

**Statutory Accounting Principles (E) Working Group
Summer National Meeting
Comment Letters Received**

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April 17, 2024

Dale Bruggeman

Chair, NAIC Statutory Accounting Principles (E) Working Group (SAPWG)

Re: SAPWG 2024-04 (Conforming Repurchase Agreements)

Dear Chair Bruggeman:

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

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

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

Reinvested Asset Detail

NAIC staff are correct in pointing out that, while reinvested assets for conforming securities lending programs are listed CUSIP-by-CUSIP in Schedule DL, ACLI is not proposing a similarly detailed

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The American Council of Life Insurers is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 93 percent of industry assets in the United States.

accli.com

asset listing for conforming repo programs. Instead, ACLI believes that the following disclosures should provide regulators sufficient comfort in the integrity of the reinvested assets:

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

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

Annual Statement Instructions

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

Scope of “Acceptable Collateral”

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

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

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

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

Sincerely,



Colin Masterson

cc: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr and Wil Oden, NAIC

APPENDIX 1

5F(3) shows the bands of maturity for the repo liability itself – both maximums and “as of” for each quarter within each band

5F (4) discloses if any securities involved were in default

5F(5) shows the FV of the securities that are out on repo- both maximums and “as of” for each quarter. Only at YE do we need to disclose the book values (hence “XXX” in the quarters)

5F (6) shows FV and BV of securities out on repo by NAIC rating by asset class as of the current quarter end

5F (7) shows the value of the “collateral” received by type (cash vs securities) both “as of” and maximum for each quarter

5F (8) shows the bv/fv of the collateral received by type and NAIC rating as of the current quarter end

5F (9) shows the FV of the securities on loan +free collateral securities by remaining maturity.

5F (10) shows the BV (amortized cost) and FV of the Reinvested collateral by remaining contractual maturity as of the current quarter

5F (11) in aggregate displays the maximum liability and as of liability

APPENDIX 2

From the Official NAIC Annual Statement Instructions, insertion of conforming repurchase agreement program and subsequent reordering would be applied to the relevant portion of the General Interrogatories, Investment section, beginning on page 322.

- 25.04 *For the reporting entity's securities lending program, report amount for collateral for confirming program as outlined in the Risk-Based Instructions.*
- 25.05 *For the reporting entity's securities lending program, report amount of collateral for other programs.*
- 25.06 *For the reporting entity's repurchase agreement program, report amount of collateral for conforming programs as outlined in the footnote 5 F (7). Repurchase Agreements Transactions Accounted for as Secured Borrowing.*
- 25.07 *For the reporting entity's repurchase agreement program, report amount of overcollateralization for conforming programs, as the difference between footnote 5 F (5) and 5 F (7), Repurchase Agreements Transactions Accounted for as Secured Borrowing.*
- 25.08 *For the reporting entity's repurchase agreement program, report amount of collateral for other programs.*

May 30, 2024

Dale Bruggeman
Chair, Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners

Re: Exposure 2024-06; Risk Transfer Analysis on Combination Reinsurance Contracts

Dear Mr. Bruggeman:

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

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

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

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

company's surplus. It should not matter whether a potential reduction of the ceding company's surplus is due to the coinsurance premiums exceeding policy premiums or due to YRT reinsurance premiums exceeding policy charges for the mortality risk, since the two reinsurance arrangements are connected.

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

Sincerely,

Sheldon Summers, FSA, MAAA
Claire Thinking, Inc.
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CC: Kevin Clark, Vice Chair; Julie Gann, NAIC; Robin Marcotte, NAIC

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May 31, 2024

Mr. Dale Bruggeman, Chairman
 Statutory Accounting Principles Working Group
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RE: Interested Parties Comments on the Items Exposed for Comment by the Statutory Accounting Principles Working Group with Comments due May 31st

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the following items that were exposed for comment by the Statutory Accounting Working Group (the Working Group) during the NAIC National Meeting in Phoenix with comments due May 31st.

