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

A. <u>Consideration of Maintenance Agenda – Pending List</u>

1. Ref #2025-18: ASU 2019-12, Simplifying the Accounting for Income Taxes
2. Ref #2025-19: Private Securities
3. Ref #2025-20: Debt Disclosures
4. Ref #2025-21: Retirement Plans Held at NAV

Ref #	Title	Attachment #
2025-18 (Wil)	**ASU 2019-12, Simplifying the Accounting for Income Taxes**	**A – Form A**

<u>Summary:</u>
In December 2019, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2019-12, Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes* (the ASU) to reduce complexity in income tax accounting standards. The ASU removes several exceptions to calculating and assessing income taxes and tax deferrals. The ASU also simplifies the guidance for franchise (non-income based) taxes, goodwill tax basis step-ups, allocation of deferred tax to subsidiaries, reflection of changes to tax law in the interim period calculation of the effective tax rate, and other minor improvements.

<u>Recommendation:</u>
NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions, to adopt with modification ASU 2019-12 Simplifying the Accounting for Income Taxes in *SSAP No. 101—Income Taxes*. NAIC staff noted that paragraphs 19 and 20 of APB No. 28 were included in SSAP No. 101 by reference rather than through direct incorporation. For clarity and ease of use, NAIC staff also recommend fully incorporating existing guidance in APB 28, paragraph 19 and prior APB paragraph 20 as modified by the ASU 2019-12 into SSAP No. 101.

NAIC staff noted that most of the ASU provides clarification on topics not applicable to statutory accounting. For example, statutory accounting does not have a consolidation concept as all insurers report individually and state taxes (which would include franchise taxes) are not deferred within statutory accounting. Additionally, the example problems revised by the ASU are not part of SSAP No. 101.

The only ASU revisions recommended for adoption are those to ASC 740-270-25-5. This paragraph was created in the Codification by carrying over *Accounting Principles Board Opinion (APB) No. 28, Interim Financial Reporting*, paragraph 20, which was previously adopted for statutory accounting purposes into SSAP No. 101.

Ref #	Title	Attachment #
2025-19 (Julie)	**Private Securities**	**B – Form A**

Summary:
This agenda item has been prepared, in response to interest expressed by regulators, to propose new disclosure and reporting requirements to better identify different types of private placement securities. Specifically, although broad information on private placement securities can be identified when a company reports a Private Placement Number (PPN) instead of a CUSIP, the intent is to distinguish between different types of private placements, for example those that reflect unregistered resales compliant with Rule 144A from other private placements. Further, as identifying PPNs from public CUSIPs requires scrutiny of the reported identifier, the revisions intend to make it easier to quickly identify a private placement security in the investment schedules. These revisions are supported due to the increase in private placement securities, the increase in private letter ratings often used for private placements, as well as potential concerns on the increase in, and reliance on, level 3 fair values for private placement securities.

This agenda item proposes new individual investment reporting disclosures, to be satisfied through the investment schedules on classifying private placements, as well as new note disclosures to provide aggregate reporting information on aspects of private placements within the financial statements. These disclosure requirements are proposed to be effective December 31, 2026, for reporting in the year-end 2026 financials.

The agenda item details the different types of private placement securities, including Rule 144A, Regulation D, and the Section 4(a)(2) exemption (which is the general SEC exemption for items that do not involve a "public offering"). The agenda item proposes new disclosure requirements for all investment SSAPs to identify and classify private placement securities in the investment schedules and to capture new aggregate reporting details. This aggregate disclosure intends to provide key information by investment schedule and type of security (public and private placement type.) For example, it proposes to capture in aggregate, the BACV, total fair value, the fair value that represents level 2 and level 3 of the fair value hierarchy, deferred interest, paid-in-kind interest, and the total BACV with a PLR designation for each private security type (144A, Reg D, Section 4(a)(2)).

Recommendation:
NAIC staff recommend the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to incorporate a new disclosure to identify private placement securities in the investment schedules and to incorporate an aggregate disclosure that details key investment information by type security (public and private placement type) as detailed in the agenda item. This item is proposed to be effective December 31, 2026. This item is proposed to have a shortened comment period ending September 19, 2025. After assessing comments from the exposure, the Working Group will consider sponsoring a blanks proposal to incorporate the reporting changes.

Ref #	Title	Attachment #
2025-20 (Julie)	**Debt Security & Residual Interest Disclosures**	**C – Form A**

Summary:
This agenda item has been prepared to propose consistent disclosures for certain reporting elements between *SSAP No. 26—Bonds, SSAP No. 43—Asset-Backed Securities* and for non-bond debt securities and residuals in *SSAP No. 21—Other Admitted Assets*. For example, the existing disclosure requirements for securities in an unrealized loss position and securities with other than-temporary impairments (OTTI) have different reporting requirements within the three standards. This review includes assessment and comparison of the "annual audited only" disclosures (no SAP template/disclosure) for consistency and improved utilization of existing disclosures. Lastly, this agenda item proposes the inclusion of a new general interrogatory to identify whether a company is reporting residuals under the Allowable Earned Yield (AEY) or Practical Expedient (PE) measurement method and if they are transitioning from the PE to AEY approach.

Discussion of key revisions is within the agenda item, but the following summarizes the primary edits reflected:

1) Expansion of the existing annual audited only SSAP No. 26 and SSAP No. 43 disclosure on bond sale proceeds and the resulting realized gain or loss to be a statutory data-captured disclosure. The disclosure has also been revised to include proceeds and realized gain/loss information for maturities and has been added to include bonds in SSAP No. 2 and non-bond debt securities in SSAP No. 21.

2) Clarifications to the reporting requirements for the bonds by maturity date disclosure. This bond detail is captured in Schedule D, Part 1A, but a summary presentation by maturity date bucket is required in the annual audit report. Additionally, a comparative summary disclosure was added to SSAP No. 21 for non-bond debt securities. (Schedule D, Part 1A is limited to bonds, therefore the non-bond debt securities are not captured in that detail.)

3) The disclosure of impaired securities (when fair value is less than amortized cost) has been revised to be consistently included in the statutory financial statements for all debt securities with a data-captured template. Clarity as to what shall be captured in this disclosure (all impaired securities regardless of measurement method) has also been incorporated. The revisions eliminate the required quarterly disclosure requirement, but regulator comments are requested on whether the interim reporting should be retained. (Prior to these edits, the disclosure was a required interim / annual statutory disclosure for SSAP No. 43 only. The disclosure was annual audited only under SSAP No. 26.)

4) In the annual statement instructions and template, the disclosure for bifurcated other-than-temporary impairment has been expanded to include non-bond debt securities as well as residual interests that follow the allowable earned yield method.

5) Disclosures have been incorporated for residuals in scope of SSAP No. 21 to be consistent with other invested asset disclosures.

6) Within the current debt security SSAPs, some statements refer to disclosure requirements in other SSAPs. To eliminate the potential for missing these disclosure requirements, the disclosure requirements have been fully incorporated into each SSAP.

Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing as a SAP clarification and expose SSAP and Annual Statement reporting revisions as illustrated in the agenda item with a proposed effective date of December 31, 2026. With exposure, NAIC staff recommends that the Working Group sponsor a blanks proposal.

The proposed revisions intend to improve utilization of existing disclosures, clarify guidance, and incorporate consistent locations and frequency for specific debt security disclosures. The edits also propose to include disclosures for residuals that identify the company's measurement method, whether the company is transitioning from the PE to the AEY method, and for those following the AEY method, information comparable to SSAP No. 43 for when an OTTI has (or has not) been recognized for impaired securities. The proposed revisions also converge and clarify language across SSAPs and/or remove references that implies quarterly reporting when the disclosure is annual audited only.

Ref #	Title	Attachment #
2025-21 (Wil)	**Retirement Plans Held at NAV**	**D – Form A**

Summary:

In May 2025, the Working Group received an informal comment from industry requesting clarification on how to complete fair value disclosures for retirement plan assets measured at net asset value (NAV). The comment noted that certain retirement plan assets are most appropriately classified using the NAV practical expedient within the fair value hierarchy. While this approach aligns with the guidance in *SSAP No. 100—Fair Value*, NAV is not explicitly referenced as a leveling option in either *SSAP No. 92—Postretirement Benefits Other Than Pensions* or *SSAP No. 102—Pensions*. Although the use of NAV as a measurement method is strongly implied within SSAP Nos. 92 and 102, the absence of a direct reference to NAV has caused some confusion. Based on paragraph 3 of SSAP No. 100, NAIC staff agrees that the NAV practical expedient is an acceptable reporting method for retirement plan assets, and that the disclosure guidance in SSAP Nos. 92 and 102 can be clarified accordingly. NAIC staff also noted that under U.S. GAAP the NAV practical expedient is allowed to be used for plan assets held in defined benefit plans (ASC 960-325) or defined contribution plans (ASC 962-325).

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions to *SSAP No. 92—Postretirement Benefits Other Than Pensions* and *SSAP No. 102—Pensions* to clarify that assets held at NAV shall be included in the required fair value disclosure.

B. Consideration of Items on the Active Maintenance Agenda

1. Ref #2024-21: Investment Subsidiaries Classification

Ref #	Title	Attachment #
2024-21 (Wil)	**Investment Subsidiaries Classification**	**E – Form A**

Summary:

On March 24, 2025, the Working Group received comments on options to clarify accounting guidelines and resulting reporting impacts for investment subsidiaries. During this meeting, the Working Group directed staff to begin a separate agenda item addressing residential mortgage loans held in statutory trust and deferred this concept agenda item to allow additional time for consideration.

This agenda item was drafted to address questions and concerns which came up regarding the classification of investments as "investment subsidiaries" in Schedule D-6-1: Valuation of Shares of Subsidiary, Controlled or Affiliated Companies and in the Life RBC formula on pages LR042, LR043 and LR044. The concept of an "investment subsidiary", (an SCA that solely holds assets for the benefit of the reporting entity) was originally recognized in SSAP No. 46, which required these entities to be measured using the equity method adjusted to statutory accounting principles. This approach aimed at aligning the SCA's valuation with what it would be if the underlying assets were held directly. SSAP No. 46 was replaced by SSAP No. 88 in 2005, which eliminated the investment subsidiary concept. The investment subsidiary guidance in the annual statement instructions was not deleted when the concept was eliminated from statutory accounting guidance. This is presumably because of the different charge that RBC applies to such entities if they meet specific criteria. SSAP No. 88 was later superseded by SSAP No. 97 in 2007, which continued to exclude the concept.

Under SSAP No. 97, SCAs that merely hold assets and do not conduct insurance, or conduct specified activities or meet the revenue test are reported under paragraph 8.b.iii using audited U.S. GAAP equity value,. It should be noted that *SSAP No. 25—Affiliates and Other Related Parties* is the only SSAP which retains references to investment subsidiaries and does so as part of the guidance for non-economic transactions, where gains on asset transfers are deferred until permanence is confirmed.

Recommendation:

Based on discussions with regulators, NAIC staff recommend revisions to eliminate the investment subsidiary concept from the instructions, effective December 31, 2026. As such, NAIC staff recommend exposure of proposed edits to D-6-1 and AVR along with Working Group direction to sponsor a corresponding Blanks proposal. These edits do not result in SSAP revisions as the concept of an investment subsidiary does not exist in SSAP No. 97. Upon adoption of the proposed blanks changes, NAIC staff recommends a referral to the Life Risk-Based Capital (E) Working Group to eliminate the corresponding RBC instructions. The edits that would be proposed in this referral are also illustrated within the agenda item. NAIC staff also requests additional industry comments on any other investment classes currently reported as investment subsidiaries that may warrant separate consideration. At present, residential mortgage loans held within statutory trusts, as outlined in agenda item 2025-13, are under discussion for potential inclusion in *SSAP No. 37—Mortgage Loans*.

It is important to note that this change does not prohibit insurers from owning investment subsidiaries. The Investments of Insurers Model Act (Model 280; see Authoritative Literature section) permits insurers to hold investments through such subsidiaries. However, Model 280 only authorizes the structure and does not provide accounting or reporting guidance. Accounting and reporting guidance is primarily established by the SSAPs and, secondarily per the statutory hierarchy, the Annual Statement Instructions.

The SSAPs previously contained specified guidance for investment subsidiaries but it was ultimately removed due to persistent challenges in distinguishing investment subsidiaries from operating subsidiaries. Although a dual test based on revenue and activity was originally used for making this determination, regulators observed that the dual test was being creatively interpreted to gain favorable RBC treatment. The current issue stems from the fact that while the SSAP guidance for investment subsidiaries was eliminated, the corresponding Annual Statement Instructions for Schedule D-6-1 and AVR regarding investment subsidiaries were not updated accordingly. As a result, insurers have continued to be able to report investment subsidiaries under that framework, which effectively allows look-through RBC treatment to be circumvented for investments held in investment subsidiaries. Because investment subsidiaries are no longer recognized under SSAPs, there is no applicable statutory accounting or measurement guidance for investments held through them. This also means there are no mechanisms to ensure compliance with SSAP requirements, state investment limitations, or the RBC calculation. Furthermore, Schedule D-6-1's instruction requires reporting entities to measure investment subsidiaries using "imputed statutory value" which is an undefined term and conflicts with SSAP No. 97 which requires measurement based on audited U.S. GAAP. Reporting of the imputed SAP valuation for RBC also relies solely on company-provided records.

It is anticipated that SCAs previously reported as investment subsidiaries would be subject to the guidance stipulated for *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, paragraphs 8.b.ii or 8.b.iii depending on whether the investment meets the activity test. The removal of investment subsidiaries from the Annual Statement Instructions aligns with their prior elimination from the SSAPs. While reintroducing the investment subsidiary concept under SSAP No. 97 was considered, ongoing concerns remain regarding the difficulty in distinguishing operating subsidiaries from investment subsidiaries, as well as concerns over the complexity of changes which would be required to clarify look-through accounting treatment, RBC validation, and transparency of reporting.

C. Any Other Matters

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

The IMR Ad Hoc group has continued to meet regularly since their first meeting in Oct. 2023. Since the 2025 Spring National Meeting, the discussions have focused on IMR from reinsurance transactions as well as the concept to prove reinvestment for sold fixed-income instruments when a realized gain/loss is taken to IMR. The IMR Ad Hoc group calls will be scheduled to occur between the 2025 Summer and Fall National Meetings.

- Reinsurance Discussion: The focus has been on how IMR should be considered when reinsurance collateral is required for reinsurance credit. Although existing guidance in SSAP No. 61 paragraph 50a and Schedule S, Part 4 are explicit that positive IMR should increase the ceding entity's liability requirement, with the discussions, it was noted that some companies were not following this guidance and were instead only including positive IMR if it was required as part of the reinsurance treaty. NAIC staff confirmed that this approach was not consistent with the statutory accounting requirements, and companies that were not including positive IMR in the calculation should have a permitted or prescribed practice. The discussion then moved to whether consideration of IMR in the collateral requirement should be symmetrical or asymmetrical, meaning whether negative IMR should reduce the liability/collateral requirement since positive IMR increases the liability/collateral requirement. The ACLI presentation proposed symmetrical treatment, with the position that the admitted/nonadmitted status of the IMR at the ceding entity prior to the transfer should not be a factor in determining reinsurance collateral reduction. Regulator comments noted that the surplus impact from these transactions should be neutral, meaning that a reporting entity should not receive a surplus benefit, while also accepting a lower collateral requirement, from the transfer of nonadmitted negative IMR in a reinsurance agreement. In other words, the math should work such that an overall nonadmittance of a portion of negative IMR (reduction to surplus) should not be reduced due to using negative IMR as a form of collateral (that could increase surplus of that nonadmittance amount).

