

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

A. Consideration of Maintenance Agenda – Pending List

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

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

Summary:

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 (As a reminder, issue papers are not authoritative, and simply provide background and discussion elements for historical reference.)

Recommendation:

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

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

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

Summary:

On March 16, 2024, the Statutory Accounting Principles (E) Working Group adopted, as final, agenda item 2022-14 which exposed revisions to *SSAP No. 34—Investment Income Due and Accrued*, *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, *SSAP No. 93—Low Income Housing Tax Credit Property Investments*, and *SSAP No. 94R—Transferable and Non-Transferable State Tax Credits* to expand and amend

statutory guidance to include all tax credit investments regardless of structure and type of state or federal tax credit program, and all state and federal purchased tax credits.

After adoption of agenda item 2022-014, NAIC staff received questions from public accounting firms on the accounting guidance and example journal entries provided in the new guidance. It was noted that the SSAP No. 94R accounting guidance appeared inconsistent with the journal entry examples and the guidance in SSAP No. 93R for recognizing allocated tax credits was confusing when compared to the journal entry examples. Both Interested Parties and NAIC staff agreed that the journal entries accurately reflected the accounting for recognition and utilization of tax credits, as such revisions have been drafted to revise the accounting guidance to more accurately match up with the journal entry examples.

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

Recommendation:

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

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

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

Summary:

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

Recommendation:

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

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

Summary:

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

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

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

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

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

- 1) The requirements for the interest-rate hedging derivatives, including effectiveness assessments.
- 2) The accounting for the derivatives and the resulting gains/losses (including amortization if those gains/losses are deferred from immediate recognition), and
- 3) Disclosure and reporting requirements for the derivatives.

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

Recommendation:

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

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

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

- 1) Do Working Group members support the development of statutory accounting guidance that would defer derivative gains/losses for structures that hedge interest rate risk with amortization over time into income? (These derivative programs would not qualify as accounting effective under SSAP No. 86 and are not captured within the specific variable annuity guarantee guidance in SSAP No. 108.)
- 2) If further development / consideration of guidance is supported, the following items are noted for discussion:
 - a. Determination of effectiveness that permits the derivative program to qualify for the special accounting treatment.
 - b. Discussion of whether net deferred losses (reported as assets) would be admissible, and if so, any admittance limitations.
 - c. Macro-limits on admissible net deferred losses (reported as assets) and other “soft” assets. (For example, capturing IMR and derivative deferred net losses, and then perhaps considering other soft assets, such as DTAs, EDP equipment and software, goodwill, etc.)
 - d. Timeframes over which deferred items are amortized into income.
 - e. Extent of application across the industry. (NAIC staff notes that SSAP No. 108 is only applied by 9 entities, and from a review of the derivative disclosures for INT 23-01, only 14 entities captured derivative gains/losses in the IMR balance.)

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

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

Summary:

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

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

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

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

- 1) **Derivative Margin / Collateral Requirement:** There is no daily settling of a margin requirement at the derivative counterparty based on fair value changes in the derivative. **This is because the debt security in the structure serves as constant collateral, and any amount owed to the derivative counterparty would be taken first from debt instrument cash flows before payment is made to the investor. (The derivative counterparty is senior in priority.)** The repack structure limits the collateral obligation to the debt security in the structure, so there is no potential for the reporting entity to be obligated for more collateral beyond the linked debt security. This is a benefit of a repack in comparison to normal derivatives that do not have a collateral limit.
 - Although perceived as a benefit from the entity / investment maker as it reduces liquidity risk associated with margin calls, from a statutory accounting perspective, if the transactions were reported separately and the debt investment was pledged as collateral, the debt instrument would be identified as a restricted asset. If the repack is collectively reported as a debt instrument, there would be no identification that the debt instrument is restricted or encumbered as collateral to the derivative counterparty. This is because the restriction is at the SPV and not the reporting entity. Also, if separately engaging in derivative transactions, the derivative counterparty is known and reported. If a repack is collectively reported as a debt instrument, it is uncertain if the affiliation between the derivative counterparty and reporting entity would be known.
- 2) **Bond Reporting:** If these structures are accounted for as bonds, **reporting entities would determine measurement method and RBC impact based on the NAIC designation. Ultimately, this structure provides the reporting entity with a derivative arrangement, with no separate reporting or acknowledgement of the derivative instrument within the financial statements.**
 - From a statutory accounting perspective, if reporting is combined in a repack, derivatives would not be captured on Schedule DB and reporting entities would not be required to assess whether the derivative is effective under *SSAP No. 86—Derivatives*. (There is also a question on whether these arrangements would be captured in a reporting entity's derivative use plan filed with the domiciliary state.) Any obligation based on the performance of the derivative would not be reported in the investor's financials.
- 3) **RBC Impact:** By reporting as a bond investment, the reporting entity would incur a single RBC factor charge based on the NAIC designation on the debt security issued by the SPV.
 - From a statutory perspective, if the investment had been reported separately as a bond and a derivative, there would be RBC impacts for both components. The collateral pledged to the derivative counterparty (bond) would also be coded as a restricted asset. Whether the combined reporting results in a benefit to RBC depends on how the derivative would have been reported separately (at amortized cost or fair value) and whether the derivative is in a loss position. However, if reported separately, these components are captured in the RBC formula to reflect those dynamics.

The following identifies specific elements for discussion:

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

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

- The revised issuer is the SPV and the new instrument is a combined instrument of the debt instrument and the derivative.
- The fees for engaging in this instrument are built into the investment yield, resulting in a lower yield than what would have been received if the original debt instrument was still held.
- The NAIC designation (CRP rating) could also be impacted, as the revised instrument reflects the credit quality of both the original issuer and the derivative counterparty. From discussions, this is often a 1-level decrease in rating.

