defined by this SSAP.

<sup>4</sup> For purposes of applying this provision, derivatives reallocated (re-designated) to a highly effective qualifying derivative program in the quarter following de-designation are permitted as immediate allocations. Due to operational complexities with applying different measurement methods to open derivatives (as fair value is required upon de-designation), once a derivative has been removed from a highly effective derivative program beyond this quarter timeframe, the derivative cannot be reallocated to a highly effective derivative program utilizing an amortized cost measurement method.

## Asset Liability Management (ALM) Derivatives

c. De-Designation - Ineffectiveness: For derivatives de-designated from, or captured within, a program that no longer qualifies as highly effective, the derivative shall discontinue the amortized cost treatment and be recognized at fair value, with the change in fair value recognized as an unrealized gain or loss. The derivative shall be captured in scope of SSAP No. 86, with all subsequent derivative fair value changes recognized as unrealized gains and losses. For these derivatives, no deferral of assets or liabilities is permitted.

~~16. Note – An amount equal to the net deferred asset and deferred liability (net amount from all hedging strategies/programs captured within this guidance) shall be allocated from unassigned funds to special surplus. Also, as detailed previously, portions of hedging instruments that are not attributable to the hedged risk, shall be recognized as unrealized gains or unrealized losses.~~ The ability to recognize a deferred asset ~~/or~~ liability under paragraph 13 is limited to only the portion of the hedging instruments ~~that are~~ attributed to the hedged risk. An amount equal to the net deferred asset and deferred liability recognized pursuant to paragraph 13 (net amount from all hedging strategies/programs captured within this guidance) shall be allocated from unassigned funds to special surplus.

~~14,17. Lastly, as these are~~ The derivatives captured within this guidance essentially reflect quarterly hedges inside a clearly pre-defined program (with effectiveness tests at the beginning and end of each quarter). ~~Programs that fail effectiveness at any time are not permitted to apply the provisions of this statement. If the program is revised to enable effectiveness, the revised program shall be considered a new program and shall be separately documented. The new program is required to be separate and distinct from the prior ALM derivative program and is only permitted if the required approvals are obtained. Application of this statement, with deferral of qualifying derivative gains and losses, is only permitted from the effective date of the revised program.~~ could only apply the provisions of this SSAP within the subsequent quarters that effectiveness is achieved (if program parameters did not change materially). ~~If program parameters change materially, then this represents a new program requiring new documentation, approvals, etc.~~

~~15-18.~~ Deferred assets and deferred liabilities recognized under paragraph 13 shall be amortized using a straight-line method into net realized capital gains and losses ~~NGO~~ over a finite amortization period. The amortization timeframe shall equal the weighted average life of the hedged liability portfolio but shall not exceed a period of 10 years. Amortization ~~for a quarter's derivative fair value recognition will~~ shall begin in the following quarter after initial recognition of a deferred asset or deferred liability under the qualifying program. ~~regardless if the derivative fair value recognition is realized or unrealized.~~

- a. Reporting entities are required to separately track, with a schedule to show the initial deferred amount and amortization schedule, of the deferred assets and deferred liabilities recognized and outstanding at each reporting date.
- b. The amount reported on the financial statement at each reporting date shall reflect the net amount (net as either a deferred asset or deferred liability) for each hedging strategy captured within scope of this guidance. ~~{Reporting entities that have more than one hedging strategy could have both deferred assets and deferred liabilities in the financial statements based on the net position of the separate hedging strategies.}~~
- c. Reporting entities are permitted to amortize a greater portion of the deferred assets and/or deferred liabilities into net realized capital gains and losses ~~NGO~~ at any time in advance of the scheduled amortization period.
  - i. If electing to accelerate amortization, reporting entities are required to accelerate amortization equally between deferred assets and deferred liabilities within a single hedging strategy. For example, a reporting entity is not permitted

to accelerate amortization of the deferred liabilities (recognizing the gains from fair value changes) and not accelerate amortization of the deferred assets (continuing to defer losses from fair value changes). If a reporting entity only has a single hedging strategy which only reflects deferred assets or deferred liabilities, the reporting entity is permitted to accelerate amortization without restrictions.

- ii. If a reporting entity has more than one hedging strategy, and the strategies have offsetting net positions (both deferred assets and deferred liabilities are recognized in the financial statements), a reporting entity's election to accelerate amortization must be applied equally to programs with offsetting net positions. (For example, a decision to accelerate amortization of a program with a net deferred liability must be applied equally to a program with a deferred asset that best corresponds to the deferred liability<sup>5</sup>.) In these situations, the guidance in paragraph 14.c.i. is also applicable, whereas the accelerated amortization must also apply equally to the deferred assets and deferred liabilities within each individual hedging program. If a reporting entity with more than one hedging strategy only has net deferred assets or net deferred liabilities recognized, the reporting entity is permitted to accelerate amortization to a single program in a manner consistent with the guidelines in paragraphs 14.c.i.

~~16.19.~~ For outstanding (non-expired) derivative instruments that were removed from a highly effective hedging strategy (~~de-designated - rebalancing~~ed), subsequent gains and losses from fair value fluctuations shall not impact previously recognized deferred assets or deferred liabilities. The deferred assets and deferred liabilities shall be "locked" and amortized under the remaining schedule unless the reporting entity elects to terminate or accelerate amortization. Subsequent to the removal from a highly effective strategy, ~~all~~ fair value fluctuations from the outstanding derivative instruments ~~would bear~~ subject to the guidance in SSAP No. 86 and ~~shall be~~ recognized as unrealized gains ~~and/or~~ unrealized losses. ~~Only if~~ the derivative is ~~immediately~~ re-designated as part of a highly effective hedging strategy qualifying under this standard ~~pursuant to paragraph 13.b, can the derivative retain an amortized cost measurement method, with the resulting fair value change at de-designation or termination/maturity subsequent fair value fluctuations (after the re-designation) may be accounted for under the special accounting provision detailed in this statement~~ reported as a deferred asset or deferred liability under this statement.