- Proof of Reinvestment: With the ability to admit net negative IMR, there has been a focus for companies to prove that the proceeds from sales of fixed-income investments have been used to acquire new fixed-income investments and have not been used for operations or to acquire equity investments. Although the historical guidance has not captured this as an explicit focus (except for excess withdrawals), the historical guidance did not permit the admittance of net negative IMR. With the discussion, a verification exercise is proposed to verify that acquired fixed income investments is greater than sale proceeds and investable premium. The ad hoc group is working on a template that predominantly pulls from existing financial statement data points to complete the verification. In addition to this cash flow test, a second verification exercise will require companies to demonstrate that the weighted average book yield of fixed income investments disposed during the year are lower than the weighted average yield of the fixed income investments acquired during the year. The current concept is that companies that do not pass both verification procedures will not be permitted to admit IMR generated in the year in which they did not prove fixed-income reinvestment, with requiring immediate loss recognition of such IMR.

b. Asset-Liability Matching Derivatives (Agenda Item 2024-15)

NAIC staff has been working with the key industry representatives in considering guidance and concepts for the accounting of derivatives that are "highly effective" in asset-liability matching (ALM) derivative programs. (This project intends to address the potential deferral of gains and losses from these derivative transactions. These realized gains/losses have previously been captured in IMR by some companies.) The industry reps have prepared draft SSAPs for potential consideration. Due to the technical nature of the topic, a focused SAPWG open virtual meeting has been scheduled for Sept. 10, 2025, at 10 Central / 11 Eastern. During this meeting, the industry reps will walk through key concepts and options (e.g., amortized cost versus a fair value measurement model). It is not anticipated that the Working Group will be asked to consider exposure of proposed SSAP guidance during this meeting. Rather, it is anticipated that the Working Group will be given time to consider the concepts presented, and subsequent consideration of exposure will occur after that meeting – either during a subsequent interim meeting or at the Fall National Meeting.

c. Receive Referral from Life Risk-Based Capital (E) Working Group (Robin – Attachment F)

On June 18, the SAPWG received a referral from the Life Risk-Based Capital (E) Working Group regarding comments received on proposal 2025-04-L Other Long-Term Assets (LR008). Specifically, the ACLI raised questions regarding AVR equity reporting lines for common stock in SCAs and other affiliates and requested clarifications to the AVR instructions. The Life RBC Working Group directed these comments to the SAPWG to review and determine if changes and/or clarifications are needed. In simple summary, AVR lines 15 and 16 reflect SCA Common Stock – Certain Other Subsidiaries and SCA Common Stock – Other, respectively and the intent is to get clarification in determining what is "Certain Other" and what shall be classified as "Other."

The Working Group is requested to receive the referral and direct NAIC staff to investigate this distinction and proposed revisions as needed in a separate agenda item.

d. Receive LATF Coordination Memo (Robin – Attachment G)

The following revisions have been Identified as requiring coordination with the Statutory Accounting Principles (E) Working Group:

1. 2025-11: Valuation Manual, Section II Subsections 2, 3, 6, VM-01, VM-22, VM-31, VM-G, and VM-V - This amendment introduces a new principle-based reserving framework for non-variable annuities, located in Section VM-22 of the NAIC Valuation Manual.

    - **Action:** The SAPWG has an agenda item 2025-09: VM 22 Update Coordination in progress which is planned for adoption consideration at Summer National Meeting

2. 2025-04 VM-20 Section 6, VM-20 Section 7, VM-20 Appendix 1, VM-21 Section 8, VM-31 Section 3 - This amendment updates the Valuation Manual economic scenario generator references for the adoption of the Conning-maintained prescribed economic scenario generator.

    - Action: NAIC staff have Identified that a SAPWG agenda item will be prepared regarding the optional implementation period for this item. This may occur as a possible interim exposure after the Summer National Meeting.

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

As of July 28, 2025, there are no items currently exposed by FASB. Future exposed ASUs will be reviewed to determine whether comments are needed during the exposure process; otherwise, after issuance from FASB, items will be reviewed according to the SAP Maintenance Process as described in *Appendix F—Policy Statements.*

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

Julie Gann and Maggie Chang (NAIC) monitor IAIS AAWG discussions. The last meeting was May 19-20, 2025. Although there are AAWG actions to review issuances from international bodies, generally, the items are not relevant to the U.S. The jurisdictional updates continue to predominantly focus on implementation *of IFRS 17: Insurance Contracts* across different locations.

One item that may be of interest is the project for the Insurance Capital Standard (ICS) implementation and potential revisions to Insurance Core Principle (ICP) 9: Supervisory Reporting and ICP 20: Public Disclosure**.** Currently, the proposed revisions are not viewed to be compatible with the U.S. Aggregation Method (AM). There is a potential discussion option to have separate implementation guidance to consider AM reporting/disclosure. Continued discussion is occurring on these proposed ICP revisions.

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 Deadlines:

- **Agenda Item 2025-19: Private Securities – Comment Deadline September 19, 2025**
- **All Other Agenda Items: Comment Deadline – October 17, 2025**

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/08-11-25 Summer National Meeting/Meeting/0 - 08-2025 SAPWG Meeting Agenda.docx

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

Issue: ASU 2019-12, Simplifying the Accounting for Income Taxes

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: In December 2019, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2019-12, Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes* (the ASU) to reduce complexity in income tax accounting standards. The ASU removes several exceptions to calculating and assessing income taxes and tax deferrals. The ASU also simplifies the guidance for franchise (non-income based) taxes, goodwill tax basis step-ups, allocation of deferred tax to subsidiaries, reflection of changes to tax law in the interim period calculation of the effective tax rate, and other minor improvements.

NAIC staff noted that only the revisions to ASC 740-270-25-5 need to be considered for incorporation as the guidance in this ASC was originally sourced from Accounting Principles Board (APB) Opinion No. 28, Interim Financial Reporting, paragraph 20 which was adopted by reference within *SSAP No. 101—Income Taxes*.

> *ASC 740-270-25-5 as amended by ASU 2019-12:*
> The tax effect of a change in tax laws or rates on taxes currently payable or refundable for the current year shall be reflected ~~after the effective dates prescribed in the statutes~~ in the computation of the annual effective tax rate beginning ~~no earlier than~~ in the first interim period that includes the enactment date of the new legislation. The effect of a change in tax laws or rates on a deferred tax liability or asset shall not be apportioned among interim periods through an adjustment of the annual effective tax rate. The tax effect of a change in tax laws or rates on taxes payable or refundable for a prior year shall be recognized as of the enactment date of the change as tax expense (benefit) for the current year.

Existing Authoritative Literature:

SSAP No. 101—Income Taxes:
Current Income Taxes

4. State taxes (including premium, income and franchise taxes) shall be computed in accordance with SSAP No. 5 and shall be limited to (a) taxes due as a result of the current year's taxable basis calculated in accordance with state laws and regulations and (b) amounts incurred or received during the current year relating to prior periods, to the extent not previously provided as such amounts are deemed to be changes in accounting estimates. Property and casualty insurance companies shall report state taxes as other underwriting expenses under the caption "Taxes, licenses, and fees." Life and accident and health insurance companies shall report such amounts as general expenses under the caption "Insurance taxes, licenses, and fees, excluding federal income taxes." Other health entities shall report such amounts as general administration expenses under the caption "Taxes, licenses, and fees." State tax recoverables that are reasonably expected to be recovered in a subsequent accounting period are admitted assets. State taxes are reasonably expected to be recovered if the refund is attributable to overpayment of estimated tax payments, errors, carrybacks, or items for which the reporting entity has authority to recover under a state regulation or statute.

Interim Periods

20. Income taxes incurred in interim periods shall be computed using an estimated annual effective current tax rate for the annual period in accordance with the methodology described in paragraphs 19 and 20 of *Accounting Principles Board Opinion No. 28, Interim Financial Reporting*. Estimates of the annual effective tax rate at the end of interim periods are, of necessity, based on estimates and are subject to subsequent refinement or revision. If a reliable estimate cannot be made, the actual effective tax rate for the year-to-date may be the best estimate of the annual effective tax rate. If a reporting entity is unable to estimate a part of its "ordinary" income (or loss) or the related tax (or benefit) but is otherwise able to make a reliable estimate, the tax (or benefit) applicable to the item that cannot be estimated shall be reported in the interim period in which the item is reported.

APB Opinion No. 28, Interim Financial Reporting – (The guidance now shown within ASC 740-270-25-5 is underlined for easier reference)

Income Tax Provisions

19. In reporting interim financial information, income tax provisions should be determined under the procedures set forth in APB Opinion No. 23 and FASB Statement No. 109, Accounting for Income Taxes. At the end of each interim period the company should make its best estimate of the effective tax rate expected to be applicable for the full fiscal year. The rate so determined should be used in providing for income taxes on a current year-to-date basis. The effective tax rate should reflect anticipated investment tax credits, foreign tax rates, percentage depletion, capital gains rates, and other available tax planning alternatives. However, in arriving at this effective tax rate no effect should be included for the tax related to significant unusual or extraordinary items that will be separately reported or reported net of their related tax effect in reports for the interim period or for the fiscal year.

20. The tax effects of losses that arise in the early portion of a fiscal year should be recognized only when the tax benefits are expected to be (a) realized during the year or (b) recognizable as a deferred tax asset at the end of the year in accordance with the provisions of Statement 109. An established seasonal pattern of loss in early interim periods offset by income in later interim periods should constitute evidence that realization is more likely than not, unless other evidence indicates the established seasonal pattern will not prevail. The tax effects of losses incurred in early interim periods may be recognized in a later interim period of a fiscal year if their realization, although initially uncertain, later becomes more likely than not. When the tax effects of losses that arise in the early portions of a fiscal year are not recognized in that interim period, no tax provision should be made for income that arises in later interim periods until the tax effects of the previous interim losses are utilized. iii3 The tax effect of a valuation allowance expected to be necessary for a deferred tax asset at the end of the year for originating deductible temporary differences and carryforwards during the year should be included in the effective tax rate. The effect of a change in the beginning-of-the-year balance of a valuation allowance as a result of a change in judgment about the realizability of the related deferred tax asset in future years shall not be apportioned among interim periods through an adjustment of the effective tax rate but shall be recognized in the interim period in which the change occurs. <u>The effects of new tax legislation shall not be recognized prior to enactment. The tax effect of a change in tax laws or rates on taxes currently payable or refundable for the current year shall be reflected after the effective dates prescribed in the statutes in the computation of the annual effective tax rate beginning no earlier than the first interim period that includes the enactment date of the new legislation. The effect of a change in tax laws or rates on a deferred tax liability or asset shall not be apportioned among interim periods through an adjustment of the annual effective tax rate. The tax effect of a change in tax laws or rates on taxes payable or refundable for a prior year shall be recognized as of the enactment date of the change as tax expense (benefit) for the current year.</u>

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

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

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

Staff Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions, to adopt with modification ASU 2019-12 Simplifying the Accounting for Income Taxes in *SSAP No. 101—Income Taxes*. NAIC staff noted that paragraphs 19 and 20 of APB No. 28 were included in SSAP No. 101 by reference rather than through direct incorporation. For clarity and ease of use, NAIC staff also recommend fully incorporating existing guidance in APB 28, paragraph 19 and prior APB paragraph 20 as modified by the ASU 2019-12 into SSAP No. 101.

NAIC staff noted that most of the ASU provides clarification on topics not applicable to statutory accounting. For example, statutory accounting does not have a consolidation concept as all insurers report individually and state taxes (which would include franchise taxes) are not deferred within statutory accounting. Additionally, the example problems revised by the ASU are not part of SSAP No. 101.

The only ASU revisions recommended for adoption are those to ASC 740-270-25-5. This paragraph was created in the Codification by carrying over *Accounting Principles Board Opinion (APB) No. 28, Interim Financial Reporting*, paragraph 20, which was previously adopted for statutory accounting purposes into SSAP No. 101.

Staff Review Completed by:
NAIC Staff – William Oden, May 2025

Recommended Revisions:

SSAP No. 101—Income Taxes:
Interim Periods

20. Estimates of the annual effective tax rate at the end of interim periods are, of necessity, based on estimates and are subject to subsequent refinement or revision. If a reliable estimate cannot be made, the actual effective tax rate for the year-to-date may be the best estimate of the annual effective tax rate. If a reporting entity is unable to estimate a part of its “ordinary” income (or loss) or the related tax (or benefit) but is otherwise able to make a reliable estimate, the tax (or benefit) applicable to the item that cannot be estimated shall be reported in the interim period in which the item is reported. Income taxes incurred in interim periods shall be computed using an estimated annual effective current tax rate for the annual period in accordance with the methodology described below:~~in paragraphs 19 and 20 of Accounting Principles Board Opinion No. 28, Interim Financial Reporting.~~ ~~Estimates of the annual effective tax rate at the end of interim periods are, of necessity, based on estimates and are subject to subsequent refinement or revision. If a reliable estimate cannot be made, the actual effective tax rate for the year-to-date may be the best estimate of the annual effective tax rate. If a reporting entity is unable to estimate a part of its “ordinary” income (or loss) or the related tax (or benefit) but is~~

~~otherwise able to make a reliable estimate, the tax (or benefit) applicable to the item that cannot be estimated shall be reported in the interim period in which the item is reported.~~

[DRAFTING NOTE: The following (paragraphs 20a-b and footnotes 1 & 2) are from APB No. 28, paragraph 19 and 20, previously adopted by reference.]

a. In reporting interim financial information, income tax provisions should be determined under the procedures set forth in Accounting Principles Board Opinion (APB) Opinion No. 23 and FAS 109 as modified and adopted for statutory accounting purposes. At the end of each interim period the company should make its best estimate of the effective tax rate expected to be applicable for the full fiscal year. The rate so determined should be used in providing for income taxes on a current year-to-date basis. The effective tax rate should reflect anticipated investment tax credits, foreign tax rates, percentage depletion, capital gains rates, and other available tax planning alternatives. However, in arriving at this effective tax rate no effect should be included for the tax related to significant unusual or extraordinary items that will be separately reported or reported net of their related tax effect in reports for the interim period or for the fiscal year.[1]

b. The tax effects of losses that arise in the early portion of a fiscal year should be recognized only when the tax benefits are expected to be (a) realized during the year or (b) recognizable as a deferred tax asset at the end of the year in accordance with the provisions of FAS 109. An established seasonal pattern of loss in early interim periods offset by income in later interim periods should constitute evidence that realization is more likely than not, unless other evidence indicates the established seasonal pattern will not prevail. The tax effects of losses incurred in early interim periods may be recognized in a later interim period of a fiscal year if their realization, although initially uncertain, later becomes more likely than not. When the tax effects of losses that arise in the early portions of a fiscal year are not recognized in that interim period, no tax provision should be made for income that arises in later interim periods until the tax effects of the previous interim losses are utilized.[2] The tax effect of a valuation allowance expected to be necessary for a deferred tax asset at the end of the year for originating deductible temporary differences and carryforwards during the year should be included in the effective tax rate. The effect of a change in the beginning-of-the-year balance of a valuation allowance as a result of a change in judgment about the realizability of the related deferred tax asset in future years shall not be apportioned among interim periods through an adjustment of the effective tax rate but shall be recognized in the interim period in which the change occurs. The effects of new tax legislation shall not be recognized prior to enactment. The tax effect of a change in tax laws or rates on taxes currently payable or refundable for the current year shall be reflected in the computation of the annual effective tax rate beginning in the first interim period that includes the enactment date of the new legislation. The effect of a change in tax laws or rates on a deferred tax liability or asset shall not be apportioned among interim periods through an adjustment of the annual effective tax rate. The tax effect of a change in tax laws or rates on taxes payable or refundable for a prior year shall be recognized as of the enactment date of the change as tax expense (benefit) for the current year.