Ref #2022-12: Review of INT 03-02: *Modification to an Existing Intercompany Pooling Arrangement*

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

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

SSAP No. 25—Affiliates and Other Related Parties

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

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

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

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

- a. The appropriate valuation basis to be used for assets and liabilities that are transferred among affiliates in conjunction with the execution of a new intercompany pooling agreement(s) that serves to substantively modify an existing intercompany pooling arrangement is statutory book value for assets and statutory value for liabilities.
- b. The net amount of the assets and liabilities being moved among entities as a result of a modification to an intercompany pooling shall be used to settle the intercompany payable/receivable (i.e., the assets that are transferred in conjunction with the modification) to minimize the amount of assets transferred in the modification.

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

New disclosure in paragraph 13

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

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

intercompany pooling arrangement that involved the transfer of assets with fair value that differ from costs or amortized cost.

Ref #2023-26: ASU 2023-06, Disclosure Improvements

The Working Group exposed revisions to adopt, with modification, certain disclosures from *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*, for statutory accounting within *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The Working Group also requested input from regulators and interested parties on whether the derivative cash flow accounting policy disclosure, described in ASC 230-10-50-9, would provide useful information to regulators.

Interested parties have no comments on this item.

Ref #2024-01: Bond Definition – Debt Securities Issued by Funds

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

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

The changes captured within this agenda item propose to revise the principles-based bond definition guidance to clarify that debt securities issued by funds representing operating entities qualify as ICOs. This would allow consistent treatment of similar funds regardless of SEC registration status.

Guidance is also proposed to assist with distinguishing whether a fund represents an operating entity or a securitization vehicle.

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

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

Ref #2024-02: ASU 2023-01, Leases (Topic 842), Common Control Arrangements

The Working Group exposed revisions to adopt, with modification, *ASU 2023-01, Leases (Topic 842), Common Control Arrangements* in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* and *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*. The proposed revisions reject the practical expedient for private companies and not-for-profit entities but recommend adoption of the leasehold improvement guidance from the ASU, with modification to the language to align with existing guidance in *SSAP No. 19* and *SSAP No. 73*.

Interested parties have no comments on this item.

Ref #2024-03: ASU 2023-08, Accounting for and Disclosure of Crypto Assets

The Working Group exposed revisions to adopt, with modification *ASU 2023-08, Accounting for and Disclosure of Crypto Assets* for statutory accounting. The revisions propose to adopt the definition of crypto assets from the ASU but establishes within *SSAP No. 20—Nonadmitted Assets* that directly held crypto assets are nonadmitted assets for statutory accounting. Additionally, the exposure includes the intent to nullify *INT 21-01, Accounting for Cryptocurrencies*. This agenda item does not intend to modify the general interrogatory disclosures that had previously been added to the Annual Statement blanks and instructions.

Interested parties have no comments on this item.

Ref #2024-04: Conforming Repurchase Agreements

The Working Group exposed this agenda item and directed NAIC staff to work with industry in determining current application/interpretation differences on the reporting of securities lending collateral and repurchase agreement collateral for possible consistency revisions.

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

Ref #2024-05: A-791 Paragraph 2.c.

The Working Group exposed revisions to remove the first sentence of *Appendix A-791—Life and Health Reinsurance Agreements* (A-791), paragraph 2c’s Question and Answer. In addition, the Working Group directed NAIC staff to notify the Valuation Analysis (E) Working Group, the Life Actuarial (A) Task Force and the Reinsurance (E) Task Force of the exposure.

Interested parties have no comments on this item.

Ref #2024-06: Risk Transfer Analysis on Combination Reinsurance Contracts

The Working Group exposed revisions to incorporate guidance to *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* that is consistent with the guidance currently in *SSAP No. 62R—Property and Casualty Reinsurance*, Exhibit A - Implementation Questions and Answers, question 10. This guidance requires risk transfer to be evaluated in aggregate for contracts with interrelated contract features such as experience rating refunds. The revisions also add a reference in *Appendix A-791 Life and Health Reinsurance Agreements* (A-791), paragraph 6 regarding the entirety of the contract. In addition, the Working Group directed NAIC staff to notify the Valuation Analysis (E) Working Group, the Life Actuarial (A) Task Force and the Reinsurance (E) Task Force of the exposure.