~~17.— For a hedging strategy that no longer qualifies within scope of this standard or is no longer a highly effective hedge, any non-amortized deferred assets or deferred liabilities shall be amortized to NGO over the remaining amortization timeframe, not to exceed five years. Reallocating assets/derivatives/liabilities in ALM hedging relationships does not indicate no longer qualifying within scope or no longer highly effective (as long as a significant amount of the assets/derivatives/liabilities are included in the hedging relationships before and after reallocation; and the relationship is highly effective before and after reallocation). If the deferred assets/deferred liabilities have a remaining amortization period that is less than the shortened timeframe, amortization shall continue over the remaining period. If the remaining amortization period is greater than 5 years at the time of the program no longer qualifies, or is no longer highly effective, the amortization schedule shall be revised to require full amortization within the shortened 5-year timeframe. If elected by the reporting entity, deferred assets and deferred liabilities may be immediately recognized in NGO or have accelerated~~

<sup>5</sup> The intent of this guidance is to ensure that the ability to accelerate amortization does not result with elections that simply result in favorable financial statement presentation.

~~amortization (less than 5 years). (An election to immediately eliminate or accelerate amortization must follow the provisions in paragraph 14.c.) All future fair value fluctuations for these derivative instruments would be subject to the guidance in SSAP No. 86 and shall be recognized as unrealized gains or unrealized losses unless the instrument is subsequently designated as part of a highly effective hedging strategy within scope of this statement. If the derivative is re-designated as part of a highly effective hedging strategy qualifying under this standard, subsequent fair value fluctuations (after the re-designation) may be accounted for under the special accounting provision detailed in this statement.~~

Note: The above paragraph for accelerated amortization once a program has been discontinued or no longer effective has been removed. Derivatives recognized when the program was effective shall not be impacted if the program is subsequently discontinued to deemed ineffective. The benefit for the derivatives that were effective continues even if there is subsequent discontinuation/ineffectiveness of the hedging program.

~~18. Reporting entities may elect to terminate use of this special accounting provision at any time. In those instances, all deferred assets and deferred liabilities shall be amortized to NGO over the remaining amortization timeframe, not to exceed five years. If the deferred assets/deferred liabilities have an amortization period that is less than the shortened 5-year timeframe, amortization shall continue over the established period. If the remaining amortization period is greater than 5 years at the time of termination, the amortization schedule shall be revised to require full amortization within the shortened 5-year timeframe. If elected by the reporting entity, deferred assets and deferred liabilities may be immediately eliminated or have accelerated amortization (less than 5 years) with recognition in NGO. (An election to immediately eliminate or accelerate amortization must follow the provisions in paragraph 14.c.) Once the special accounting provision is terminated, unless re-designated by the reporting entity, subsequent accounting of the derivatives in a hedging strategy that would be captured within this statement shall follow the fair value accounting approach in SSAP No. 86<sup>5</sup>.~~

~~<sup>5</sup> Macro hedges and the ability to rebalance hedging instruments are not provisions permitted within "effective" hedges in scope of SSAP No. 86. As such, hedging strategies with these components accounted for under SSAP No. 86 shall follow the fair value accounting approach detailed in that standard.~~

### **Measurement/Recognition of Realized Gains or Losses of Expired Derivatives**

~~19. This guidance allows for individual derivative instruments to expire and/or be removed from the portfolio of the hedging instrument (as effectiveness is tested each quarter and hedges and hedged items changing each quarter as part of dynamic hedging strategies).~~

~~20. Pursuant to the provisions in paragraph 14.c., reporting entities are permitted to amortize a greater portion of the deferred assets and/or deferred liabilities from expired derivatives into NGO in advance of the scheduled amortization period.~~

~~21. Consistent with the guidance in paragraph 17, reporting entities may elect to terminate use of this special accounting provision at any time. In those instances, all deferred assets and deferred liabilities shall be amortized to NGO over the remaining amortization timeframe, not to exceed 5 years. If the deferred assets/deferred liabilities had an amortization period that was less than the shortened timeframe, amortization shall continue over the established period. If the amortization period was greater than 5 years at the time of termination, the amortization schedule would be revised to require full amortization within the shortened timeframe. If elected by the reporting entity, the deferred assets and deferred liabilities may be immediately eliminated, or have accelerated amortization, with recognition in NGO. An election to immediate eliminate or accelerate amortization (less than 5 years) must follow the provisions in paragraph 14.c.)~~

Note: Deleted as duplicative.

### Derivative Income

~~21.20.~~ Derivative income under this accounting provision is included in NGO pursuant to SSAP86 from hedging instruments in scope of this statement shall follow the recognition provision of SSAP No. 86.

~~22.21.~~ Pursuant to the documented hedging strategy as an ALM Hedge, derivative income shall be considered as part of the overall hedging strategy and included in the assessments on whether the strategy is highly effective.

### Disclosures

~~23.22.~~ A reporting entity that has ~~any~~ derivatives accounted for under this special accounting provision, or that has unamortized deferred assets ~~and/or~~ deferred liabilities ~~(representing previously unrecognized qualifying fair value fluctuations)~~ under the special accounting provision pursuant to this guidance shall disclose the following within the financial statements:

- a. For each hedge program under this ~~SSAP~~statement, discussion of the hedged item, including information on the liabilities' duration sensitivity to interest rate risk, along with similar information on the assets supporting these liabilities and the designated hedging instruments being used to hedge the duration risk. Discussion of the hedging instruments shall identify whether a hedging instrument is a single instrument or portfolio, as well as information on the hedging strategy including whether there have been changes in strategy from the prior reporting period, along with detailed information on the changes), and assessment of hedging effectiveness (e.g., beginning and end of quarter asset duration without derivatives, asset duration with derivatives, liability duration, percentage of difference hedged, etc.) and compliance with the "Clearly Defined Hedging Strategy". Identification shall occur on whether the hedged item is intended to be fully hedged under the hedging strategy, or if the strategy is only focused on a portion of the asset/liability duration difference. Hedging strategies shall be identified as highly effective or not highly effective. If the strategy for a particular hedging relationship excludes a specific component of the gain or loss, or related cash flows, from the assessment of hedge effectiveness, details on the excluded components shall be disclosed.
- b. Aggregate disclosure of the original cost and fair value of hedging instruments (including all instruments within a portfolio), including fair value changes during the reporting period. ~~Additionally, disclose the fair value of the hedged item, the change in fair value from the prior reporting period, and the portion of the fair value change attributed to the hedged risk.~~
- c. ~~Schedule showing the aggregate fair value change from the prior reporting period for the designated components for all hedging instruments, with identification of the fair value change reflected in deferred assets, and deferred liabilities. This schedule shall also show the current period amortization, including any accelerated amortization elected by the reporting entity, and the future scheduled amortization of the deferred assets and deferred liabilities.~~ Disclosure that details a roll-forward of deferred assets and deferred liabilities, showing the beginning balance, additions, current period amortization, and ending balance, with a percentage comparison to total capital and surplus. This disclosure shall also identify the expected amortization for the next 10

## Asset Liability Management (ALM) Derivatives

years, including any accelerated amortization elected by the reporting entity. This ~~schedule disclosure~~ shall identify the fair value of the excluded components of the hedging instruments, and the fair value change for those components reflected in unrealized gain and unrealized loss.