[1] Disclosure should be made of the reasons for significant variations in the customary relationship between income tax expense and pretax accounting income, if they are not otherwise apparent from the financial statements or from the nature of the entity's business (refer to FAS 109, paragraph 47).

[2] The tax benefits of interim losses accounted for in this manner would not be reported as extraordinary items in the results of operations of the interim period.

33. The following lists Accounting Principles Board Opinions that are adopted or rejected by this statement:

a. *Accounting Principles Board Opinion No. 2, Accounting for the "Investment Credit,"* paragraphs 9-15 are adopted with modification to utilize the cost reduction method only and rejects all other paragraphs;

b. *Accounting Principles Board Opinion No. 4 (Amending No. 2), Accounting for the "Investment Credit,"* is rejected in its entirety;

c. *Accounting Principles Board Opinion No. 10, Omnibus Opinion—1966,* paragraph 6 is adopted;

d. *Accounting Principles Board Opinion No. 23, Accounting for Income Taxes—Special Areas,* paragraphs 1-3, 5-9, 12-13, and 15-18 are adopted, and paragraphs 19-25, and 31-33 are rejected;

e. *Accounting Principles Board Opinion No. 28, Interim Financial Reporting,* paragraphs 19 and 20 are adopted and all other paragraphs rejected. In xxx, 2025 APB No. 28, paragraph 19 was fully incorporated into the statement and paragraph 20 was incorporated into the statement with the amendments from ASU 2019-12 *Simplifying the Accounting for Income Taxes*.

~~e.~~f. *ASU 2019-12, Simplifying the Accounting for Income Taxes* modifications which relate to APB No. 28, paragraph 20 (shown in ASC 740-270-25-5) are adopted. All other paragraphs in ASU 2019-12 are rejected.

SSAP No. 101, Exhibit A – Implementation Questions And Answers

11. Q – How are current and deferred income taxes to be accounted for in interim periods? [Paragraphs 12.d. and 20]

11.1 A – In setting forth the methodology for the computation of current income taxes (income taxes incurred) in interim periods, insurers should refer to paragraphs 20 and 21 which details the guidance adopted from APB No. 28 into statutory accounting.~~paragraph 20 states:~~

~~20. Income taxes incurred in interim periods shall be computed using an estimated annual effective current tax rate for the annual period in accordance with the methodology described in paragraphs 19 and 20 of *Accounting Principles Board Opinion No. 28, Interim Financial Reporting*. Estimates of the annual effective tax rate at the end of interim periods are, of necessity, based on estimates and are subject to subsequent refinement or revision. If a reliable estimate cannot be made, the actual effective tax rate for the year-to-date may be the best estimate of the annual effective tax rate. If an insurer is unable to estimate a part of its "ordinary" income (or loss) or the related tax (or benefit) but is otherwise able to make a reliable estimate, the tax (or benefit) applicable to the item that cannot be estimated shall be reported in the interim period in which the item is reported.~~

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

Issue: Private Placement Securities

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: This agenda item has been prepared in response to interest expressed by regulators to propose new disclosure and reporting requirements to better identify different types of private placement securities. Specifically, although broad information on private placement securities can be identified when a company reports a Private Placement Number (PPN) instead of a CUSIP, the intent is to distinguish between different types of private placements, for example those that reflect unregistered resales compliant with Rule 144A from other private placements. Further, as identifying PPNs from public CUSIPs requires scrutiny of the reported identifier, the revisions intend to make it easier to quickly identify a private placement security in the investment schedules. These revisions are supported due to the increase in private placement securities, the increase in private letter ratings often used for private placements, as well as potential concerns on the increase in, and reliance on, level 3 fair values for private placement securities.

This agenda item proposes new individual investment reporting disclosures, to be satisfied through the investment schedules on classifying private placements, as well as new note disclosures to provide aggregate reporting information on aspects of private placements within the financial statements. These disclosure requirements are proposed to be effective December 31, 2026, for reporting in the year-end 2026 financials.

SEC Registration Requirement:

Under the Securities Act of 1933, securities are required to be registered unless they meet a “private placement” exemption. The definition of security pursuant to Section 2(a)(1) of that act is as follows:

> “any note, stock, treasury stock, security future, security-based swap, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas, or other mineral rights, any put, call, straddle, option, or privilege on any security, certificate of deposit, or group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, or, in general, any interest or instrument commonly known as a “security”, or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing.”

Information on Private Placement Securities:

- <u>Rule 144A</u> – Rule 144A is a U.S. SEC rule that allows qualified institutional buyers (QIBs) to trade restricted unregistered securities privately to other QIBs. This rule permits the *resale* of securities, not initial offerings, among institutional investors that own and invest on a discretionary basis at least $100 million worth of unaffiliated securities. Resales under Rule 144A are conducted by entities and security issuers are specifically excluded. (There are other less-common exemptions for private resales for asset-backed securities under Section 4(a)7 and Section "4(1½)" that have specific requirements for compliance. For purposes of this agenda item and simplicity, exemptions involving resales that do not involve the issuer, underwriter or dealer will be collectively captured under Rule 144A.)

- Regulation D – A private placement under Regulation D is an unregistered securities offering conducted by the securities issuer. It allows companies to issue securities without registering them with the SEC if they satisfy certain requirements. There are two primary rules under Regulation D that determine whether SEC registration is not necessary:

    - Rule 504: Allows issuers to offer up to $10 million in private placements to accredited or non-accredited investors in a 12-month period. Except in limited circumstances, the purchasers of securities offered under Rule 504 cannot sell the securities for a designated period of time without registering them. (The SEC explanation indicates at least 6 months or a year so this may vary based on the circumstances.) (The acquired securities are considered "restricted.")

    - Rule 506: A "safe harbor" under Section 4(a)(2), it allows issuers to directly offer unregistered securities to an unlimited number of accredited investors and up to 35 non-accredited (but "sophisticated") investors. Public solicitation is permitted as long as all investors are accredited investors. Similar to Rule 504, purchasers of securities under Rule 506 receive "restricted" securities meaning that they cannot be sold for a designated holding period without registering them. (Similar to Rule 504, the SEC explanation indicates at least 6 months or a year.) (Rule 506 is the most common exemption for private placements.)

    Note: Insurance companies are accredited investors if they have a total net worth exceeding $5 million or if all equity owners are accredited investors. (Individuals are accredited investors with net worth over $1 million, income over $200,000, or by meeting various professional criteria.)

  Companies that issue securities under Regulation D do not have to register their offerings of securities with the SEC, but they must file a "Form D" electronically with the SEC after the first sale of their securities. This is a brief notice that includes the names and addresses of the company's promoters, executive officers and directors, and some details about the offering, but contains little information on the company. Form D filings can be obtained from the SEC's Edgar Database.

- Section 4(a)(2) Exemption: This Securities Act 1933 exemption allows unregistered securities offerings for issuances that do not involve a "public offering". The Securities Act does not define "public offering" and unlike the other registration exemptions, Section 4(a)(2) does not expressly define a maximum number of investors, investor suitability or a maximum dollar value. However, case law and SEC rulings have provided guidance which includes the following factors: the number of investors, whether the offer was only made to "sophisticated" investors, whether there was a general solicitation or public advertising, whether the securities are restricted and the information provided to prospective investors. A "sophisticated" investor is determined based on either 1) having sufficient knowledge and experience to evaluate the risks and merits of the investment, or 2) having sufficient financial resources able to bear the economic risk of investing. If the securities are offered to just one person who does not meet the conditions, the entire offering may violate the Securities Act. A key aspect of Section 4(a)(2) is that the issuer must ensure that investors agree not to resell or distribute the securities to the public. Securities offered under Section 4(a)(2) are more likely to be subject to legal issues if the SEC deems the security offering did not comply with the exemption requirements and from investors filing fraud claims based on inadequate disclosures.

Although exempt from SEC registration, private placements (Regulation D and Section 4(a)(2)) are required to provide investors with information about the investment, risks involved and the issuer's financial situation. These details are often provided via a private placement memorandum (PPM), although a PPM is not specifically required under federal law or regulation. Although private placement issuers are exempt from public disclosure requirements, they must still comply with anti-fraud provisions under securities laws. As such, if the issuer fails to provide adequate and complete information, it can result in legal consequences. Items captured in a PPM typically include an executive summary, risk factors, terms of the offering, use of the proceeds (including an outline of fees), financial projections, as well as information on the management team, business structure and the securities law compliance.

Although the SEC definition of security is broad, there could be limited situations where an instrument is not subject to the registration requirement "security" schedules. The statutory accounting guidance adopts the U.S. GAAP definition for a "security," but that definition does not match the SEC. As such, certain lending arrangements might not be securities according to the Securities Act (and therefore not require registration.) Also, exceptions exist for certain structures that are captured under *SSAP No. 26—Bonds* that may not reflect securities. For example, bank loans are in scope of SSAP No. 26 and reported on Schedule D-1-1: Issuer Creditor Obligations, and they may not meet the SAP securities definition, nor be required to be registered with the SEC. Schedule BA: Other Invested Assets, includes both security and non-security investments, as such, there could be entire categories of investments that are not subject to the SEC registration requirement.

Existing Authoritative Literature:

SSAP References:

There is no specific SSAP guidance for the reporting of private placement securities. Various guidance addresses private placements, including the following:

- **Various investment SSAPs:** References that private placements are recorded on the funding date and not the trade date.

- ***SSAP No. 100—Fair Value***: Paragraphs 44-45 provides guidance on equity securities with contractual sale restrictions, and how those restrictions could impact the fair value of the equity security.

- ***SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities***: Securities issued under Rule 144A or debt placed privately are examples that constrain a transferee from pledging or exchanging a financial asset.

Annual Statement Reporting that Separates Private Placements / Securities:

- **Annual Audited Financial Reports:** The report divides total bonds between those publicly traded and privately placed.

- **AVR Equity and Other Invested Asset Component – Basic Contribution, Reserve Objective and Maximum Reserve Calculations: Line 2 – Unaffiliated Common Stocks Private:** This category captures the book/adjusted carrying value of all privately held common stocks, including mutual funds, unit investment trusts, closed-end funds, and ETFs reported as common stock, owned in unaffiliated companies.

- **Schedule D – Part 1A – Section 1: Quality and Maturity Distribution of all Bonds Owned December 31 by Major Type and NAIC Designation:** Section 54 (as of 2025) is for total bonds privately placed. Also, Column 12 identifies total privately placed for all categories (Schedule D-1-1 and Schedule D-1-2 reporting lines) except for Section 53 that addresses publicly traded bonds. A footnote to this schedule identifies the total that is freely tradeable under SEC Rule 144 or qualified for resale under Sec Rule 144A. (Column 11 includes publicly traded, with instruction that all short-term investments are considered publicly traded for annual statement purposes.)

- **Supplemental Investment Risks Interrogatories – Line 14 – Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities**. This identifies whether the private placement equities are less than 2.5% of total admitted assets, the aggregate statement value of nonaffiliated privately placed equities, and the largest three investments held per this description.

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

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None
Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation:
NAIC staff recommend the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to incorporate a new disclosure to identify private placement securities in the investment schedules and to incorporate an aggregate disclosure that details key investment information by type security (public and private placement type) as detailed in the agenda item. This item is proposed to be effective December 31, 2026. This item is proposed to have a shortened comment period ending September 19, 2025. After assessing comments from the exposure, the Working Group will consider sponsoring a blanks proposal to incorporate the reporting changes.

The following disclosures are proposed for all investment SSAPs that capture debt and equity securities. It is shown once for brevity, but would be captured in each of the following SSAPs:

- SSAP No. 2—Cash, Cash Equivalents, Drafts and Short-Term Investments, paragraph 18f.
- SSAP No. 21—Other Admitted Assets, paragraph 27m
- SSAP No. 21—Other Admitted Assets, paragraph 38 (remaining paragraphs to be renumbered)
- SSAP No. 26—Bonds, paragraph 40m.
- SSAP No. 43—Asset-Backed Securities, paragraph 44m. (Remaining paragraph to be renumbered.)

Note: With the move of the residual guidance to SSAP No. 21, specific disclosure requirements were not included. A separate agenda item will either incorporate disclosure requirements or refer to the disclosure requirements in other SSAPs. The placement of paragraph 38 for this disclosure may be revised with those additional changes.

Disclosures

40. The financial statements shall include the following disclosures:

m. For all securities in scope, identify whether each security is not subject to SEC security registration, publicly registered, is a private placement under Rule 144A (collectively capturing all exclusions for resales that do not involve the issuer, underwriter or dealer), Regulation D, or as a general exemption pursuant to Section 4(a)2 of the Securities Act of 1933. (The individual security disclosure shall be completed within the investment schedules.) For all securities in scope, the reporting entity must aggregate each type by investment schedule, capturing the total BACV, fair value (with fair values determined by level 2 and level 3 reported), the total amount of aggregate deferred interest and paid-in-kind interest, and the total BACV supported by private letter ratings.

The proposed disclosure is anticipated to be satisfied with Blanks revisions as follows:

1) New Electronic column in all investment reporting schedules (held, acquired, disposed) for Schedule DA, Schedule E, Schedule D-1-1, Schedule D-1-2, Schedule D-2-1, Schedule D-2-2, and Schedule BA:

   Identify whether the security is not required to be SEC registered, publicly registered, or is a private placement under Rule 144A (collectively capturing all exclusions for resales that do not involve the issuer, underwriter or dealer), Regulation D (collectively included those under Rule 504 and 506), or as a general exemption pursuant to Section 4(a)2 of the Securities Act of 1933. One of the following codes shall be captured for each reported security:

   - Public
   - 144A – Includes all permitted exclusions for resales that do not involve the issuer, underwriter or dealer.
   - Reg D – Includes both Exemptions under Rule 504 and 506.
   - Section 4(a)2 – General exemption
   - N/A – Security is not required to be registered with the SEC.