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

5.g. “Structured Notes” in scope of this statement are instruments defined in *SSAP No. 26R—Bonds* (often in the form of debt instruments), in which the amount of principal repayment or return of original investment is contingent on an underlying variable/interest¹. Structured notes that are “mortgage-referenced securities” are captured in *SSAP No. 43R—Loan-Backed and Structured Securities*.

There is also a question on whether all repacks should be considered structured notes. In a repack structure, if the debt security is liquidated early and there is an amount owed from the derivative performance, the SPV must first satisfy that amount to the derivative counterparty. This could result in a payment less than the principal amount being remitted to the insurer holder. Although the repack designs differ based on the derivative instrument and intent, in some situations this is only driven by the early liquidation of the structure and not a component that comes

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

into play if the structure is held to maturity. In those structures, the design would not be considered a structured note. However, in other designs, the repack may reflect a structured note regardless, and the structured note guidance should be followed.

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

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

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

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

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

Recommendation:

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

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

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

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

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

Summary:

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

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

Recommendation:

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

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

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

Summary:

FASB issued *ASU 2024-02, Codification Improvements—Amendments to Remove References to the Concepts Statements*, which removes references to FASB Concept Statements from the Codification. The main rationale for this amendment is to simplify the Codification by removing Concepts Statements in the guidance and draw a clear distinction between authoritative and nonauthoritative literature. The Board was concerned that references to Concept Statements would result in users incorrectly inferring that the referenced Concept Statements were authoritative.

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

Recommendation:

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

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

B. Consideration of Items on the Active Maintenance Agenda

1. Ref #2023-28: Collateral Loan Reporting

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

Summary:

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

- 1) Directed NAIC staff to prepare a memo to the Blanks (E) Working Group to incorporate an instructional change to the AVR instructions that allows collateral loans backed by mortgages to flow through AVR as an “Other Invested Asset with Underlying Characteristics of Mortgage Loans” as an interim step while further consideration occurs on the reporting of collateral loans and how collateral loans should flow through AVR. This action was contingent on RBC revisions, which were adopted by the Life Risk-Based Capital (E) Working Group on June 18, 2024. As such, this correspondence to the Blanks (E) Working Group was provided and received by the BWG on August 7.
- 2) Directed NAIC staff to proceed with sponsoring a blanks proposal for the reporting of collateral loans considering interested parties’ comments. NAIC staff notes that specific comments were not received on whether certain collateral loans should flow through AVR, so NAIC staff will be working in the interim with regulators and RBC staff to develop a proposal for initial consideration.

Recommendation:

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

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

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

Proposed Schedule BA Revisions:

(The existing collateral loan line will be deleted.)

Collateral Loans – Reported by Collateral that Secures the Loan

Backed by Mortgage Loans

Unaffiliated.....
Affiliated.....

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

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

Unaffiliated.....
Affiliated.....

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

Backed by Residual Interests

Unaffiliated.....
Affiliated.....

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

Backed by Debt Securities

Unaffiliated.....
Affiliated.....

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

Backed by Real Estate

Unaffiliated.....

Affiliated.....

(Collateral loans backed by an investment that would be captured in scope of SSAP No. 40 if held directly.)

Collateral Loans – All Other

Unaffiliated.....

Affiliated.....

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

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

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

Proposed AVR Revisions:

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

The following elements are requested for feedback during the exposure:

- 1) Should collateral loans backed by mortgage loans be included in the new collateral loan category, or should those continue to flow through the “Investments with the Underlying Characteristics of Mortgage Loans” permitted during the interim as the long-term resolution? If captured in the new collateral loan AVR category, to what extent should the underlying characteristic lines detailing quality / past due / foreclosure status (AVR lines 38-64) be duplicated?
- 2) What additional reporting lines (breakouts) of the proposed AVR categories are necessary to ensure appropriate look-through for RBC assessment purposes?

RESIDUAL TRanches OR INTERESTS

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

COLLATERAL LOANS

Backed by Mortgage Loans – Unaffiliated

Backed by Mortgage Loans - Affiliated

[Backed by SSAP No. 48 Investments – Unaffiliated](#)
[Backed by SSAP No. 48 Investments - Affiliated](#)
[Backed by Residuals – Unaffiliated](#)
[Backed by Residuals – Affiliated](#)
[Backed by Debt Securities – Unaffiliated](#)
[Backed by Debt Securities – Affiliated](#)
[Backed by Real Estate – Unaffiliated](#)
[Backed by Real Estate - Affiliated](#)
[All Other – Unaffiliated](#)
[All Other – Affiliated](#)

(Renumbering will Occur Based on the Resulting Lines)

ALL OTHER INVESTMENTS

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

C. Any Other Matters

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

The attachment details the items currently exposed by the FASB. Comments are not recommended at this time – NAIC staff recommend review of the final issued ASU under the SAP Maintenance Process as detailed in *Appendix F—Policy Statements*.

b. Update on Valuation Manual Adoptions (Robin – Attachment J)

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

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

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

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

As an additional note, preliminary assessments have occurred to review how companies treated the admitted negative IMR in cash flow testing (CFT). From this limited review, companies are not consistently reflecting negative IMR in CFT. Information was shared with the Chief Financial Regulators on examples of the correct,

incorrect and potential misreporting that has been noted to assist with review of domiciliary companies. Regulators are requested to contact NAIC staff with any questions.

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

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

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

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

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

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

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

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

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

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

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/08-13-24SummerNationalMeeting/Meeting/0-08-2024SAPWGMeetingAgenda.docx>