- d. For hedging strategies no longer identified as highly effective previously captured within scope of this standard, information on the determination of ineffectiveness, including variations from prior assessments resulting in the change from classification as a highly effective hedge. This disclosure shall also identify outstanding hedging instruments previously captured within scope of this standard and subsequently identified as no longer part of a highly effective hedging strategy. (Open derivative transactions no longer captured within the special accounting provision would be subject to the accounting and reporting guidance within SSAP No. 86.) This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy had been identified by the reporting entity as no longer highly effective.~~include:~~
- ~~i. Identification of outstanding hedging instruments previously captured within scope of this standard and subsequently identified as no longer part of a highly effective hedging strategy. This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy had been identified by the reporting entity as no longer highly effective.~~
  - ~~ii. Deferred assets and deferred liabilities previously recognized when the program was highly effective, with a schedule that shows the amortization that would have occurred if the program had remained highly effective, the amount of original amortization as well as a schedule that details the amortization that will occur as the program is no longer highly effective (maximum five-year timeframe).~~
  - ~~iii. Disclosure on whether the reporting entity is electing to accelerate amortization (in advance of the remaining scheduled amortization or the maximum five-year timeframe), along with amounts immediately recognized to unrealized gains/losses, and how the election impacts the scheduled amortization.~~
- e. For situations in which the reporting entity has elected to terminate the hedging strategy and/or discontinue the special accounting provisions permitted within this SSAP, the reporting entity shall disclose the key elements in the reporting's entity' decision to terminate, identifying changes in the reporting entity's objectives or perspectives from initial application. This disclosure shall also identify outstanding hedging instruments previously captured within scope of this standard and the accounting impact as a result of the termination/discontinuation. (Open derivative transactions no longer captured within the special accounting provision would be subject to the accounting and reporting guidance within SSAP No. 86.) This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy or the election to use the special accounting provision in this SSAP had been terminated~~include:~~
- ~~i. Identification of outstanding hedging instruments previously captured within scope of this standard and the accounting impact as a result of the termination/discontinuation. (Open derivative transactions no longer captured within the special accounting provision would be subject to the accounting and reporting guidance within SSAP No. 86.) This disclosure shall identify the date in~~

~~which the domiciliary state was notified that the hedging strategy or the election to use the special accounting provision in this SSAP had been terminated.~~

- ~~ii. Deferred assets and deferred liabilities previously recognized under the hedging strategy and/or program, with a schedule that shows the amortization that would have occurred if the strategy and/or program had remained highly effective, as well as a schedule that details the amortization that will occur with the termination of the strategy and/or program (maximum five-year timeframe).~~
- ~~iii. Disclosure on whether the reporting entity is electing to accelerate amortization (in advance of the remaining scheduled amortization or the maximum five-year timeframe), along with amounts immediately recognized to unrealized gains/losses, and the resulting impact to the scheduled amortization.~~

### Effective Date and Transition

~~24.23. This statement is effective January 1, 20262027. The guidance in this SSAP statement is required permitted to be applied on a prospective basis for approved qualifying hedge programs in place on or after the effective date. The guidance in paragraph 25 permits a one-time transition provision for approved qualifying programs that have existing open derivatives with recognized unrealized gains and losses. After initial transition, reporting entities are not permitted to retroactively allocate recognized unrealized gains or losses to deferred assets or liabilities. The transition provisions do not permit reporting entities to reverse previously recognized realized gains and losses for recognition as deferred assets or deferred liabilities regardless of if the hedging program would have qualified in scope of the statement. This prospective application prohibits deferred asset and deferred liability recognition from fair value fluctuations previously recognized as unrealized gains or losses that occurred prior to the effective date of the guidance.~~

24. On the effective date, reporting entities with open derivatives in an existing approved program that qualifies as a highly effective hedge in scope of this statement are permitted to make a one-time adjustment to reclassify recognized unrealized gains and losses from derivative fair value changes to deferred assets and deferred liabilities and begin amortization over a 10-year period. This is permitted even though the derivative is still open. With the reclassification, the derivative's then current fair value shall represent the initial amortized cost basis and follow the provisions of this statement for future measurement. As such, future fair value fluctuations in the derivative shall not be recognized as unrealized gains or losses unless the derivative no longer qualifies in scope of this statement. At derivative maturity or qualifying de-designation (rebalancing), the change in fair value from initial application and the maturity/de-designation date shall be recognized as a deferred asset or liability pursuant to paragraphs 15.a and 15.b.

25. On the effective date, reporting entities with existing programs that do not qualify, or for which the reporting entity elects not to apply this guidance, shall continue to report the open derivatives in scope of SSAP No. 86, with recognition of derivative fair value changes as unrealized gains or losses. Reporting entities that make a subsequent decision to apply the concepts of this statement to the derivative program are not permitted to reclassify previously recognized unrealized gains and losses to deferred assets and liabilities. Those unrealized gains and losses shall be retained with recognition as realized gains or losses upon termination of the derivative. For these situations, reporting entities shall freeze future recognition of unrealized gains or losses from fair value fluctuations, with the then current fair value of the derivative designated as the amortized cost for subsequent treatment under this statement.