2) The aggregate disclosure is proposed as follows:

	Total BACV	Total FV	FV L2	FV L3	Aggregate Deferred Interest	Aggregate Paid-In-Kind Interest	BACV with PLR as NAIC Designation
Schedule DA							
Public							
144A							
Reg D							
Section 4(a)2							
N/A							
Schedule E2							
Public							
144A							
Reg D							
Section 4(a)2							
N/A							
Schedule D-1-1							
Public							
144A							
Reg D							
Section 4(a)2							
N/A							

Schedule D-1-2								
Public								
144A								
Reg D								
Section 4(a)2								
N/A								
Schedule D-2-1								
Public								
144A								
Reg D								
Section 4(a)2								
N/A								
Schedule D-2-2								
Public								
144A								
Reg D								
Section 4(a)2								
N/A								
Schedule BA								
Public								
144A								
Reg D								
Section 4(a)2								
N/A								

Staff Review Completed by: Julie Gann, NAIC Staff—May 2025

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/08-11-25 Summer National Meeting/Meeting/B - 25-19 - Private Securities.docx

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

Issue: Debt Security & Residual Interest Disclosures

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☐	☒	☐
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: This agenda item has been prepared to propose consistent disclosures for certain reporting elements between *SSAP No. 26—Bonds, SSAP No. 43—Asset-Backed Securities* and for non-bond debt securities and residuals in *SSAP No. 21—Other Admitted Assets*. For example, the existing disclosure requirements for securities in an unrealized loss position and securities with other than-temporary impairments (OTTI) have different reporting requirements within the three standards. This review includes assessment and comparison of the "annual audited only" disclosures (no SAP template/disclosure) for consistency and improved utilization of existing disclosures. Lastly, this agenda item proposes the inclusion of a new general interrogatory to identify whether a company is reporting residuals under the Allowable Earned Yield (AEY) or Practical Expedient (PE) measurement method and if they are transitioning from the PE to AEY approach.

Discussion of key revisions is within, but the following summarizes the primary edits reflected:

1) Expansion of the existing annual audited only SSAP No. 26 and SSAP No. 43 disclosure on bond sale proceeds and the resulting realized gain or loss to be a statutory data-captured disclosure. The disclosure has also been revised to include proceeds and realized gain/loss information for maturities and has been added to include bonds in SSAP No. 2 and non-bond debt securities in SSAP No. 21.

2) Clarifications to the reporting requirements for the bonds by maturity date disclosure. This bond detail is captured in Schedule D, Part 1A, but a summary presentation by maturity date bucket is required in the annual audit report. Additionally, a comparative summary disclosure was added to SSAP No. 21 for non-bond debt securities. (Schedule D, Part 1A is limited to bonds, therefore the non-bond debt securities are not captured in that detail.)

3) The disclosure of impaired securities (when fair value is less than amortized cost) has been revised to be consistently included in the statutory financial statements for all debt securities with a data-captured template. Clarity as to what shall be captured in this disclosure (all impaired securities regardless of measurement method) has also been incorporated. The revisions eliminate the required quarterly disclosure requirement, but regulator comments are requested on whether the interim reporting should be retained. (Prior to these edits, the disclosure was a required interim / annual statutory disclosure for SSAP No. 43 only. The disclosure was annual audited only under SSAP No. 26.)

4) In the annual statement instructions and template, the disclosure for bifurcated other-than-temporary impairment has been expanded to include non-bond debt securities as well as residual interests that follow the allowable earned yield method.

5) Disclosures have been incorporated for residuals in scope of SSAP No. 21 to be consistent with other invested asset disclosures.

6) Within the current debt security SSAPs, some statements refer to disclosure requirements in other SSAPs. To eliminate the potential for missing these disclosure requirements, the disclosure requirements have been fully incorporated into each SSAP.

Discussion of Key Revisions:

1) SSAP No. 26 Disclosure on Sales:
SSAP No. 26, paragraph 40g is an existing disclosure for the proceeds of sales of bonds and assets in scope of that statement, and the gross realized gains and losses from those sales. This disclosure was added in 2005 to adopt with modification US GAAP in *SOP 90-11, Disclosure of Certain Information by Financial Institutions about Debt Securities Held as Assets*. Since then, SOP 90-11 was superseded by paragraphs 19-22 of *FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities*. This disclosure is still retained in the FASB codification in ASC 320-10-50-9. (The FASB disclosure only pertains to available-for-sale securities but was adopted for all measurement methods in SAP.) Although this FASB disclosure encompasses all debt securities, it was only explicitly included in SSAP No. 26, with a reference to the SSAP No. 26 disclosure in SSAP No. 43, but no reference exists in SSAP No. 2 or SSAP No. 21. As an annual audited only item, this current disclosure is not captured in the notes to the statutory financial statements and cannot be quantified or compared. This disclosure would only be noted by the domestic regulator as part of their review of the audit report. **With the discussions of IMR, and the focus of fixed-income sales separately from fixed-income maturities, this agenda item proposes to revise and expand this existing disclosure so that it is included within the statutory financial statements. With the revisions, the disclosure will continue to identify sales proceeds and realized gains and losses but has been expanded to also separately capture this information for maturities. Additionally, the disclosure is proposed to be added to SSAP No. 2 and SSAP No. 21 to include all debt securities regardless of reporting location. A disclosure template has been proposed to allow for data-capture within the statutory financial statements. With these revisions, this item has been removed as a distinct component of the annual audit report. (Meaning, it will no longer be identified as "annual audited only.") With inclusion in the statutory notes the disclosure would be subject to audit. Regulator comments are requested on whether this item is needed as a specific component of the audit report**.

2) Bonds By Maturity Date
SSAP No. 26, paragraph 40f is an existing disclosure for bonds by maturity date. This disclosure is also required by reference in SSAP No. 2 and SSAP No. 43. This disclosure is identified to be "annual audited only" but is produced from the details captured within Schedule D, Part 1A. (The reference to "annual audited only is a misnomer when it is also captured in a statutory schedule.) **For this disclosure, clarification is proposed that the totals by maturity bucket are required in the annual audit report, with identification that investment details are captured in Schedule D, Part 1A. Additionally, revisions have been proposed to capture a similar statutory and annual audit disclosure, outside of Schedule D, Part 1A, for non-bond debt securities in scope of SSAP No. 21. This maturity timeframe disclosure is proposed to continue as a specific component of the audit report due to the importance of maturity projections in cash flow testing.**

3) Disclosure on Impaired Securities:
The guidance for non-bond debt securities in SSAP No. 21, issuer credit obligations in SSAP No. 26 and asset-backed securities in SSAP No. 43 all have a similar disclosure for impaired securities. However, the disclosure is explicitly required in a separate and distinct note in all interim and annual financial statements under SSAP No. 43, is required in the annual audited financial statements only under SSAP No. 26, and the location/frequency is not identified for non-bond debt securities in SSAP No. 21. **For consistency purposes, this agenda item proposes to expand the existing requirements to capture the unrealized loss position disclosure in the annual statutory financial statements for all debt securities. This proposal would eliminate inclusion as a required quarterly**

disclosure, with quarterly inclusion only occurring if required pursuant to the preamble provisions. The disclosure proposes a template that captures all debt securities for ease of review. With inclusion in the statutory notes to the financial statements this item is subject to audit but is not proposed to be a specific component of the annual audit report. (This annual audit reference removal would be a change for SSAP No. 26 only.) Regulators are requested to provide comments on whether this disclosure should be retained as a required quarterly disclosure. NAIC staff highlights that the fair value disclosure in note 20, including the disclosure of fair value by type of financial instrument, is a required quarterly disclosure. As such, a comparison to the carrying value by investment type reported on the balance sheet to the fair value disclosure may assist regulators that need a comparison to fair value on a quarterly basis for a particular company.

The residual guidance does not have explicit disclosures for unrealized loss positions, and it is proposed that this disclosure be added for residuals accounted for under the AEY method. This disclosure is not needed for residuals under the PE method, as SSAP No. 21 requires OTTI recognition any time fair value is less than amortized cost under the PE method. Hence, for residuals following the PE method for measurement, there should never be instances in which a residual is in an impaired state (fair value is less than amortized cost). **For residuals under the AEY method, the SSAP No. 26 disclosure on information considered in reaching the conclusion that the impairment is not OTTI is also proposed to be included.**

4) Disclosure on OTTI:
The guidance in SSAP No. 43 has the concept of bifurcated impairment, meaning that only the non-interest related decline is recognized as OTTI when the entity does not expect to recover the entire amortized cost basis but they do not intend to sell and they have the intent and ability to hold. For these situations, rather than writing the impaired security down to fair value, the entity recognizes a realized loss for the difference between the amortized cost basis and the present value of the cash flows expected to be collected, discounted at the security's effective interest rate. With the adoption of the non-bond debt security guidance in SSAP No. 21, a reference was made that the reporting entities shall follow the guidance in SSAP No. 43 for calculating amortized cost, for determining and recognizing OTTI, and for allocating unrealized and realized losses between the AVR and IMR. Although the SSAP No. 21 disclosures for non-bond debt securities mirror the disclosures in SSAP No. 43, there is no reference as to the location/frequency of the disclosure and the Annual Statement Instructions only refer to SSAP No. 43. Additionally, the guidance for residuals under the allowable earned yield method follows the same concepts for recognizing OTTI based on the present value of expected cash flows. **For consistency purposes, this agenda item proposes to capture impairment information for non-bond debt securities and residuals under the AEY method in the same location/frequency as the SSAP No. 43 disclosures.**

5) Residual Disclosures
The SSAP No. 21 guidance for residuals does not currently have any explicit disclosures. With the suggestions previously discussed in this agenda item, the disclosure for impaired securities and for OTTI are proposed to be included. In reviewing the other disclosures in SSAP No. 26 and SSAP No. 43, this agenda item also proposes to capture the disclosures for when it is not practicable to estimate fair value in accordance with *SSAP No. 100—Fair Value*. **Additionally, new general interrogatories are proposed to identify whether the company is following the AEY or PE method, and if they are moving from the PE to AEY method.** Under SSAP No. 21, the company's designated measurement method (AEY or PE) should encompass all residuals, unless the company is moving from the PE to AEY method. If moving to the AEY, the reporting entity is to designate a transition date and only apply the AEY method to residuals acquired after that date. Residuals held prior to the transition date shall continue the PE method until they fully mature/terminate or are unwound. (The guidance only permits companies to move from PE to AEY.)

Existing Authoritative Literature:
Note – The timing requirements for disclosures is not as explicit in SSAP No. 26 as it is in SSAP No. 43. For example, SSAP No. 43 is clear which disclosures need to be captured in the interim and annual financial statements, whereas SSAP No. 26 does not include this specification. However, many of the reporting requirements are similar, as the note location for the satisfaction of the disclosure is a required interim and annual disclosure.

For ease of review, NAIC staff has identified whether the current instruction is to include in "annual audited only" (AAO), "interim and annual" (I&A), or general "financial statements" (FS). (For this general F/S category, they are not required quarterly but could be included if there are significant changes from the annual disclosure.)

Preamble

XI. Financial Statements

A. Annual Financial Statement

62. Each state requires all insurance companies doing business in that state to file an annual financial statement. All states use the annual statement blank promulgated by the NAIC, but each state retains the authority to make changes in those statements. Changes made by states generally require only supplemental information and do not change the basic financial information.

63. To the extent that disclosures required by a SSAP are made within specific notes, schedules, or exhibits to the annual statement, those disclosures are not required to be duplicated in a separate note. Annual statutory financial statements which are not accompanied by annual statement exhibits and schedules (e.g., annual audit report) shall include all disclosures required by the SSAPs based on the applicability, materiality and significance of the item to the insurer. Certain disclosures, as noted in individual SSAPs, are required in the annual audited statutory financial statements only.

B. Interim Financial Statements

64. Interim financial statements, including quarterly statements, shall follow the form and content of presentation prescribed by the domiciliary state for the quarterly financial statements. The NAIC quarterly statement form has been adopted by each state with minor variations as required by certain states.

65. The interim financial information shall include disclosures sufficient to make the information presented not misleading. It may be presumed that the users of the interim financial information have read or have access to the annual statement for the preceding period and that the adequacy of additional disclosure needed for a fair presentation, except in regard to material contingencies may be determined in that context. Accordingly, footnote disclosure which would substantially duplicate the disclosure contained in the most recent annual statement or audited financial statements, such as a statement of significant accounting policies and practices, details of accounts which have not changed significantly in amount or composition since the end of the most recently completed fiscal year, may be omitted. However disclosure shall be provided where events subsequent to the end of the most recent fiscal year have occurred which have a material impact on the insurer. Disclosures shall encompass, for example, significant changes since the end of the period reported on the last annual statement in such items as: statutory accounting principles and practices, estimates inherent in the preparation of financial statements, status of long term contracts, capitalization including significant new borrowings or modifications of existing financial arrangements, and the reporting entity resulting from business combinations or dispositions. Notwithstanding the above, where material noninsurance contingencies exist, disclosure of such matters shall be provided even though a significant change since year end may not have occurred.

<u>SSAP No. 26—Bonds</u>

Disclosures

40. The financial statements shall include the following disclosures:

a. Fair value in accordance with *SSAP No. 100—Fair Value*; **(I&A – 26 & 43)**

b. Concentrations of credit risk in accordance with *SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures*; **(AAO – 26 & 43)**

c. The basis at which the bonds, mandatory convertible securities, and SVO-identified bond ETF investments identified in paragraph 2.d., are stated; **(I&A – 26 & 43)**

d. Amortization method for bonds and mandatory convertible securities, and if elected by the reporting entity, the approach for determining the systematic value for SVO-identified securities per paragraph 34. If utilizing systematic value measurement method approach for SVO-identified investments, the reporting entity must include the following information: **(FS – 26 Only)**

i. Whether the reporting entity consistently utilizes the same measurement method for all SVO-identified investments[1] (e.g., fair value or systematic value). If different measurement methods are used[2], information on why the reporting entity has elected to use fair value for some SVO-identified investments and systematic value for others.

ii. Whether SVO-identified investments are being reported at a different measurement method from what was used in an earlier current-year interim and/or in a prior annual statement. (For example, if reported at systematic value prior to the sale, and then reacquired and reported at fair value.) This disclosure is required in all interim reporting periods and in the year-end financial statements for the year in which an SVO-identified investment has been reacquired and reported using a different measurement method from what was previously used for the investment. (This disclosure is required regardless of the length of time between the sale/reacquisition of the investments, but is only required in the year in which the investment is reacquired.)

iii. Identification of securities still held that no longer qualify for the systematic value method. This should separately identify those securities that are still within the scope of SSAP No. 26 and those that are being reported under a different SSAP.

e. For each annual balance sheet presented, the book/adjusted carrying values, fair values, excess of book/carrying value over fair value or fair value over book/adjusted carrying values for each pertinent bond or assets receiving bond treatment, by category and subcategory as reported in annual statement Schedule D, Part 1, Section 1 (Issuer Credit Obligations), and Section 2 (Asset-Backed Securities). **(AAO – 26 & 43)**

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[1] As identified in paragraph 35.d., a consistent approach must be followed for all investments designated to use the systematic value method. As such, this disclosure is limited to situations in which a reporting entity uses both fair value and systematic value for reported SVO-identified investments.