Overview

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

Comments

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

The exposure states that “the substance of this interdependent agreement design is more akin to the risk transferred under a nonproportional reinsurance agreement. This is because in aggregate, proportionate amounts of the risk are not transferred.” We believe that the determination of a contract being proportional or non-proportional should continue to be based on a careful consideration of the specific contractual terms of the reinsurance agreement(s) in question and the

resulting reinsurance coverage provided to the ceding entity rather than the adoption of any automatic and universal conclusion for all combination coinsurance / YRT arrangements. Such belief is supported by the currently codified statutory guidance. SSAP 61R separately defines coinsurance, modified coinsurance, YRT and non-proportional reinsurance arrangements and provides applicable risk transfer guidance for each. Specifically, a non-proportional reinsurance arrangement is defined as follows:

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

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

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

Any risk transfer assessment of combination coinsurance / YRT arrangements should be conducted in the context of applicable SAP guidance and based on the facts and circumstances of the relevant reinsurance agreement(s). SAP guidance should be applied both individually to each of the coinsurance and YRT components of the agreement(s) and, in addition, an overall assessment of the combined agreement should be performed consistent with the requirement that “the agreement shall constitute the entire agreement between the parties with respect to the business being reinsured thereunder[.]” Interested parties agree that if any individual component of a combination coinsurance / YRT arrangement does not pass statutory risk transfer, then the aggregate transaction would not pass statutory risk transfer regardless of how it is structured. This overall assessment should include, among other things, an evaluation of (i) the coinsured business to ensure that all significant risks inherent in the reinsured business are transferred, and (ii) the YRT arrangement to ensure that the agreement does not violate any of the conditions described in Appendix A-791, paragraphs 2.b., 2.c., 2.d., 2.h., 2.i., 2.j. or 2.k.

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

- YRT reinsurance results in the assumption of mortality risk for the lifetime of the underlying business. In such a context, the statutory valuation framework already defines a reasonably prudent valuation mortality basis for direct writers when reserving for such risks. As such, this same valuation mortality basis should also serve as a reasonable and prudent benchmark for reinsurers to consider when committing to the assumption of mortality risk for the lifetime of the underlying business.
- The determination of reserve credit relates to the underlying statutory reserves that are held by the ceding entity and determined based on statutory principles and assumptions. It would be inconsistent to determine a reserve credit using GAAP principles and assumptions in relation to underlying reserves that are computed using statutory principles and assumptions.

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

Summary Conclusion

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

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

Interested parties do not believe that the SAPWG exposure pertaining to risk transfer represents a clarification but instead is a significant departure from the currently accepted practices for evaluating risk transfer for life reinsurance contracts under SAP guidance. Therefore, if the exposure remains unchanged, the resulting consequences could be material, and insurers may not be able to unilaterally renegotiate existing agreements even if they desired to do so. Thus, in addition to the broader concerns with the proposal, retroactively changing the historical accounting treatment for existing reinsurance agreements would be inappropriate.

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

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

Ref #2024-07: Reporting of Funds Withheld and Modco Assets

The Working Group exposed a project which proposes to add a new part to the reinsurance Schedule S in the Life/Fraternal and Health annual statement blanks and Schedule F in the Property/Casualty (P/C) and Title annual statement blanks, which is similar in structure to Schedule DL and would include all assets held under a funds withheld arrangement and would include a separate signifier for modified coinsurance assets.

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

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

Granularity of reporting may expose proprietary competitive information

While we support giving regulators the information they need to regulate properly, there are issues of commercial sensitivity with having funds withheld and modco assets made public. Concerns

have been expressed about the level of granularity that will be required. Investment strategy is a critical component of reinsurance pricing, which is considered proprietary, and the level of reporting could force companies to share this information publicly. Requiring public disclosure of such proprietary information may reduce the availability of funds withheld collateralized deals in the marketplace. Interested parties urge the Working Group to consider other non-public alternatives which would provide regulators with the information they require while maintaining the confidentiality of proprietary competitive information.