~~25-26. Realized Dderivative gains/ and losses previously allocated to the interest maintenance reserve (IMR) deferred in IMR for programs that would qualify as effective hedges under this statement shall be retained in IMR and amortized over a remaining period not to exceed 10 years. Upon the effective date of the revised SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve, gains and losses for derivative strategies within this statement are not permitted to be allocated to the IMR.~~

~~1.—— prior to the effective date of this guidance shall continue to be amortized over the remaining amortization period from their original amortization schedule. Unrealized gains/losses recognized prior to the effective date of this SSAP from derivatives that utilize/qualify for the SSAP’s accounting treatment on the above effective date shall remain in unrealized gains/losses and amortize into NGO (i.e., surplus neutral) over the weighted average life of the liabilities they support (subject to the limits noted in previously in this SSAP). Reporting entities that have previously received permitted or prescribed practices for qualifying hedge programs, resulting with the recognition of deferred assets/deferred liabilities from unrecognized fair value fluctuations, shall work with their domiciliary state regulator to determine the appropriate method in transitioning from previously approved permitted practices. The reporting entity shall include disclosure of the transition approach approved by the domiciliary state in their financial statements in the first year of application. The approved transition approach is not considered a permitted practice as long as the reporting entity is fully compliant with the provisions of this statement after implementation. After the effective date of this statement, domiciliary state provisions that differ from this statement must be disclosed as a permitted or prescribed practice pursuant to SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures.~~

## REFERENCES

### RELEVANT ISSUE PAPERS

- Issue Paper No. ~~159XX~~—Special Accounting Treatment for Limited Derivatives

*Note: An example is captured in the Issue Paper for application guidance.*

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2026/03-23-26SpringNationalMeeting/Meeting/GSSAP109\(Tracked\).docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2026/03-23-26SpringNationalMeeting/Meeting/GSSAP109(Tracked).docx)

**Statutory Issue Paper No. 1XX****Asset Liability Management (ALM) Derivatives****STATUS****Discussion Draft – March 23, 2026****New SSAP****Current Authoritative Guidance: None****Type of Issue:  
Common Area****SUMMARY OF ISSUE**

1. The guidance within this issue paper details new statutory accounting concept revisions to incorporate special accounting treatment for limited derivatives hedging asset/liability duration differences subject to fluctuations as a result of interest rate sensitivity. These derivative structures are referred to as asset liability management (ALM) derivatives.
2. The provisions within this issue paper are proposed to be separate and distinct from the guidance in *SSAP No. 86—Derivatives* and *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees*. The derivatives subject to the scope of this guidance, and the provisions within, would not qualify for hedge effectiveness under the existing standards. The provisions within this issue paper are only permitted if all the components of the issue paper are met and shall not be inferred as an acceptable statutory accounting approach for derivative transactions that do not meet the stated qualifications or that are not specifically addressed within this guidance.
3. The guidance within this issue paper is anticipated to be included as a new SSAP applicable to the limited derivative hedging transactions addressed within.

**DISCUSSION**

4. The discussion of ALM derivatives originally began in 2023 in accordance with the development of *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve*. That interpretation provided limited-time exception guidance to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* and the annual statement instructions that required nonadmittance of net negative (disallowed) interest maintenance reserve (IMR) as a short-term solution. With the development of the interpretation, it was identified that some reporting entities had been allocating gains and losses from non-accounting-effective derivative transactions to IMR. For these companies, the derivative had been reported at fair value when open, with unrealized gains and losses from fair value fluctuations reflected through surplus, but at termination, the reporting entity reversed the unrealized gain or loss and recognized the realized impact through IMR. Although this guidance was not in accordance with *SSAP No. 86*, these reporting entities referred to a “hedging” reference in the annual statement IMR instructions and had taken a position that the derivative was “economically effective” as a hedge even if it did not qualify as an accounting-effective hedge.
5. With the August 2023 issuance of *INT 23-01*, provisions were included to allow reporting entities that had a historical, documented practice of deferring both derivative gains and losses from these “economically effective” hedging derivatives to continue the practice over the short-term duration of the interpretation and include the derivative losses as part of the admitted net negative (disallowed) IMR.

Reporting entities that did not have a historical, documented practice, would not be permitted to begin allocating realized gains or losses from these derivative transactions to the IMR or include these derivative losses as part of an admitted net negative (disallowed) IMR. For reporting entities eligible to continue the historical practice, the interpretation required reporting entities to include a roll-forward disclosure for the unamortized IMR balances related to these derivatives separately for derivative gains and losses.

6. Pursuant to subsequent discussions, the Statutory Accounting Principles (E) Working Group noted that the gains and losses from non-accounting-effective hedging derivatives in scope of SSAP No. 86 shall not be allocated to the IMR. The revisions to SSAP No. 7 from the long-term IMR project clarify that only specifically noted derivatives are permitted to be included in IMR:

- a. Highly-effective hedging derivatives qualifying for “hedge accounting treatment” under *SSAP No. 86—Derivatives* when the realized derivative gain or loss offsets the realized gain or loss from a hedged item that was recognized in IMR.
- b. Terminated income generating derivatives in scope of SSAP No. 86 (written derivatives) resulting in a realized gain or loss when the covering asset is accounted for at amortized cost. (Per SSAP No. 86, for options that are exercised, the remaining premium adjusts the cost, resulting in no gain or loss for the derivative.)
- c. Replication (synthetic asset) (RSAT) transactions in scope of SSAP No. 86 when the derivative is valued at amortized cost.

7. With these discussions, industry representatives proposed new statutory accounting guidance to address asset-liability management derivatives, which hedge duration differences subject to fluctuations as a result of interest sensitivity. The industry representatives identified that these hedges, which often reflect macro-hedges, will not qualify as accounting-effective hedges under SSAP No. 86, but are key insurance company activities as they protect surplus by shielding insurance companies from negative impacts of interest rate changes.

8. On September 10, 2025, representatives from the ACLI presented an ALM derivative proposal to the Statutory Accounting Principles (E) Working Group. The ACLI highlighted their view that the proposed guidance would significantly enhance the alignment of each company’s reported surplus with its actual solvency and liquidation value, as well as avoid situations where financials contain inappropriate portrayals of surplus and illusionary financial strength. The ACLI presented two versions of potential statutory guidance, one representing an amortized cost method and the other representing a mark and spread method (fair value). Although key concepts are similar between the two proposals, under the amortized cost method, the hedging derivatives would be reported at amortized cost (zero for a no-cost derivative), and when terminated (or removed from an effective hedge program), the derivative fair value would be deferred and amortized into income overtime. Under the mark and spread method, the hedging derivatives would be reported at fair value, resulting in the changes in fair value (unrealized gains and losses) being taken to deferred accounts with amortization throughout the life of the derivative. Both versions also proposed to exclude asymmetrical derivatives. At the conclusion of the call, both versions of the proposed guidance and the ACLI presentation were exposed for comment.