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

f. For the most recent balance sheet, the book/adjusted carrying values and the fair values of bonds and assets in scope of this statement, reported in statutory annual statement Schedule D, Part 1A, due: **(AAO – 26 & 43, but detail are in Schedule D, Part 1A)**

i. In one year or less (including items without a maturity date which are payable on demand and in good standing);

ii. After one year through five years;

iii. After five years through ten years;

iv. After ten years through twenty years;

v. Over 20 years ~~(including items without a maturity date which are either not payable on demand of not in god standing)~~.

(Note: The above tracking/shading reflects editorial revisions proposed in Ref #2024-17EP incorporated to match the Schedule D, Part 1A.)

g. For each period for which results of operations are presented, the proceeds from sales of bonds and assets in scope of this Statement and gross realized gains and gross realized losses on such sales. **(AAO – 26 & 43. SSAP No. 43 is by reference.)**

h. For each balance sheet presented, all items in scope of this Statement in an unrealized loss position for which other-than-temporary declines in value have not been recognized: **(AAO – 26, I&A – 43)**

i. The aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value) and

ii. The aggregate related fair value of bonds with unrealized losses.

i. The disclosures in paragraphs 40.h.i. and 40.h.ii. should be segregated by items that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer using fair values determined in accordance with SSAP No. 100. **(AAO – 26, I&A – 43)**

j. As of the most recent balance sheet date presented, additional information should be included describing the general categories of information that the investor considered in reaching the conclusion that the impairments are not other-than-temporary. **(AAO – 26 & 43)**

k. When it is not practicable to estimate fair value in accordance with SSAP No. 100, the investor should disclose the following additional information, if applicable, as of each date for which a statement of financial position is presented in its annual financial statements: **(AAO – 26 & 43)**

i. The aggregate carrying value of the investments not evaluated for impairment, and

ii. The circumstances that may have a significant adverse effect on the fair value.

l. For securities sold, redeemed or otherwise disposed as a result of a call or tender offer feature (including make-whole call provisions), disclose the number of CUSIPs sold, disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee. **(FS – 26 & 43)**

41. Refer to the Preamble for further discussion regarding disclosure requirements. **The disclosures in paragraphs 40.b., 40.e., 40.f., 40.g., 40.h., 40.i., 40.j. and 40.k. shall be included in the annual audited statutory financial reports only.**

<u>SSAP No. 43—Asset-Backed Securities</u>

Disclosures

44. In addition to the disclosures required for invested assets in general, the following disclosures regarding asset-backed securities shall be made in the financial statements. **Regardless of the allowances within paragraph 63 of the Preamble, the disclosures in paragraph 44.f., 44.g. and 44.h. of this statement are required in separate, distinct notes to the financial statements:**

a. Fair values in accordance with SSAP No. 100—Fair Value. **(FS – 26 & 43)**

b. Concentrations of credit risk in accordance with SSAP No. 27; **(AAO – 26 & 43)**

c. Basis at which the asset-backed securities are stated; **(FS – 26, I&A - 43)**

d. The adjustment methodology used for each type of security (prospective or retrospective); **(I&A – 43 Only)**

e. Descriptions of sources used to determine prepayment assumptions. (**I&A – 43 Only)**

f. All securities within the scope of this statement with a recognized other-than-temporary impairment, disclosed in the aggregate, classified on the basis for the other-than-temporary impairment: (1) intent to sell, (2) inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, or (3) present value of cash flows expected to be collected is less than the amortized cost basis of the security. (**I&A – 43 Only)**

g. For each security with an other-than-temporary impairment, recognized in the current reporting period by the reporting entity, as the present value of cash flows expected to be collected is less than the amortized cost basis of the securities: (**I&A – 43 Only)**

i. The amortized cost basis, prior to any current-period other-than-temporary impairment.

ii. The other-than-temporary impairment recognized in earnings as a realized loss.

iii. The fair value of the security.

iv. The amortized cost basis after the current-period other-than-temporary impairment.

h. All impaired securities (fair value is less than cost or amortized cost) for which an other-than-temporary impairment has not been recognized in earnings as a realized loss (including securities with a recognized other-than-temporary impairment for non-interest related declines when a non-recognized interest related impairment remains): **(AAO – 26, I&A – 43)**

i. The aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value) and

ii. The aggregate related fair value of securities with unrealized losses.

i. The disclosures in (i) and (ii) above should be segregated by those securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer using fair values determined in accordance with SSAP No. 100. **(AAO – 26, I&A – 43)**

j. Additional information should be included describing the general categories of information that the investor considered in reaching the conclusion that the impairments are not other-than-temporary. **(AAO – 26 & 43)**

k. When it is not practicable to estimate fair value, the investor should disclose the following additional information, if applicable: **(AAO – 26 & 43)**

i. The aggregate carrying value of the investments not evaluated for impairment, and

ii. The circumstances that may have a significant adverse effect on the fair value.

l. For securities sold, redeemed or otherwise disposed as a result of a callable feature (including make whole call provisions), disclose the number of CUSIPs sold, disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee. **(FS – 26 & 43)**

m. The items in the scope of this statement are also subject to the annual audited disclosures in *SSAP No. 26—Bonds*, paragraphs. 40.e., 40.f. and 40.g. **(AAO – 26 & 43)**

45. Refer to the Preamble for further discussion regarding disclosure requirements. **All disclosures within this statement, except disclosures included in paragraphs 44.b., 44.k. and 44.m., shall be included within the interim and annual statutory financial statements**. Disclosure requirements in paragraphs 44.b., 44.k. and 44.m. are required in the annual audited statutory financial statements only.

SSAP No. 21—Other Admitted Assets (Non-Bond Debt Securities)

25. Debt securities that do not qualify as bonds in the scope of this statement shall follow the guidance in SSAP No. 43 for calculating amortized cost, for determining and recognizing other-than-temporary impairments and for allocating unrealized and realized gains and losses between the asset valuation reserve (AVR) and interest maintenance reserve (IMR).

26. Investment income shall be recorded, with assessments for collectability and nonadmittance completed and recognized, pursuant to *SSAP No. 34—Investment Income Due and Accrued*.

27. Securities captured within this section shall be included in all invested asset disclosures, along with the following disclosures:

a. Fair values in accordance with SSAP No. 100—Fair Value.

b. Concentrations of credit risk in accordance with SSAP No. 27.

c. Basis at which the securities are stated.

d. The adjustment methodology used for each type of security (prospective or retrospective).

e. Descriptions of sources used to determine prepayment assumptions.

f. All securities within the scope of this statement with a recognized other-than-temporary impairment, disclosed in the aggregate, classified on the basis for the other-than-temporary impairment: (1) intent to sell, (2) inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, or (3) present value of cash flows expected to be collected is less than the amortized cost basis of the security.

g. For each security with an other-than-temporary impairment, recognized in the current reporting period by the reporting entity, as the present value of cash flows expected to be collected is less than the amortized cost basis of the securities:

    i. The amortized cost basis, prior to any current-period other-than-temporary impairment.

    ii. The other-than-temporary impairment recognized in earnings as a realized loss.

    iii. The fair value of the security.

    iv. The amortized cost basis after the current-period other-than-temporary impairment.

h. All impaired securities (fair value is less than cost or amortized cost) for which an other-than-temporary impairment has not been recognized in earnings as a realized loss (including securities with a recognized other-than-temporary impairment for non-interest related declines when a non-recognized interest related impairment remains):

    i. The aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value) and,

    ii. The aggregate related fair value of securities with unrealized losses.

i. The disclosures in (i) and (ii) above should be segregated by those securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer using fair values determined in accordance with SSAP No. 100.

j. Additional information should be included describing the general categories of information that the investor considered in reaching the conclusion that the impairments are not other-than-temporary.

k. When it is not practicable to estimate fair value, the investor should disclose the following additional information, if applicable:

    i. The aggregate carrying value of the investments not evaluated for impairment, and,

    ii. The circumstances that may have a significant adverse effect on the fair value.

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

SSAP No. 21—Other Admitted Assets (Residuals)

There is no explicit disclosure section for residuals. Paragraph 35c addresses the disclosure requirement when transitioning from the practical expedient to the allowable earned yield method. The guidance for assessing and recognizing OTTI is also included:

35. Reporting entities may elect a practical expedient in lieu of the Allowable Earned Yield detailed in paragraphs 33-34 and calculate Book/Adjusted Carrying Value (BACV) such that all distributions received are treated as a reduction in BACV. With this approach, the reporting entity will not recognize any interest or investment income until the residual tranche has a BACV of zero. Once the residual has a zero BACV, distributions received shall be recognized as interest income.

a. Reporting entities applying the practical expedient shall continue to report residuals on Schedule BA, including those with a zero BACV. Any subsequent distributions shall be reported as interest income until the structure matures/terminates, is unwound, or no longer meets the definition of a residual.

b. Reporting entities are required to apply the practical expedient to all residuals held.

c. **Reporting entities that wish to discontinue use of the practical expedient approach and move towards the Allowable Earned Yield method are required to specify and disclose an explicit transition date, and only apply the Allowable Earned Yield method to residuals acquired after that date. Residuals held prior to the disclosed accounting method transition date shall continue to follow the practical expedient until those residuals mature/terminate or are unwound.**

36. Residuals shall be assessed for other-than-temporary impairment (OTTI) on an ongoing basis, with required assessment anytime that fair value is less than the reported value.

a. For residuals measured using the Allowable Earned Yield method, as detailed in paragraphs 33-34, **an OTTI shall be considered to have occurred if the present value of expected cash flows discounted by the Allowable Earned Yield, is less than amortized cost.** Upon identification of an OTTI, the reporting entity shall recognize a realized loss equal to the difference between the amortized cost and the present value of expected cash flows, with the present value of expected cash flows becoming the new amortized cost to which the Allowable Earned Yield is applied. After the OTTI is recognized, distributions received from the residual shall continue to be recorded in accordance with paragraphs 33-34. Subsequent recoveries in cash flows shall not result in increases to the amortized cost.

b. **For residuals measured under the practical expedient, as detailed in paragraph 35, an OTTI shall be considered to have occurred if the fair value of the residual is less than the BACV. The reporting entity shall recognize a realized loss equal to the difference between the fair value and the BACV, with the fair value becoming the new BACV.** After the OTTI is recognized, distributions received from the residual shall continue to be recorded in accordance with paragraph 35. Subsequent recoveries in cash flows shall not result in increases to the BACV.

<u>SSAP No. 2—Cash, Cash Equivalents, Drafts and short-Term Investments</u>

Disclosures

18. The following disclosures shall be made for short-term investments in the financial statements:

    a. Fair values in accordance with *SSAP No. 100—Fair Value*;

    b. Concentrations of credit risk in accordance with *SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures*;

    c. Basis at which the short-term investments are stated.

    d. The items in the scope of this statement are also subject to the annual audited disclosures in *SSAP No. 26—Bonds*, paragraph 40.f.

    e. Identification of cash equivalents (excluding money market mutual funds as detailed in paragraph 8) and short-term investments (or substantially similar investments), which remain on the same reporting schedule for more than one consecutive reporting period. This disclosure is satisfied by use of a designated code in the investment schedules of the statutory financial statements.

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

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

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

<u>Staff Recommendation:</u>
NAIC staff recommend that the Working Group move this item to the active listing as a SAP clarification and expose SSAP and Annual Statement reporting revisions as illustrated within with a proposed effective date of December 31, 2026. With exposure, NAIC staff recommends that the Working Group sponsor a blanks proposal.

The proposed revisions intend to improve utilization of existing disclosures, clarify guidance, and incorporate consistent locations and frequency for specific debt security disclosures. The edits also propose to include disclosures for residuals that identify the company's measurement method, whether the company is transitioning from the PE to the AEY method, and for those following the AEY method, information comparable to SSAP No. 43 for when an OTTI has (or has not) been recognized for impaired securities. The proposed revisions also converge and clarify language across SSAPs and/or remove references that implies quarterly reporting when the disclosure is annual audited only.

Although the revisions may be limited to specific disclosures or the guidance for reporting frequency, the entire disclosure section of each impacted SSAP has been included for a comprehensive review:

<u>2025 Summer National Meeting Proposed Revisions</u>:
(Note – NAIC staff has identified (as shaded/parenthetical text) the location/frequency of each note for ease of review. These references will not be included in the final adopted SSAP.)

SSAP No. 26—Bonds

Disclosures

40. The financial statements shall include the following disclosures:

a. Fair value in accordance with *SSAP No. 100—Fair Value*; *(Note 20 – Required Quarterly.)*

b. Concentrations of credit risk in accordance with *SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures*; *(Annual Audited Only.)*

c. The basis at which the bonds, mandatory convertible securities, and SVO-identified bond ETF investments identified in paragraph 2.d., are stated; *(Note 1C(2) Required Quarterly.)*

d. Amortization method for bonds and mandatory convertible securities, and if elected by the reporting entity, the approach for determining the systematic value for SVO-identified securities per paragraph 34. If utilizing systematic value measurement method approach for SVO-identified investments, the reporting entity must include the following information: *(Note 1C(2) Required Quarterly.)*

i. Whether the reporting entity consistently utilizes the same measurement method for all SVO-identified investments[3] (e.g., fair value or systematic value). If different measurement methods are used[4], information on why the reporting entity has elected to use fair value for some SVO-identified investments and systematic value for others.

ii. Whether SVO-identified investments are being reported at a different measurement method from what was used in an earlier current-year interim and/or in a prior annual statement. (For example, if reported at systematic value prior to the sale, and then reacquired and reported at fair value.) This disclosure is required in all interim reporting periods and in the year-end financial statements for the year in which an SVO-identified investment has been reacquired and reported using a different measurement method from what was previously used for the investment. (This disclosure is required regardless of the length of time between the sale/reacquisition of the investments, but is only required in the year in which the investment is reacquired.)

iii. Identification of securities still held that no longer qualify for the systematic value method. This should separately identify those securities that are still within the scope of SSAP No. 26 and those that are being reported under a different SSAP.

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[3] As identified in paragraph 35.d., a consistent approach must be followed for all investments designated to use the systematic value method. As such, this disclosure is limited to situations in which a reporting entity uses both fair value and systematic value for reported SVO-identified investments.