Identifying specific assets under Funds Withheld arrangements without trust accounts is not truly possible

The proposal to report assets held under funds withheld arrangements is also problematic for funds that are not held in trust accounts. Interested parties note that for property casualty companies in particular, many funds withheld arrangements do not require funds to be held in trust accounts. Rather, the funds are maintained by the insurer in their own cash or short-term investment accounts and are allowed to be co-mingled with other cash or invested assets of the insurer. The agreements that govern such funds withheld may specify an interest rate that is applied to the funds withheld for purposes of crediting the funds with interest, but there is no specific invested asset associated with the funds held. Therefore, it would not be possible to identify and report specific assets deemed to be the “funds withheld” under these arrangements.

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

A new asset schedule will require significant time, effort, and cost to build

A new schedule will increase the complexity of asset reporting requirements. To facilitate the required reporting, commercial annual statement reporting vendors will need to build the new schedule into their software. Beyond that, many companies note additional work may be required to modify their investment and/or accounting systems to populate the proposed new schedules with the assets associated with funds withheld or modco agreements. Others may not have the ability to make changes to their investment and/or accounting systems and would need to create manual processes including appropriate controls to meet the reporting obligations. Allocation processes may need to be established for situations where an asset is backing more than one agreement. This will all require significant time, effort, and cost. Additionally, in a significant part of the industry, the staff and vendor resources that would be involved in implementing the necessary changes for the funds withheld and modco asset schedule are currently heavily involved in the new Bond Definition project that is set to be effective reporting year 2025. Having both issues active at the same time would cause significant resource strain across the industry.

Finally, we note there are several concurrent efforts at the NAIC related to reinsurance. We suggest the NAIC take a broader view to address these concerns and ensure coordination of the efforts at LATE, the Working Group, and other NAIC groups working on these issues. Such an approach

avoids duplication of work, promotes consistency, and ensures concerns are addressed and understood broadly.

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

Ref #2024-08: SSAP No. 21R, 26R, 30R, 32R, 43R, & 48 – Consistency Revisions for Residuals

The Working Group exposed consistency revisions for residuals so that *SSAP No. 26R—Bonds* (Effective 2025), *SSAP No. 30R—Unaffiliated Common Stock*, *SSAP No. 32R—Preferred Stock*, *SSAP No. 43R—Asset-Backed Securities* (Effective January 1, 2025), and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* refer directly to *SSAP No. 21R—Other Admitted Assets* for the formal definition and accounting and reporting guidance.

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

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

To ensure consistency in definitions and guidance, this agenda item proposes to centralize the guidance in SSAP No. 21R and use a consistent approach in the other investment SSAPs to exclude residuals from the scope of those investment SSAPs and refer directly to SSAP No. 21R.

Interested parties support the proposed changes.

Ref #2024-09: SSAP No. 2R – Clarification

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

Interested parties have no comments on this item.

Ref #2024-10: SSAP No. 56 – Book Value Separate Accounts

The Working Group exposed this agenda item and directed NAIC staff to work with industry in determining current application and differences in the treatment of book value assets within the separate account and to prepare suggested revisions to codify an approach within *SSAP No. 56—Separate Accounts*.

Interested parties is currently working with NAIC staff and the IMR Adhoc Working Group on this agenda item.

Ref #2024-11: ASU 2023-09, Improvements to Income Tax Disclosures

The Working Group is proposing expanded statutory income tax disclosures by adopting, with modification, *ASU 2023-09, Improvements to Income Tax Disclosures*. The additional disclosures primarily focus on tax jurisdictional information, impacting both taxes paid and the rate reconciliation. Interested Parties does not believe the additional disclosures as written provide useful or better information on a company's tax position in the context of statutory financial statements.