9. On December 9, 2025, as part of the 2025 Fall National Meeting, the Working Group considered comments on the exposed proposals, noting the ACLI strongly supported the development of guidance for ALM derivatives, as well as support for the amortized cost approach. In considering the comments, the Working Group directed NAIC staff to move forward with an issue paper and concurrent SSAP to reflect statutory accounting guidance for interest-rate hedging derivatives used for ALM under the

amortized cost approach and continuing the exclusion of asymmetrical derivatives. (Discussion of asymmetrical derivatives is captured in paragraphs 15-16.)

JMG to expand with subsequent discussion dates.

#### **Discussion of ALM Hedging Concepts & Differences from SSAP No. 86 and SSAP No. 108:**

10. The development of new statutory accounting guidance to address ALM derivatives, which hedge duration differences subject to fluctuations as a result of interest sensitivity, utilized existing concepts in SSAP No. 86 and SSAP No. 108 to the extent possible to allow for consistent concepts and ease of application. New derivative guidance was deemed appropriate as the proposed macro-hedging derivative structures would not qualify as highly effective hedges under SSAP No. 86 and the guidance in SSAP No. 108 is specific to hedges for variable annuity guarantees. Consideration was given to expanding SSAP No. 86, but as that standard utilizes U.S. GAAP guidance for effective-hedge determination, separating guidance for ALM derivative programs into a new statement was considered most appropriate.

11. Consistent with SSAP No. 108, the provisions of the new ALM derivative guidance permit the recognition and admittance of deferred assets and deferred liabilities, with amortization of the deferred amounts into net realized capital gains and losses over a period not to exceed 10 years. Although SSAP No. 86 does not use the concept of deferred assets and deferred liabilities, deferral of gains and losses from accounting-effective hedges is also a consistent concept, it is just completed through an adjustment to the basis of the hedged item or allocation to IMR. The existing statutory accounting guidance to recognize fair value gains and losses as deferred liabilities and assets, as well as use of an amortized cost approach in SSAP No. 86 for accounting-effective hedges, is inconsistent with U.S. GAAP. Under U.S. GAAP, and under *SSAP No. 4—Assets and Nonadmitted Assets*, realized losses do not represent assets as they do not reflect a present right to an economic benefit. Also, under U.S. GAAP and *SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets*, realized gains do not represent liabilities as they do not reflect a present obligation to transfer or provide an economic benefit to others. Reporting realized gains and losses as deferred liabilities and assets for certain derivative structures and for qualifying fixed-income investment sales is a statutory concept that reflects an exception to the asset and liability definitions under SSAP Nos. 4 and 5. These provisions result from the different accounting measurement concepts between statutory accounting and U.S. GAAP.

12. Under SSAP No. 108, recognized deferred assets are permitted to be admitted without limitation. Although net negative IMR currently has a 10% admittance limit, with the offsetting of gains and losses that occur between a SSAP No. 86 hedged item and hedging derivative, there is limited net amount recognized in the IMR for accounting-effective hedges. The provisions within this new statement propose full admittance of deferred assets in order to not disincentivize prudent hedging activities. Items are only permitted to be recognized as deferred assets or deferred liabilities if they qualify under the effective hedge provisions of the new statement. The guidance requires an amount equal to the net deferred asset and deferred liability to be allocated from unassigned funds to special surplus. (Note: SAPWG discussion is expected to confirm this proposed admitted asset treatment.)

#### **Terms and Concepts:**

13. The terms and concepts for the new ALM statement are consistent with SSAP No. 108. These items permit macro-hedges in a dynamic hedging strategy. This means that the derivative instruments and hedged items can reflect a flexible portfolio, rebalanced as needed to permit an ongoing effective hedging strategy. Macro-hedges and dynamic hedging strategies are not permitted under SSAP No. 86. These characteristics are key reasons why these hedging programs do not qualify as accounting-effective hedge programs under SSAP No. 86 or under U.S. GAAP.

14. A specific restriction incorporated into the ALM derivative standard prevents use of derivatives with asymmetrical payoff profiles and/or derivative premiums at inception (e.g., options). Programs with these derivatives are not eligible to apply the special accounting provision within the standard and are required to follow the guidance in SSAP No. 86, with fair value measurement. Swaps, forwards and futures are expected to typically be eligible for the provisions within the ALM standard as long as they do not have asymmetrical payoff profiles or derivative premiums at inception.

15. Asymmetrical derivatives refer to the payment profile of the derivative. A typical swap (symmetrical) has no upfront payment or receipt, and at inception has an equal chance of resulting with a gain or loss. Conversely, an option has an asymmetrical payoff profile. If a reporting entity buys an option, the purchase price paid is the maximum loss amount, while resulting gains can be much more than the maximum loss. Other asymmetrical derivatives include swaps with ceilings/floors and other non-standard derivatives. Asymmetrical derivatives are excluded as permissible derivatives within the standard to avoid the possibility that companies that buy options that mature out of the money would defer the “loss” although it was the upfront purchase price. The exclusion also limits the ALM derivative concept to standard derivatives for ease of application and review.

16. The requirements a reporting entity shall follow in order to utilize the special accounting provisions in the new ALM statement, including explicit approval by the domiciliary state, certification by a financial officer, as well as the requirements for a clearly defined hedging strategy are all consistent with SSAP No. 108.

#### Assessing Hedge Effectiveness

17. The ALM derivative standard was developed for highly effective hedges that reduce duration differences between designated asset and liability portfolios during the period when the hedge is designated. With this specific focus, which is different from both SSAP No. 86 and SSAP No. 108, specific methods have been developed to determine whether the hedging program is highly effective. One of the three noted methods detailed below is required to be designated by the reporting entity for each hedging program and used as the constant measurement of effectiveness. Each method requires use of the standard 80-125% derivative threshold (used in SSAP No. 86 and U.S. GAAP) in determining hedge effectiveness.