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

e. ~~For each annual balance sheet presented, t~~The book/adjusted carrying values, fair values, excess of book/carrying value over fair value or fair value over book/adjusted carrying values for each pertinent bond or assets receiving bond treatment, by category and subcategory as reported in annual statement Schedule D, Part 1, Section 1 (Issuer Credit Obligations), and Section 2 (Asset-Backed Securities). *(Annual Audited Only.)*

f. ~~For the most recent balance sheet, the~~The book/adjusted carrying values and the fair values of bonds and assets in scope of this statement, reported in statutory annual statement Schedule D, Part 1A, due in accordance with the maturity timeframes below. A summary presentation divided by maturity timeframe with the aggregate BACV and fair value is required in the annual audited report. ~~:~~ *(Schedule D, Part 1A with Summary in Annual Audited Report. Currently noted as Annual Audited Only.)*

i. In one year or less (including items without a maturity date which are payable on demand and in good standing);

ii. After one year through five years;

iii. After five years through ten years;

iv. After ten years through twenty years;

v. Over 20 years.

g. ~~For each period for which results of operations are presented, t~~Separately report the proceeds from sales and maturities of bonds and assets in scope of this Statement and the resulting gross realized gains and ~~gross realized~~ losses ~~on such sales~~. (*Proposed New Note 5D(6). Previously Annual Audit Only Focused on Sales.)*

h. ~~For each balance sheet presented, a~~All impaired items in scope of this Statement (fair value is less than amortized cost) ~~in an unrealized loss position~~ for which an other-than-temporary impairment has not been recognized as a realized loss~~declines in value have not been recognized~~. This disclosure shall include all impaired securities, including those reported at fair value (where the unrealized loss is recognized) and those reported at amortized cost (where the unrealized loss is not recognized): *(Added to Note 5D(4). Previously Annual Audit Only in SSAP No. 26.)*

i. The aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value) and

ii. The aggregate related fair value of bonds with unrealized losses.

i. The disclosures in paragraphs 40.h.i. and 40.h.ii. should be segregated by items that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer using fair values determined in accordance with SSAP No. 100. (*Added to Note 5D(4). Previously Annual Audit Only in SSAP No. 26.)*

j. ~~As of the most recent balance sheet date presented,~~ For the impaired items identified in paragraph 40.h., additional information should be included describing the general categories of information that the investor considered in reaching the conclusion that the impairments are not other-than-temporary. (*Will be captured in Note 5D(5). No revisions to note needed. Previously Annual Audit Only in SSAP No. 26.)*

k. When it is not practicable to estimate fair value in accordance with SSAP No. 100, the investor should disclose the following additional information, if applicable, as of each date for which a statement of financial position is presented in its annual financial statements: *(Annual Audited Only.)*

i. The aggregate carrying value of the investments not evaluated for impairment, and

ii. The circumstances that may have a significant adverse effect on the fair value.

l. For securities sold, redeemed or otherwise disposed as a result of a call or tender offer feature (including make-whole call provisions), disclose the number of CUSIPs sold, disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee. *(Note 5Q)*

41. Refer to the Preamble for further discussion regarding disclosure requirements. The disclosures in paragraphs 40.b., 40.e., ~~40.f., 40.g., 40.h., 40.i., 40.j.~~ and 40.k. shall be included in the annual audited statutory financial reports only. The disclosure in paragraph 40.f. is detailed within Schedule D, Part 1A, but a summary presentation divided by maturity timeframe is required in the annual audited statutory financial report. The disclosures in paragraphs 40a., 40c., and 40.d. are required in all quarterly and annual financial statements.

~~*(Note: Paragraph 40.f is deleted from annual audited only as it is satisfied by Schedule D, Part 1A, which is a quarterly and annual schedule.)*~~

SSAP No. 43—Asset-Backed Securities

44. In addition to the disclosures required for invested assets in general, the following disclosures regarding asset-backed securities shall be made in the financial statements. Regardless of the allowances within paragraph 63 of the Preamble, the disclosures in paragraph 44.~~f~~i., 44.~~g~~j. and 44.~~h~~k. of this statement are required in separate, distinct notes to the financial statements:

a. Fair values in accordance with SSAP No. 100—Fair Value. *(Note 20 – Required Quarterly.)*

b. Concentrations of credit risk in accordance with SSAP No. 27; *(Annual Audited Only.)*

c. Basis at which the asset-backed securities are stated; *(Note 1C(6) Required Quarterly.)*

d. The adjustment methodology used for each type of security (prospective or retrospective); *(Note 1C(6) Required Quarterly.)*

e. Descriptions of sources used to determine prepayment assumptions. *(Note 5(D)1 Required Quarterly.)*

f. The book/adjusted carrying values, fair values, excess of book/carrying value over fair value or fair value over book/adjusted carrying values for each pertinent asset-backed security receiving bond treatment, by category and subcategory as reported in annual statement Schedule D, Part 1, Section 1 (Issuer Credit Obligations), and Section 2 (Asset-

Backed Securities). *(Annual Audited Only. Not New. Previously required by reference to SSAP No. 26 in SSAP No. 43, old paragraph 43m.)*

g. The book/adjusted carrying values and the fair values of asset-backed securities in scope of this statement, reported in statutory annual statement Schedule D, Part 1A, due in accordance with the maturity timeframes below. A summary presentation divided by maturity timeframe with the aggregate BACV and fair value is required in the annual audited report. *(Schedule D, Part 1A with Summary in Annual Audited Report. Not new. Previously Required by Reference to SSAP No. 26 in SSAP No. 43, old paragraph 43m.)*

i. In one year or less (including items without a maturity date which are payable on demand and in good standing);

ii. After one year through five years;

iii. After five years through ten years;

iv. After ten years through twenty years;

v. Over 20 years.

h. Separately report the proceeds from sales and maturities of asset-backed securities in scope of this Statement and the resulting gross realized gains and losses. (*Proposed New Note 5D(6). Previously Annual Audit Only Required by Reference to SSAP No. 26.)*

~~f.~~i. All securities within the scope of this statement with a recognized other-than-temporary impairment, disclosed in the aggregate, classified on the basis for the other-than-temporary impairment: (1) intent to sell, (2) inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, or (3) present value of cash flows expected to be collected is less than the amortized cost basis of the security. (*Note 5(D)2 & 3 – Required Quarterly)*

~~g.~~j. For each security with an other-than-temporary impairment, recognized in the current reporting period by the reporting entity, as the present value of cash flows expected to be collected is less than the amortized cost basis of the securities: (*Note 5(D) 3 – Required Quarterly)*

i. The amortized cost basis, prior to any current-period other-than-temporary impairment.

ii. The other-than-temporary impairment recognized in earnings as a realized loss.

iii. The fair value of the security.

iv. The amortized cost basis after the current-period other-than-temporary impairment.

~~h.~~k. All impaired securities (fair value is less than cost or amortized cost) for which an other-than-temporary impairment has not been recognized ~~in earnings~~ as a realized loss (including securities with a recognized other-than-temporary impairment for non-interest related declines when a non-recognized interest related impairment remains). This disclosure shall include all impaired securities, including those reported at fair value (where the unrealized loss is recognized) and those reported at amortized cost (where the unrealized loss is not recognized: (*Note 5(D) 4 a & b – Previously Required Quarterly. Proposed to follow Preamble rules for interim disclosure.)*

i. The aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value) and

ii. The aggregate related fair value of securities with unrealized losses.

~~i.~~l. The disclosures in 44.k.i~~()~~ and 44.k.ii~~(i)~~ above should be segregated by those securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer using fair values determined in accordance with SSAP No. 100. *(Note 5(D)4a&b – Previously Required Quarterly. Proposed to follow Preamble for Interim Reporting.)*

~~j.~~m. For the impaired items identified in paragraph 40.k., ~~A~~additional information should be included describing the general categories of information that the investor considered in reaching the conclusion that the impairments are not other-than-temporary. *Note 5(D) 5 – Previously Required Quarterly Proposed to follow Preamble for Interim Reporting.))*

~~k.~~n. When it is not practicable to estimate fair value, the investor should disclose the following additional information, if applicable:) *(Annual Audited Only)*

i. The aggregate carrying value of the investments not evaluated for impairment, and

ii. The circumstances that may have a significant adverse effect on the fair value.

~~l.~~o. For securities sold, redeemed or otherwise disposed as a result of a callable feature (including make whole call provisions), disclose the number of CUSIPs sold, disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee. *(Note 5Q)*

~~m. The items in the scope of this statement are also subject to the annual audited disclosures in *SSAP No. 26—Bonds*, paragraphs. 40.e., 40.f. and 40.g.~~

45. Refer to the Preamble for further discussion regarding disclosure requirements. Disclosures in paragraphs 44a., 44c., 44.d., 44.e., 44.i., and 44.j. are required in all interim and annual financial statements. ~~All disclosures within this statement, except disclosures included in paragraphs 44.b., 44.k. and 44.m., shall be included within the interim and annual statutory financial statements.~~ Disclosure requirements in paragraphs 44.b. 44.f., and~~,~~ 44.~~k~~n. ~~and 44.m.~~ are required in the annual audited statutory financial statements only. The disclosure in paragraph 44.g. is detailed within Schedule D, Part 1A, but a summary presentation divided by maturity timeframe is required in the annual audited statutory financial report.

SSAP No. 21—Other Admitted Assets

Non-Bond Debt Securities:

27. Securities captured within this section shall be included in all invested asset disclosures, along with the following disclosures:

a. Fair values in accordance with SSAP No. 100—Fair Value. *(Note 20 – Required Quarterly.)*

b. Concentrations of credit risk in accordance with SSAP No. 27. *(Annual Audited Only)*

c. Basis at which the securities are stated. *(Added to Note 1C(6) Required Quarterly.)*

d. The adjustment methodology used for each type of security (prospective or retrospective). *(Added to Note 1C(6) Required Quarterly.)*

e. Descriptions of sources used to determine prepayment assumptions. *(Added to Note 5(D)1 Required Quarterly.)*

f. The book/adjusted carrying values and the fair values of non-bond debt securities in scope of this statement due in accordance with the maturity timeframes below. *(Annual Audited Only. Non-Bond Debt Securities are Not in Schedule D, Part 1A.)*

i. In one year or less (including items without a maturity date which are payable on demand and in good standing);

ii. After one year through five years;

iii. After five years through ten years;

iv. After ten years through twenty years;

v. Over 20 years.

g. Separately report the proceeds from sales and maturities of debt securities in scope of this Statement and the resulting gross realized gains and losses. (*Proposed New Note 5D(6). Added to accompany SSAP No. 26 and SSAP No. 43.)*

~~f.~~h. All securities within the scope of this statement with a recognized other-than-temporary impairment, disclosed in the aggregate, classified on the basis for the other-than-temporary impairment: (1) intent to sell, (2) inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, or (3) present value of cash flows expected to be collected is less than the amortized cost basis of the security. (*Note 5(D)2 & 3 – Required Quarterly. Added reference to SSAP No. 21 to the A/S instruction & template.)*

~~g.~~i. For each security with an other-than-temporary impairment, recognized in the current reporting period by the reporting entity, as the present value of cash flows expected to be collected is less than the amortized cost basis of the securities: (*Note 5(D) 3 – Required Quarterly. Added reference to SSAP No. 21 to the A/S instruction and template.)*

i. The amortized cost basis, prior to any current-period other-than-temporary impairment.

ii. The other-than-temporary impairment recognized in earnings as a realized loss.

iii. The fair value of the security.

iv. The amortized cost basis after the current-period other-than-temporary impairment.

~~h.~~j. All impaired securities (fair value is less than cost or amortized cost) for which an other-than-temporary impairment has not been recognized ~~in earnings~~ as a realized loss (including securities with a recognized other-than-temporary impairment for non-interest related declines when a non-recognized interest related impairment remains). This disclosure shall include all impaired securities, including those reported at fair value (where the unrealized loss is recognized) and those reported at amortized cost (where the unrealized loss is not recognized): *(Added to Note 5D(4).)*

i. The aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value) and,

ii. The aggregate related fair value of securities with unrealized losses.

~~i.~~k. The disclosures in 27.j.~~(~~i~~)~~ and 27.j.~~(~~ii~~)~~ above should be segregated by those securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer using fair values determined in accordance with SSAP No. 100. *(Added to Note 5D(4).)*

~~j.~~l. For the impaired items identified in paragraph 27.k., a~~A~~dditional information should be included describing the general categories of information that the investor considered in reaching the conclusion that the impairments are not other-than-temporary. *Captured in Note 5D(5). No revisions to note needed.)*

~~k.~~m. When it is not practicable to estimate fair value, the investor should disclose the following additional information, if applicable: *(Annual Audited Only)*

i. The aggregate carrying value of the investments not evaluated for impairment, and,

ii. The circumstances that may have a significant adverse effect on the fair value.

~~l.~~n. For securities sold, redeemed, or otherwise disposed as a result of a callable feature (including make whole call provisions), disclose the number of CUSIPs sold, disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee. *(Note 5Q)*

28. Refer to the Preamble for further discussion regarding disclosure requirements. Disclosures in paragraphs 27.a., 27c., 27.d., 27.e., 27.h., and 27.i. are required in all interim and annual financial statements. Disclosure requirements in paragraphs 27.b., 27.f., and 27.m. are required in the annual audited statutory financial statements only.

Residuals: (With the addition of paragraph 28, the remaining paragraphs in SSAP No. 21 will be renumbered.)

39. The financial statements shall include the following disclosures. The disclosure in paragraph 39.g. is required in the annual audited statutory financial statements only. The disclosures in paragraphs 38.a., 38.c., and 38.d. shall be included in all interim and annual financial statements.

a. Fair values in accordance with *SSAP No. 100—Fair Value.* *(Note 20 – Required Quarterly.)*

b. Basis at which the securities are stated and whether the company is in process of transitioning from the practical expedient measurement method to the allowable earned yield measurement method. *(New Proposed General Interrogatory for Data Capture.)*

c. If following the allowable earned yield method, for each residual with an other-than-temporary impairment recognized in the current reporting period by the reporting entity, as the present value of cash flows expected to be collected is less than the amortized cost basis of the securities: (*Note 5(D)2 & 3 – Required Quarterly. Added reference to SSAP No. 21 residuals held under AEY method to the A/S instruction & template.)*

i. The amortized cost basis, prior to any current-period other-than-temporary impairment.

ii. The other-than-temporary impairment recognized in earnings as a realized loss.

iii. The fair value of the security.

iv. The amortized cost basis after the current-period other-than-temporary impairment.

d. If following the allowable earned yield method, the impaired residuals (fair value is less than cost or amortized cost) for which an other-than-temporary impairment has not been recognized as a realized loss (including securities with a recognized other-than-temporary impairment for non-interest related declines when a non-recognized interest related impairment remains). This disclosure shall include all impaired securities, including those reported at fair value (where the unrealized loss is recognized) and those reported at amortized cost (where the unrealized loss is not recognized: *(Added to Note 5D(4).)*

i. The aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value) and,

ii. The aggregate related fair value of securities with unrealized losses.

e. The disclosures in 39.d.i and 39.d.ii above should be segregated by those securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer using fair values determined in accordance with SSAP No. 100. *(Added to Note 5D(4).)*

f. For the impaired items identified in paragraph 39.d., additional information should be included describing the general categories of information that the investor considered in reaching the conclusion that the impairments are not other-than-temporary. *Captured in Note 5D(5). No revisions to note needed)*

g. When it is not practicable to estimate fair value, the investor should disclose the following additional information, if applicable: *(Annual Audited Only)*

i. The aggregate carrying value of the investments not evaluated for impairment, and,

ii. The circumstances that may have a significant adverse effect on the fair value.