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

- One of the main changes in ASU 2023-09 is an expanded rate reconciliation, applicable to only public filers. Requiring expanded rate reconciliation disclosures to all insurance companies expands the scope of ASU 2023-09 and will create an additional burden for non-public insurance companies.
- Under paragraph 4 of SSAP No. 101, state income taxes are not accounted for under SSAP No. 101. They are instead accounted for under SSAP 5R and included in taxes, licenses, and fees above the line. During the drafting process of SSAP No. 101 state taxes were intentionally not recorded as part of income tax expense in the statutory financial statements because of the immateriality of this type of tax to insurance companies. Given that insurance companies primarily pay premium taxes in lieu of state income taxes (all but nine states have exempted insurance companies from state income tax), state tax income tax disclosures will have limited value from a statutory reporting perspective. Of the states that charge income tax, several have provisions that significantly reduce the net tax impact, including premium tax credits. State tax disclosures will therefore likely require additional guidance regarding what to report (e.g., before or after any credits for premium tax paid, consideration for mixed group and combined reporting).
- ASU 2023-09 was in part adopted to provide additional foreign tax information to investors to enable them to "understand an entity's exposure to potential changes in jurisdictional tax legislation" over worldwide income. These additional disclosures were also intended to help investors identify where companies operate in low-tax or no-tax jurisdictions. Foreign

subsidiaries and affiliates are not consolidated into statutory statements, so tax jurisdiction information would not be as applicable as it would in consolidated GAAP group reporting. Moreover, Schedule Y already provides regulators with subsidiary information, including the jurisdiction such subsidiaries operate. Material foreign tax amounts will be limited to few insurers who have branches, which are fully taxable in the jurisdictions where they operate as well as in the U.S., with foreign tax credits offsetting the U.S. tax due. This dual taxation results in branches generally having tax rates of at least 21% even if the branch operates in a low or no tax jurisdiction.

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

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

Ref #2024-12: Updates to SSAP No. 27

The Working Group exposed revisions to *SSAP No. 27— Off-Balance-Sheet and Credit Risk Disclosures Risk and Financial Instruments with Concentrations of Credit Risk* which would remove references to FAS 105 and instead specify the assets excluded from SSAP No. 27.

Additionally, revisions were exposed to the Annual Statement Instructions for Note 16 to add an “other” category to the derivatives tabular disclosure, add a non-derivative financial instrument disclosure and additional narrative disclosure examples for non-derivative financial instruments. The added disclosure would include disclosures regarding loan commitments, standby letters of credit, financial guarantees, and other related items.

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

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

Ref #2024-14EP: Accounting Practices and Procedures Manual Editorial

The Working Group exposed revisions to the “Revised” and “R” identifiers from SSAP titles and SSAP references throughout the Accounting Practices and Procedures Manual. NAIC staff consider the “Revised” and “R” identifier to no longer be useful.

Interested parties have no comment on this item.

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Please feel free to contact either one of us if you have any questions or would like to discuss further.

Sincerely,

D. Keith Bell

Rose Albrizio

cc: Interested parties
NAIC staff

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June 21, 2024

Mr. Dale Bruggeman, Chairman
 Statutory Accounting Principles Working Group
 National Association of Insurance Commissioners
 1100 Walnut Street, Suite 1500
 Kansas City, MO 64106-2197

RE: Interested Parties Comments on the Item Exposed for Comment by the Statutory Accounting Principles Working Group with Comments due June 21st

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the following item that was exposed for comment by the Statutory Accounting Working Group (the Working Group) during the NAIC National Meeting with comments due June 21st.

Ref #2019-21: Issue Paper – Bond Project

The Working Group exposed revisions to the draft issue paper documenting the most recent historical discussions and decisions with the principles-based bond project to reflect the final actions and adoption. The issue paper documenting the discussions and decisions within the principles-based bond project has been updated to reflect the final actions. Additionally, consistency edits and reorganization has been reflected as the authoritative statutory accounting revisions have been adopted.

Interested parties have the following three comments:

- Paragraph 32c – Editorial edits are needed to remove the following language which is included twice, “In contrast, an ABS Issuer has a primary purpose of raising debt capital.....These features support the entity’s primary purpose of raising debt capital.”
- Paragraphs 107, 110, 111, 113, & 115 – The example number cadence is off such that each needs to be reduced by 1 (e.g., in paragraph 107, Example 5 Rationale needs to be shown as Example 4 Rationale, etc.

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

* * *

Please feel free to contact either one of us if you have any questions or would like to discuss further.

Sincerely,

D. Keith Bell

Rose Albrizio

cc: Interested parties
NAIC staff