- a. “Modified Duration” is the effect that a 100-basis-point (1%) change in interest rates will have on the price of an instrument. (For example, if an instrument has a modified duration of 5, a 1% change in interest rates would be expected to cause a 5% change in the instrument's price in the opposite direction). As such, if an asset portfolio has a modified duration of 9 and a liability portfolio has a modified duration of 10, a highly effective derivative portfolio hedging this difference would place the modified duration of the assets with derivatives at between 9.8 and 10.25 (80%-125% of the modified duration difference). Alternatively, if asset portfolio duration is 9 and a liability duration is 11, an entity can elect to hedge only half the difference (between 9 and 11, i.e., 10). In that case, a duration of the assets with derivatives between 9.8 and 10.25 would be highly effective.
- b. “Macaulay Duration” is the weighted average time until cash flows are received and is measured in years. As such, if an asset portfolio has a Macaulay duration of 9 years and a liability portfolio has a Macaulay duration of 10 years, a highly effective derivative portfolio hedging this difference would place the Macaulay duration of the assets with derivatives at between 9.8 years and 10.25 years (80%-125% of the

Macauley Duration difference).

- c. “Dollar Value One (DV01)” measures the dollar change in an instrument's price for a one basis point (0.01%) change in rates. As such, if an asset portfolio has a DV01 of \$9M and a liability portfolio has a DV01 of \$10M, a highly effective derivative portfolio hedging this difference would place the DV01 of the assets with derivatives at between \$9.8M and \$10.25M (80%-125% of the DV01 difference).

#### Measurement / Recognition of Gains and Losses of Derivative Instruments

18. Consistent with SSAP No. 86, but different from SSAP No. 108, the provisions of the ALM standard requires use of an amortized cost measurement method for highly effective hedging instruments, with excluded components measured and reported at fair value. (Under SSAP No. 108, the derivatives follow a fair value measurement, which is in line with the assessment of effectiveness under that standard. Under SSAP No. 108 effectiveness is determined based on fair value comparisons to the hedged item.)

19. The amortized cost approach was supported for ALM derivatives as that approach would mirror SSAP No. 86 for highly effective hedges, where derivatives would be reported at cost (zero, if there is no upfront cost), without the reporting of surplus valuation changes from fair value fluctuations throughout the life of the derivative. With the amortized cost approach, if the derivative continues to be highly effective, there would be no unrealized gains or losses recognized until termination (or removal from the program), meaning that there would be no need to track or recognize deferred assets or losses while the derivative is part of an effective program. At termination (or removal from a highly effective program), the resulting gain or loss would be recognized with a deferred gain or loss as permitted under the guidance. If a fair value approach had been supported, fair value fluctuations would be recognized as unrealized gains and losses, resulting in the need to recognize and adjust deferred assets and liabilities throughout the derivative duration and not just at termination (removal). As the deferred balance would be captured in cash flow testing (CFT) and principle-based reserving (PBR), including these unrealized fair value changes in the deferred balance would create an inconsistency in the amount used as an adjustment for CFT and PBR. Use of the amortized cost approach would result with only realized gains and losses being captured in these assessments. In addition to mirroring the SSAP No. 86 approach for highly effective hedges, the amortized cost method is perceived to be the simpler approach for both application and regulator review.

20. The ALM derivative standard provides guidance for discontinuation of the amortized cost approach based on whether the derivative terminates/matures, is de-designated (removed) from a qualifying highly effective program and when de-designated or captured within a program that no longer qualifies as highly effective. For derivatives that terminate or are removed from a highly effective program, the fair value at the time of termination/de-designation shall be recognized as a deferred asset (loss) or as a deferred liability (gain), which would be surplus neutral to the amount received/paid or as an offset to the current fair value recognition of the derivative. Open derivatives removed from a qualifying program are permitted to be immediately allocated to another highly effective derivative program. If this occurs, the fair value at the time of removal shall be recognized as a deferred asset/liability and shall reflect the amortized cost basis for the subsequent program. Allocation to another program is required within the quarter to be considered an immediate allocation. The reason for this time restriction is that once a derivative is removed from a qualifying program, it is required to be reported at fair value with fluctuations in fair value recognized as unrealized gains and losses. By requiring an immediate reallocation, a reporting entity would not have a period of time in which the derivative is reported at fair value with unrealized gains and losses recognized. Such re-allocations are not expected to be common

and would be expected only in situations in which derivative programs are being combined, which can be achieved with an immediate reallocation of the derivative.

21. For derivatives that are de-designated from, or captured within, a program that no longer qualifies as highly effective, the derivative no longer qualifies for the ALM derivative standard. The derivative shall be captured in scope of SSAP No. 86, which would require a fair value measurement method with fair value fluctuations reflected as unrealized gains and losses.

#### Amortization of Deferred Assets and Liabilities

22. The provisions of the ALM standard require amortization of deferred assets and liabilities over a timeframe that equals the weighted average life of the hedged liability portfolio, not to exceed 10 years. This 10-year amortization limit is consistent with SSAP No. 108. Provisions for a reporting entity to accelerate amortization, ensuring consistency in any accelerations to both deferred assets and liabilities, is also consistent with SSAP No. 108.

23. Although SSAP No. 108 has provisions that require a shortened 5-year amortization period for deferred assets and liabilities when programs no longer qualify, the ALM standard does not require a similar shortened 5-year amortization timeframe. SSAP No. 108 requires a shortened timeframe as it uses a fair value approach, and deferred assets and liabilities are recognized as derivative fair value fluctuations occur. Meaning, a deferred asset could be recognized for an open derivative, and while the derivative is still open, the program could be identified as no longer a qualifying program. Under the ALM standard, and the amortized cost approach, deferred assets and liabilities are only recognized when terminated/de-designated from a highly effective program. As such, there is no risk that a deferred asset or liability would be recognized prior to confirming that the program is highly effective. As the hedging benefit would have been achieved prior to the recognition of the deferred asset or liability, allowing amortization over the stated timeframe, not to exceed 10-years, is permitted even if a program is subsequently identified as no longer highly effective. Open derivatives in a program that no longer qualifies as highly effective are not permitted to be recognized as deferred assets or liabilities and are required to follow SSAP No. 86 with a fair value measurement method.