SSAP No. 2—Cash, Cash Equivalents, Drafts and short-Term Investments

Disclosures

18. The following disclosures shall be made for short-term investments in the financial statements:

a. Fair values in accordance with *SSAP No. 100—Fair Value*; *(Note 20 – Required Quarterly)*

b. Concentrations of credit risk in accordance with *SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures*; *(Annual Audited Only)*

c. Basis at which the short-term investments are stated. *(Note 1C(1) Required Quarterly.)*

d. ~~The items in the scope of this statement are also subject to the annual audited disclosures in *SSAP No. 26—Bonds*, paragraph 40.f~~. ~~the~~The book/adjusted carrying values and the fair values of bonds and assets in scope of this statement, reported in statutory annual statement Schedule D, Part 1A, due in accordance with the maturity timeframes below. A summary presentation divided by maturity timeframe with the aggregate BACV and fair value is required in the annual audited report. ~~:~~ *(Schedule D, Part 1A with Summary in Annual Audited Report. Not new. Previously required by reference.)*

i. In one year or less (including items without a maturity date which are payable on demand and in good standing);

ii. After one year through five years;

iii. After five years through ten years;

iv. After ten years through twenty years;

v. Over 20 years.

e. Separately report the proceeds from sales and maturities of bonds in scope of this Statement and the resulting gross realized gains and losses. *Proposed New Note 5D(6).)*

~~d.~~f. Identification of cash equivalents (excluding money market mutual funds as detailed in paragraph 8) and short-term investments (or substantially similar investments), which remain on the same reporting schedule for more than one consecutive reporting period. This disclosure is satisfied by use of a designated code in the investment schedules of the statutory financial statements.

19. The financial statements shall disclose the reporting entity's share of the cash pool by asset type (cash, cash equivalents or short-term investments).

20. Refer to the Preamble for further discussion regarding disclosure requirements. Disclosures in paragraphs 18.a., and 18c. are required in all interim and annual financial statements. The disclosures in paragraph 18.b. ~~and paragraph 18.d. of this statement~~ shall be included in the annual audited statutory financial reports only. The disclosure in paragraph 18.d. is detailed within Schedule D, Part 1A, but a summary presentation divided by maturity timeframe is required in the annual audited statutory financial report.

Annual Statement Instructions / Illustrations:

1) **New General Interrogatories: Residual Measurement Method: (Satisfies SSAP No. 21, paragraph 39b.)**
Since all residuals held by a company shall follow the same measurement method unless the company is transitioning from the PE to AEY method, this is proposed to be captured in a new general interrogatory instead of an investment schedule note or disclosure. (By capturing in a GI, the information can be easily aggregated, which is not possible in a narrative note.) Proposed new GIs:

For residuals, does the company utilize the Practical Expedient or Allowable Earned Yield Method?
(Select one, unless the company is transitioning to the PE to AEY method.)

If the company is transitioning from the Practical Expedient to Allowable Earned Yield Method, what is the transition date to apply the AEY method? (Under SSAP No. 21, residuals acquired prior to the transition date shall continue the PE method, whereas residuals acquired after the transition date shall follow the AEY method.)

2) **Updated Note Disclosures – Note 1**
Reference to non-bond debt securities has been added to Note 1C(6):

(6) Basis at which ~~the loan-backed~~asset-backed securities and non-bond debt securities are stated and the adjustment methodology used for each type of security (prospective or retrospective).

3) **Updated Note Disclosures – Note 5D**
Note 5D has previously been limited to asset-backed securities. The note has been expanded to encompass SSAP No. 26 and SSAP No. 21 for non-bond debt securities and residuals when disclosures are consistent.

D. ~~Asset-Backed Securities~~Debt Securities and Residual Interests

~~For asset-backed securities, disclose the following:~~

(1) All securities within the scope of *SSAP No. 43—Asset-Backed Securities* and as applicable to non-bond debt securities in scope of *SSAP No. 21—Other Admitted Assets*, ~~D~~descriptions of sources used to determine prepayment assumptions.

(2) All securities within the scope of *SSAP No. 43—Asset-Backed Securities* and non-bond debt securities in scope of *SSAP No. 21—Other Admitted Assets* with a recognized other-than-temporary impairment, disclosed in the aggregate, classified on the basis for the other-than-temporary impairment:

- Intent to sell.

- Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis.

(3) For ~~All~~ securities within the scope of *SSAP No. 43—Asset-Backed Securities*, all non-bond debt securities, and residual interests captured under the allowable earned yield in scope of *SSAP No. 21—Other Admitted Assets*, ~~F~~for each security, by CUSIP, with an other-than-temporary impairment, recognized in the current reporting period by the reporting entity, as the present value of cash flows expected to be collected is less than the amortized cost basis of the securities:

- The amortized cost basis, prior to any current-period other-than-temporary impairment.
- The other-than-temporary impairment recognized in earnings as a realized loss.
- The fair value of the security.
- The amortized cost basis after the current-period other-than-temporary impairment.

(4) For non-bond debt securities and residual interests captured under the allowable earned yield method captured in *SSAP No. 21—Other Admitted Assets*, and bonds in *SSAP No. 26—Bonds* and *SSAP No. 43—Asset-Backed Securities*, ~~A~~all impaired securities (fair value is less than cost or amortized cost) for which an other-than-temporary impairment has not been recognized ~~in earnings~~ as a realized loss (including securities in scope of SSAP No. 21 and SSAP No. 43 with a recognized other-than-temporary impairment for non-interest related declines when a non-recognized interest related impairment remains). This disclosure shall include all impaired securities, including those reported at fair value (where the unrealized loss is recognized) and those reported at amortized cost (where the unrealized loss is not recognized:~~:~~

a. The aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value); and

b. The aggregate related fair value of securities with unrealized losses.

The disclosures in (a) and (b) above should be segregated by those securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer using fair values determined in accordance with *SSAP No. 100—Fair Value*.

(5) For the impaired items identified in paragraph (4), ~~A~~additional information should be included describing the general categories of information that the investor considered in reaching the conclusion that the impairments are not other-than-temporary.

(6) For bonds captured in SSAP No. 2, SSAP No. 26 and SSAP No. 43, and non-bond debt securities captured in *SSAP No. 21—Other Admitted Assets* separately report the proceeds from sales and maturities and the resulting gross realized gains and losses.

Updated Note Illustrations – Note 5D

D. Debt Securities and Residual Interests~~Asset-Backed Securities~~

(1) Prepayment assumptions for asset-backed securities and non-bond debt securities were obtained from broker-dealer survey values or internal estimates.

(2) For securities in scope of SSAP No. 43 and non-bond debt securities in scope of SSAP No. 21 with a recognized OTTI: *(Template is not new. There are currently no instructions with the existing template.)*

	(1) Amortized Cost Basis Before Other-than-Temporary Impairment	(2) Other-than-Temporary Impairment Recognized in Loss		(3)
		(2a) Interest	(2b) Non-interest	Fair Value 1 – (2a + 2b)
OTTI recognized 1st Quarter				
a. Intent to sell	$ ________	$ ________	$ ________	$ ________
b. Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis	$ ________	$ ________	$ ________	$ ________
c. Total 1st Quarter (a+b)	$ ________	$ ________	$ ________	$ ________
OTTI recognized 2nd Quarter				
d. Intent to sell	$ ________	$ ________	$ ________	$ ________
e. Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis	$ ________	$ ________	$ ________	$ ________
f. Total 2nd Quarter (d+e)	$ ________	$ ________	$ ________	$ ________
OTTI recognized 3rd Quarter				
g. Intent to sell	$ ________	$ ________	$ ________	$ ________
h. Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis	$ ________	$ ________	$ ________	$ ________
i. Total 3rd Quarter (g+h)	$ ________	$ ________	$ ________	$ ________
OTTI recognized 4th Quarter				
j. Intent to sell	$ ________	$ ________	$ ________	$ ________
k. Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis	$ ________	$ ________	$ ________	$ ________
l. Total 4th Quarter (j+k)	$ ________	$ ________	$ ________	$ ________

(1) Amortized Cost Basis Before Other-than-Temporary Impairment	(2) Other-than-Temporary Impairment Recognized in Loss		(3)
	(2a) Interest	(2b) Non-interest	Fair Value 1 – (2a + 2b)
m. Annual Aggregate Total (c+f+i+l)	$ __________	$ __________	

(3) For asset-backed securities (ABS) in scope of SSAP No. 43, all non-bond debt securities and residual interests captured under the allowable earned yield in scope of SSAP No. 21 with an other-than-temporary impairment recognized in the current reporting period as the present value of cash flows expected to be collected is less than the amortized cost basis of the securities: *(Only reporting lines are new within existing template. There are currently no instructions with the existing template.)*

	1 CUSIP	2 Book/Adjusted Carrying Value Amortized Cost Before Current Period OTTI	3 Present Value of Projected Cash Flows	4 Recognized Other-Than-Temporary Impairment	5 Amortized Cost After Other-Than-Temporary Impairment	6 Fair Value at time of OTTI	7 Date of Financial Statement Where Reported
Asset-Backed Securities:							
ABS Total							
Non-Bond Debt Securities:							
Non-Bond Debt Total							
Residuals							
Residual Total							
Aggregate Total		XXX	XXX	$	XXX	XXX	XXX

NOTE: Each CUSIP should be listed separately each time an OTTI is recognized.

For Securities with amortized cost or adjusted amortized cost:

Column 2 minus Column 3 should equal Column 4

Column 2 minus Column 4 should equal Column 5

(4) For all debt securities and residual interests measured under the allowable earned yield in scope of SSAP No. 21, and bonds in SSAP No. 26 and SSAP No. 43, all impaired securities (fair value is less than cost or amortized cost) for which an other-than-temporary impairment has not been recognized in earnings as a realized loss (including securities with a recognized other-than-temporary impairment for non-interest related declines when a non-recognized interest related impairment remains). This disclosure shall include all impaired securities even if reported at fair value with an unrealized loss recognized:

	SSAP No. 26 - ICO	SSAP No. 43 - ABS	SSAP No. 21 – Non-Bond Debt Securities	SSAP No. 21 – Residuals under the Allowable Earned Yield Method	Total – Impaired Debt Securities
Aggregate Amount of Unrealized Losses:					
Less Than 12 Months:					
12 Months of Longer:					
Aggregate Related Fair Value of Securities:					
Less Than 12 Months:					
12 Months of Longer:					

~~a. The aggregate amount of unrealized losses:~~

~~1. Less than 12 Months $ ________~~

~~2. 12 Months or Longer $ ________~~

~~b. The aggregate related fair value of securities with unrealized losses:~~

~~1. Less than 12 Months $ ________~~

~~2. 12 Months or Longer $ ________~~

(5) Additional information should be included describing the general categories of information that the investor considered in reaching the conclusion that the impairments are not other-than-temporary.

(6) For bonds captured in SSAP No. 2, SSAP No. 26 and SSAP No. 43, and non-bond debt securities captured in *SSAP No. 21—Other Admitted Assets* separately report the proceeds from sales and maturities and the resulting gross realized gains and losses

	1	2	3		4	5	6
		Sales				Maturities	
	Proceeds	Realized Gains	Realized Losses		Proceeds	Realized Gains	Realized Losses
Bonds							
SSAP No. 2							
SSAP No. 26							
SSAP No. 43							
Non-Bond Debt Securities:							
Aggregate Total							

Staff Review Completed by: Julie Gann, NAIC Staff—June 2025

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/08-11-25 Summer National Meeting/Meeting/C - 25-20 - Debt Disclosures.docx

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

Issue: Retirement Plan Assets Held at NAV

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: In May 2025, the Working Group received an informal comment from industry requesting clarification on how to complete fair value disclosures for retirement plan assets measured at net asset value (NAV). The comment noted that certain retirement plan assets are most appropriately classified using the NAV practical expedient within the fair value hierarchy. While this approach aligns with the guidance in *SSAP No. 100—Fair Value*, NAV is not explicitly referenced as a leveling option in either *SSAP No. 92—Postretirement Benefits Other Than Pensions* or *SSAP No. 102—Pensions*. Although the use of NAV as a measurement method is strongly implied within SSAP Nos. 92 and 102, the absence of a direct reference to NAV has caused some confusion. Based on paragraph 3 of SSAP No. 100, NAIC staff agrees that the NAV practical expedient is an acceptable reporting method for retirement plan assets, and that the disclosure guidance in SSAP Nos. 92 and 102 can be clarified accordingly. NAIC staff also noted that under U.S. GAAP the NAV practical expedient is allowed to be used for plan assets held in defined benefit plans (ASC 960-325) or defined contribution plans (ASC 962-325).

Existing Authoritative Literature:
SSAP No. 92—Postretirement Benefits Other Than Pensions:
Disclosures - Single-Employer Defined Postretirement Plans

66. An employer that sponsors one or more other defined benefit postretirement plans shall provide the following information for postretirement benefit plans other than pensions. Amounts related to the employer's results of operations shall be disclosed for each period for which a statement of income is presented. Amounts related to the employer's statement of financial position, shall be disclosed as of the date of each statement of financial position presented.

a. A reconciliation of beginning and ending balances of the benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following: service cost, interest cost, contributions by plan participants, actuarial gains and losses, foreign currency exchange rate changes, benefits paid, plan amendments, business combinations, divestitures, curtailments, settlements, and special termination benefits.

b. A reconciliation of beginning and ending balances of the fair value of plan assets showing separately, if applicable, the effects during the period attributable to each of the following: actual return on plan assets, foreign currency exchange rate changes, contributions by the employer, contributions by plan participants, benefits paid, business combinations, divestitures, and settlements.

c. The funded status of the plans and the amounts recognized in the statement of financial position, showing separately the assets (nonadmitted) and liabilities recognized.

d. The objectives of the disclosures about postretirement benefit plan assets are to provide users of financial statements with an understanding of:

i. How investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies;

ii. The classes of plan assets;

iii. The inputs and valuation techniques used to measure the fair value of plan assets;

iv. The effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period;

v. Significant concentrations of risk within plan assets.

An employer shall consider those overall objectives in providing the following information about plan assets:

(a) A narrative description of investment policies and strategies, including target allocation percentages or range of percentages considering the classes of plan assets disclosed pursuant to (b) below, as of the latest statement of financial position presented (on a weighted-average basis for employers with more than one plan), and other factors that are pertinent to an understanding of those policies and strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations. For investment funds disclosed as classes as described in (b) below, a description of the significant investment strategies of those funds shall be provided.

(b) The fair value of each class of plan assets as of each date for which a statement of financial position is presented. Asset classes shall be based on the nature and risks of assets in an employer's plan(s). Examples of classes of assets include, but are not limited to, the following: cash and cash equivalents; equity securities, (segregated by industry type, company size, or investment objective); debt securities, issued by national, state, and local governments; corporate debt securities; asset-backed securities; structured debt; derivatives on a gross basis (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts, and other contracts); investment funds (segregated by type of fund); and real estate. Those examples are not meant to be all inclusive. An employer should consider the overall objectives in paragraph 66.d. in determining whether additional classes of plan assets or further disaggregation of classes should be disclosed.

(c) A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined. The description should consider the classes of assets described in (b) above, as appropriate.