#### ALM Derivative Reporting

24. The ALM derivative reporting in the statutory financial statements is largely consistent with the provisions of SSAP No. 108, with discussion of the hedging program, including the hedging instruments and strategy, the assessment of hedging effectiveness, compliance with the clearly defined hedging strategy, and if there are excluded components. The disclosures also include information on cost, fair value, and a roll-forward of the deferred assets and liabilities, with a percentage comparison to total capital and surplus, as well as the expected amortization over the next 10 years.

25. The disclosures capture information on programs that no longer qualify as highly effective, or that a reporting entity elects to discontinue the ALM guidance, along with information on the outstanding hedging instruments that will be reclassified to a fair value measurement method.

26. For reporting, it is proposed that new subtotals be added to Schedule DB to segregate the derivatives under the ALM derivative standard.

#### Transition and Effective Date

27. The transition guidance proposes an effective date of January 1, 2027 to be applied on a prospective basis for approved, qualifying hedge programs in place on or after the effective date. The

guidance includes a one-time transition provision for approved qualifying programs that have existing open derivatives with recognized unrealized gains and losses. After initial transition, reporting entities are not permitted to retroactively allocate unrealized gains or losses to deferred assets or liabilities. The transition provisions do not permit reporting entities to reverse previously recognized realized gains and losses for recognition as deferred assets or deferred liabilities regardless of if the program would have qualified in scope of the statement.

28. A one-time transition provision has been included for approved, open qualifying programs to reclassify recognized unrealized gains and losses from derivative fair value changes to deferred assets and deferred liabilities. This is proposed to prevent situations in which reporting entities terminate and re-establish derivative programs as of the effective date. If the provision was not incorporated, then reporting entities that have previously established programs to allocate realized gains and losses from such hedging derivatives to IMR would be permitted to allocate the realized impacts from termination to IMR for future amortization. Reporting entities that had followed guidance in line with SSAP No. 86 and have not historically reclassified realized impacts from non-accounting effective hedging derivatives to the IMR would be at a disadvantage.

29. With the transition provision, unrealized gains and losses recognized for approved, qualifying programs would be reclassified as deferred assets and liabilities, with amortization beginning, and the current fair value of the derivative would be established as the amortized cost basis. With this approach, future fair value fluctuations will not be recognized until derivative termination or removal from a highly effective program. At that time, assuming the program still qualified as an effective hedge, the derivative fair value would be recognized as a deferred asset and liability and follow the amortization provisions in the statement.

30. The transition guidance is explicit that if there are open programs that will not qualify as an effective hedge under the statement, or for which the company will not elect to apply, then the open derivatives shall continue to be in scope of SSAP No. 86, reported at fair value, with fair value fluctuations reported as unrealized gains or losses.

31. The transition guidance also reiterates provisions expected in SSAP No. 7, where if a reporting entity had realized gains and losses from derivatives previously allocated to the IMR, those balances shall be amortized over a period not to exceed 10 years. Upon the effective date of SSAP No. 7, realized gains and losses attributed to derivatives that do not qualify as effective hedges under SSAP No. 86 are not permitted to be taken to the IMR.

**Exhibit A – Example**

Under the accounting provisions within this issue paper, all designated highly effective hedging instruments shall initially be reported in the financial statements at amortized cost. Amortized cost treatment will discontinue upon derivative maturity/termination or with de-designation (rebalancing) from a current highly effective program; at which time, the derivative fair value will be recognized as an asset or liability offset by a deferred asset (admitted) or deferred liability (i.e., fair value recognition is initially surplus neutral).

Under this statement, the ability to recognize a derivative at amortized cost, with recognition of the resulting fair value as a deferred asset or liability is limited to only the portion of the fair value fluctuation in the hedging instruments that is attributed to the hedged risk and meets the highly effective criteria. As detailed in this standard, the hedged risk may be designated as a specific component of the hedged item. For example, an entity may designate the duration difference between a portfolio of fixed income investments and a group of future annuity payments in a pension risk transfer (PRT) and/or structured settlements block of liabilities.

Reporting entities shall designate and utilize one of the permitted tests for determining whether the program is highly effective detailed in paragraph 11. For example:

- Clearly Defined Hedging Strategy (CDHS) characteristics:
  - Hedged item – Structured settlement liability net cash flows
  - Hedged risk – Duration difference between hedged item and designated fixed income asset portfolio supporting the hedged item
- On July 1, 202x, the company’s documented defined hedged liability item had a modified duration of 10 (i.e., a 1% change in interest rates will cause a 10% change in fair value in the opposite direction), while the documented defined supporting asset portfolio had a modified duration of 9.
  - The company designates a portfolio of derivatives to eliminate 100% of this duration difference (i.e., a highly effective derivative portfolio hedging this difference would place the modified duration of the fixed income assets with derivatives at between 9.8 and 10.25, which is 80%-125% of the modified duration difference). The company measures the effectiveness on July 1, 202x, and determines the hedge is highly effective (modified duration of supporting fixed income asset portfolio with derivatives = 10; modified duration of hedged liability = 10).
- On September 30, 202x, the company measures the effectiveness of the hedge program. Note: throughout the 3-month period, the company may have added various supporting fixed income assets, derivatives, and liability cash flows to this hedging relationship (all of which were clearly identified and classified as part of this linked portfolio at each inception). The hedge effectiveness is determined to be highly effective (e.g., modified duration of supporting fixed income asset portfolio with derivatives = 10; modified duration of hedged liability = 10).
- Example journal entries related to the above are as follows:

<b>SSAP109 Example</b>		
<i>Amortized Cost Method</i>		
<b>July 1, 202x:</b>	Fixed Income Assets = \$100 (Modified Duration = 9) Hedged Liabilities = \$100 (Modified Duration = 10) Fixed Income Assets Modified Duration With Derivatives = 10 Fixed Income Assets & Liabilities' Amortized Cost = Fair Value Derivatives Amortized Cost & Fair Value = 0	
<b>Sept. 30, 202x:</b>		
<u>Example Entries</u>		
Change in Value	N/A	
Derivative Maturity/Termination <i>(if applicable)</i>		
DR-CR: Cash	}	<i>surplus neutral</i>
DR-CR: Deferred Asset/Liability		
Amortization <i>(subsequent quarters for maturities/terminations, as applicable)</i>		
DR-CR: Deferred Asset/Liability	}	<i>surplus impact   over amort period</i>
DR-CR: Net Investment Income		
<u>Liquidation Value <i>(amounts rounded for simplicity)</i></u>		
<b>Liquidation Value <i>(fair value realization via asset sales, derivative settlement, reinsurance):</i></b>		
	<u>Assets</u> <u>Liabilities</u>	
BOP Fair Value (Liquidation Value)	100    100	<i>Net Flat Liquidation Value</i>
Value Change <i>(ex-derivatives)</i>	9    10	<i>Interest rates decrease 1%</i>
EOP Fair Value (Liquidation Value) <i>(ex-derivatives)</i>	109    110	<i>Net Liquidation Value changes due to duration difference (pre-hedging); also, bond reinvestment interest rates may not cover liabilities</i>
ALM Derivatives	1	<i>ALM derivatives (e.g., receive-fixed swaps in this scenario) will increase in value when rates fall (which offsets the above difference)</i>
EOP Liquidation Value <i>(w/derivatives)</i>	110    110	<i>BOP net flat Liquidation Value remains intact due to highly effective hedges</i>
<b>Balance Sheet Value</b>		
BOP	100    100	<i>Net flat</i>

IP. No. XX

Issue Paper

IP. No. XX	Issue Paper		
EOP ( <i>amort cost-ex derivatives</i> )	100	100	
EOP ( <i>derivative maturities</i> )	1	1	<i>per above journal entry (DR-CR: Cash; DR-CR: Deferred)</i>
EOP Balance Sheet Total	101	101	<i>Net flat (reflects highly effective hedge); deferral of asset/ liability brings balance sheet surplus equal to liquidation value</i>

De-Designation Example Entries, if applicable (using SSAP No. 86 as a guide):

De-designation

DR-CR: Derivative Asset/Liability

DR-CR: Deferred Asset/Liability

*Start amortizing*

} *current value*  
 } *(surplus neutral)*

Subsequent Accounting (MTM)

DR-CR: Derivative Asset/Liability

DR-CR: URGL (Surplus)

} *(prospective MTM in URGL)*

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2026/03-23-26SpringNationalMeeting/Meeting/HALMIssuePaper-SpringNM.docx>

**MEMORANDUM**

To: Kevin Clark, (IA), Chair of the Statutory Accounting Principles (E) Working Group

From: Commissioner Nathan Houdek, (WI), Chair of the Financial Condition (E) Committee

Date: January 12, 2026

Re: Implementation of 2024-06

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At the NAIC 2025 Fall National Meeting, the Financial Condition (E) Committee adopted *2024-06 Risk Transfer Analysis of Combination Reinsurance Contracts (2024-06)*, with modification by the Committee to clarify that any accounting changes resulting from the adopted clarifications shall be reported as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

Over several interim meetings leading up to the adoption of this item, there was much discussion of the ability of states to use permitted practices to allow for an orderly transition of existing agreements impacted by the clarifications. This would allow for domestic regulators to be aware of the impact of any such transactions, give them flexibility to reduce any disruption of a sudden surplus impact while still ensuring solvency, and provide disclosure to other users of the statutory financial statements. Through these discussions, members of industry noted that some states do not issue permitted practices as a matter of policy, in which case such states would not have the tools to exercise the necessary flexibility should they feel it is warranted.

During NAIC 2025 Fall National Meeting, the Committee also discussed the potential for further education of how permitted practices may be used to address transition issues for 2024-06, including consideration of any tools needed to accommodate states that do not allow permitted practices as a matter of policy. Committee members agreed to direct the Statutory Accounting Principles (E) Working Group to take steps to consider both matters in early 2026. This memorandum serves as this direction. For clarity, the Committee is neither mandating nor precluding any changes to the transition guidance for the adopted 2024-06.

If there are any questions regarding this request, please contact NAIC staff (Dan Daveline at [ddaveline@naic.org](mailto:ddaveline@naic.org)) for further clarification.

**MEMORANDUM**

**TO:** Commissioner Nathan Houdek, (WI), Chair of the Financial Condition (E) Committee  
Commissioner Michael T. Caljouw, (MA), Vice Chair of the Financial Condition (E) Committee

**FROM:** Kevin Clark (IA), Chair of the Statutory Accounting Principles (E) Working Group  
Dale Bruggeman (OH), Vice Chair of the Statutory Accounting Principles (E) Working Group

**DATE:** March 23, 2026

**RE:** Response on Implementation of Agenda Item 2024-06

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This memorandum is in response to the January 12, 2026, referral from the Financial Condition (E) Committee regarding implementation of agenda item *2024-06 Risk Transfer Analysis of Combination Reinsurance Contracts* (2024-06). The referral directed the Statutory Accounting Principles (E) Working Group to take steps to consider: 1) further education of how permitted practices may be used to address transition issues for 2024-06, and 2) if any tools were needed to accommodate states or jurisdictions that do not allow permitted practices as a matter of policy.

On January 26, 2026, NAIC Staff sent two items to the Chief Financial Regulators in all 56 member jurisdictions with reference to the referral from the E Committee:

1. An example permitted practice that included illustration and guiding notes for how states may consider a permitted practice for the transition of existing Co/YRT agreements.
2. A survey asking each member whether they need additional transition flexibility to be considered other than that provided through the permitted practice process.

NAIC Staff received responses from 47 members. All 47 responses stated that no additional flexibility other than that provided through the permitted practice process was needed.

These steps were discussed at the Spring National Meeting of the Statutory Accounting Principles (E) Working Group on March 23, 2026. As we have not identified any members needing further consideration of transition guidance, the Working Group concluded that no further steps are needed at this time and directed this update to be sent to the E Committee. Absent any further direction from the E Committee, the Working Group will consider this matter complete.

Please contact Robin Marcotte [rmarcotte@naic.org](mailto:rmarcotte@naic.org) for questions regarding this response.

Cc: Robin Marcotte, Julie Gann, Jake Stultz, Jason Farr, Dan Daveline

**Washington, DC** 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509

p | 202 471 3990

**Kansas City** 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197

p | 816 842 3600

**New York** One New York Plaza, Suite 4210, New York, NY 10004

p | 212 398 9000

[www.naic.org](http://www.naic.org)