(d) Information that enables users of financial statements to assess the inputs and valuation techniques used to develop fair value measurements of plan assets at the reporting date. For fair value measurements using significant unobservable inputs, an employer shall disclose the effect of the measurements on changes in plan assets for the period. To meet those objectives, the employer shall disclose the following information for each class of plan assets disclosed pursuant to (b) above for each annual period:

(1) The level within the fair value hierarchy in which the fair value measurements in their entirety fall,[2] segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3)

(2) Information about the valuation technique(s) and inputs used to measure fair value and a discussion of changes in valuation techniques and inputs, if any, during the period.

Footnote 2 - In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

SSAP No. 102—Pensions:
Disclosures – Single-Employer Defined Benefit Plans

68. An employer that sponsors one or more defined benefit pension plans or one or more other defined benefit postretirement plans shall provide the following information, separately for pension plans and other postretirement benefit plans. Amounts related to the employer's results of operations shall be disclosed for each period for which a statement of income is presented. Amounts related to the employer's statement of financial position, shall be disclosed as of the date of each statement of financial position presented.

a. A reconciliation of beginning and ending balances of the benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following: service cost, interest cost, contributions by plan participants, actuarial gains and losses, foreign currency exchange rate changes, benefits paid, plan amendments, business combinations, divestitures, curtailments, settlements, and special termination benefits.

b. A reconciliation of beginning and ending balances of the fair value of plan assets showing separately, if applicable, the effects during the period attributable to each of the following: actual return on plan assets, foreign currency exchange rate changes, contributions by the employer, contributions by plan participants, benefits paid, business combinations, divestitures, and settlements.

c. The funded status of the plans and the amounts recognized in the statement of financial position, showing separately the assets and liabilities recognized.

d. The objectives of the disclosures about postretirement benefit plan assets are to provide users of financial statements with an understanding of:

i. How investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies

ii. The classes of plan assets

iii. The inputs and valuation techniques used to measure the fair value of plan assets

iv. The effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period

v. Significant concentrations of risk within plan assets.

An employer shall consider those overall objectives in providing the following information about plan assets:

(a) A narrative description of investment policies and strategies, including target allocation percentages or range of percentages considering the classes of plan assets disclosed pursuant to (b) below, as of the latest statement of financial position presented (on a weighted-average basis for employers with more than one plan), and other factors that are pertinent to an understanding of those policies and strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations. For investment funds disclosed as classes as described in (b) below, a description of the significant investment strategies of those funds shall be provided.

(b) The fair value of each class of plan assets as of each date for which a statement of financial position is presented. Asset classes shall be based on the nature and risks of assets in an employer's plan(s). Examples of classes of assets could include, but are not limited to, the following: cash and cash equivalents; equity securities, (segregated by industry type, company size, or investment objective); debt securities, issued by national, state, and local governments; corporate debt securities; asset-backed securities; structured debt; derivatives on a gross basis (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts, and other contracts); investment funds (segregated by type of fund); and real estate. Those examples are not meant to be all inclusive. An employer should consider the overall objectives in paragraph 68.d. in determining whether additional classes of plan assets or further disaggregation of classes should be disclosed.

(c) A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined. The description should consider the classes of assets described in (b) above, as appropriate.

(d) Information that enables users of financial statements to assess the inputs and valuation techniques used to develop fair value measurements of plan assets at the reporting date. For fair value measurements using significant unobservable inputs, an employer shall disclose the effect of the measurements on changes in plan assets for the period. To meet those objectives, the employer shall disclose the following information for each class of plan assets disclosed pursuant to (b) above for each annual period:

(1) The level within the fair value hierarchy in which the fair value measurements in their entirety fall,[2] segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3)

(2) Information about the valuation technique(s) and inputs used to measure fair value and a discussion of changes in valuation techniques and inputs, if any, during the period.

Footnote 2 - In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):
In March of 2012, the Working Group adopted FAS 158 with modification through agenda item 2006-30 which established SSAP Nos. 92 and 102. SSAP Nos. 92 and 102 have been revised a significant number of times, but for the sake of brevity only revisions since 2023 are summarized below.

In October of 2023, the Working Group adopted with modification ASU 2016-19 through agenda item 2023-18, which provided minor technical changes to SSAP Nos. 92 and 102.

In October of 2023, the Working Group adopted revisions to SSAP No. 92 and SSAP No.102 to remove the transition guidance that is no longer applicable as the ten-year effective period for that transition has ended.

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

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

Staff Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and adopt revisions in *SSAP No. 92—Postretirement Benefits Other Than Pensions* and *SSAP No. 102—Pensions* to clarify that assets held at NAV shall be included in the required fair value disclosure.

Staff Review Completed by:
NAIC Staff – William Oden, May 2025

Recommended Revisions to SSAP No. 92:
Disclosures - Single-Employer Defined Postretirement Plans

66. An employer that sponsors one or more other defined benefit postretirement plans shall provide the following information for postretirement benefit plans other than pensions. Amounts related to the employer's results of operations shall be disclosed for each period for which a statement of income is presented. Amounts related to the employer's statement of financial position, shall be disclosed as of the date of each statement of financial position presented. Although investments reported at NAV as a practical expedient pursuant to SSAP No. 100 are not to be categorized within the fair value hierarchy, a reporting entity shall separately identify NAV (or its equivalent) as required under paragraphs 66.b. , 66.d.v.(b), and 66.d.v.(d)(1) to permit reconciliations.

a. A reconciliation of beginning and ending balances of the benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following: service cost, interest cost, contributions by plan participants, actuarial gains and losses, foreign currency exchange rate changes, benefits paid, plan amendments, business combinations, divestitures, curtailments, settlements, and special termination benefits.

b. A reconciliation of beginning and ending balances of the fair value of plan assets showing separately, if applicable, the effects during the period attributable to each of the following: actual return on plan assets, foreign currency exchange rate changes, contributions by the employer, contributions by plan participants, benefits paid, business combinations, divestitures, and settlements.

c. The funded status of the plans and the amounts recognized in the statement of financial position, showing separately the assets (nonadmitted) and liabilities recognized.

d. The objectives of the disclosures about postretirement benefit plan assets are to provide users of financial statements with an understanding of:

   i. How investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies;

   ii. The classes of plan assets;

   iii. The inputs and valuation techniques used to measure the fair value of plan assets;

   iv. The effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period;

   v. Significant concentrations of risk within plan assets.

An employer shall consider those overall objectives in providing the following information about plan assets:

(a) A narrative description of investment policies and strategies, including target allocation percentages or range of percentages considering the classes of plan assets disclosed pursuant to (b) below, as of the latest statement of financial position presented (on a weighted-average basis for employers with more than one plan), and other factors that are pertinent to an understanding of those policies and strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations. For investment funds disclosed as classes as described in (b) below, a description of the significant investment strategies of those funds shall be provided.

(b) The fair value or NAV of each class of plan assets as of each date for which a statement of financial position is presented. Asset classes shall be based on the nature and risks of assets in an employer's plan(s). Examples of classes of assets include, but are not limited to, the following: cash and cash equivalents; equity securities, (segregated by industry type, company size, or investment objective); debt securities, issued by national, state, and local governments; corporate debt securities; asset-backed securities; structured debt; derivatives on a gross basis (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts, and other contracts); investment funds (segregated by type of fund); and real estate. Those examples are not meant to be all inclusive. An employer should consider the overall objectives in paragraph 66.d. in determining whether additional classes of plan assets or further disaggregation of classes should be disclosed.

(c) A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined. The description should consider the classes of assets described in (b) above, as appropriate.

(d) Information that enables users of financial statements to assess the inputs and valuation techniques used to develop fair value measurements of plan assets at the reporting date. For fair value measurements using significant unobservable inputs, an employer shall disclose the effect of the measurements on changes in plan assets for the period. To meet those objectives, the employer shall disclose the following information for each class of plan assets disclosed pursuant to (b) above for each annual period:

(1) The level within the fair value hierarchy in which the fair value measurements in their entirety fall,[2] segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and

significant unobservable inputs (Level 3). Investments reported at net asset value (NAV) shall not be captured within the fair value hierarchy, but shall be separately identified.

(2) Information about the valuation technique(s) and inputs used to measure fair value, or the use of NAV, and a discussion of changes in valuation techniques and inputs, if any, during the period.

~~(2)~~(3) Investments measured using the NAV practical expedient must also comply with the NAV disclosure requirements detailed within SSAP No. 100, paragraph 54.

Footnote 2 - In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

Recommended Revisions to SSAP No. 102:

Disclosures – Single-Employer Defined Benefit Plans

68. An employer that sponsors one or more defined benefit pension plans or one or more other defined benefit postretirement plans shall provide the following information, separately for pension plans and other postretirement benefit plans. Amounts related to the employer's results of operations shall be disclosed for each period for which a statement of income is presented. Amounts related to the employer's statement of financial position, shall be disclosed as of the date of each statement of financial position presented. Although investments reported at NAV as a practical expedient pursuant to SSAP No. 100 are not to be categorized within the fair value hierarchy, a reporting entity shall separately identify NAV (or its equivalent) as required under paragraphs 68.b., 68.d.v.(b), and 68.d.v.(d)(1) to permit reconciliations.

a. A reconciliation of beginning and ending balances of the benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following: service cost, interest cost, contributions by plan participants, actuarial gains and losses, foreign currency exchange rate changes, benefits paid, plan amendments, business combinations, divestitures, curtailments, settlements, and special termination benefits.

b. A reconciliation of beginning and ending balances of the fair value of plan assets showing separately, if applicable, the effects during the period attributable to each of the following: actual return on plan assets, foreign currency exchange rate changes, contributions by the employer, contributions by plan participants, benefits paid, business combinations, divestitures, and settlements.

c. The funded status of the plans and the amounts recognized in the statement of financial position, showing separately the assets and liabilities recognized.

d. The objectives of the disclosures about postretirement benefit plan assets are to provide users of financial statements with an understanding of:

i. How investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies

ii. The classes of plan assets

iii. The inputs and valuation techniques used to measure the fair value of plan assets

iv. The effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period

v. Significant concentrations of risk within plan assets.

An employer shall consider those overall objectives in providing the following information about plan assets:

(a) A narrative description of investment policies and strategies, including target allocation percentages or range of percentages considering the classes of plan assets disclosed pursuant to (b) below, as of the latest statement of financial position presented (on a weighted-average basis for employers with more than one plan), and other factors that are pertinent to an understanding of those policies and strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations. For investment funds disclosed as classes as described in (b) below, a description of the significant investment strategies of those funds shall be provided.

(b) The fair value or NAV of each class of plan assets as of each date for which a statement of financial position is presented. Asset classes shall be based on the nature and risks of assets in an employer's plan(s). Examples of classes of assets could include, but are not limited to, the following: cash and cash equivalents; equity securities, (segregated by industry type, company size, or investment objective); debt securities, issued by national, state, and local governments; corporate debt securities; asset-backed securities; structured debt; derivatives on a gross basis (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts, and other contracts); investment funds (segregated by type of fund); and real estate. Those examples are not meant to be all inclusive. An employer should consider the overall objectives in paragraph 68.d. in determining whether additional classes of plan assets or further disaggregation of classes should be disclosed.

(c) A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined. The description should consider the classes of assets described in (b) above, as appropriate.

(d) Information that enables users of financial statements to assess the inputs and valuation techniques used to develop fair value measurements of plan assets at the reporting date. For fair value measurements using significant unobservable inputs, an employer shall disclose the effect of the measurements on changes in plan assets for the period. To meet those objectives, the employer shall disclose the following information for each class of plan assets disclosed pursuant to (b) above for each annual period:

(1) The level within the fair value hierarchy in which the fair value measurements in their entirety fall,[2] segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3). Investments reported at net asset value (NAV) shall not be captured within the fair value hierarchy, but shall be separately identified.

(2) Information about the valuation technique(s) and inputs used to measure fair value, or the use of NAV, and a discussion of changes in valuation techniques and inputs, if any, during the period.

~~(2)~~(3) Investments measured using the NAV practical expedient must also comply with the NAV disclosure requirements detailed within SSAP No. 100, paragraph 54.

Footnote 2 - In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

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

Issue: Investment Subsidiary Classification

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: This agenda item has been prepared as questions have been received on the classification of investments as "investment subsidiaries" in schedule D-6-1: Valuation of Shares of Subsidiary, Controlled or Affiliated Companies and in the Life RBC formula on pages LR042, LR043 and LR044.

For background, the concept of an investment subsidiary was reflected in *SSAP No. 46—Investments in Subsidiary, Controlled and Affiliated Entities* as "investments in noninsurance subsidiary, controlled or affiliated (SCA) entities that have no significant ongoing operations other than to hold assets that are primarily for the direct or indirect benefit or use of the reporting entity or its affiliates." For these SCAs, the guidance in SSAP No. 46 required an equity measurement method adjusted to the statutory basis of accounting. With this adjustment to the statutory basis of accounting, the measurement of the SCA under SSAP No. 46 was intended to be consistent to the accumulated measurement of the underlying assets if they had been held directly. SSAP No. 46 was superseded by SSAP No. 88 as of Jan. 1, 2005, and the concept of an "investment subsidiary" (or a subsidiary designed to hold assets for the entity) was eliminated from statutory accounting guidance. The investment subsidiary guidance in the annual statement instructions was not deleted when the concept was eliminated from statutory accounting guidance. This is presumably because of the different charge that RBC applies to such entities if they meet specific criteria. SSAP No. 88 was later superseded by SSAP No. 97 as of Dec. 31, 2007, and is the current authoritative guidance for SCAs. Similar to SSAP No. 88, the concept of an "investment subsidiary" (or an SCA designed just to hold assets for the benefit of the reporting entity and its affiliates) is not in SSAP No. 97.

Under current guidance in SSAP No. 97, the concept of an SCA that simply holds assets is not reflected. Unless the SCA is an insurance subsidiary or engages in specific transactions on behalf of the entity or meets the revenue test, the SCA will be captured under paragraph 8.b.iii in SSAP No. 97 and reported based on the audited US GAAP equity value. Admittance is permitted if the parameters of the SSAP are met, which includes an audited financial statement supporting the US GAAP equity value. It is noted that the concept of an investment sub is still reflected in *SSAP No. 25—Affiliates and Other Related Parties*. The example of an entity only holding assets for the benefit of the insurer is an example of a non-economic transaction, where the assets are transferred/recognized at fair value, but any gain from the transfer is deferred until permanence can be verified.

From questions received and a review of financial statement reporting, the following list identifies issues:

- Situations have been identified in which companies have reported Schedule BA items (in scope of SSAP No. 48) as "investment subs" for RBC look through although those investments should not be captured within the classification. The concept for an "investment subsidiary" is for items reported as SCAs in scope of SSAP No. 97 with common and/or preferred stock ownership.

- Questions have been raised on whether companies can utilize the concept of an "investment sub" to avoid statutory accounting provisions for underlying assets but receive favorable RBC impact as if the SSAP criteria had been met. (For example, whether a company utilize the bond RBC factors for a debt security held within an investment subsidiary without verifying that the debt security would qualify as a bond under SSAP No. 26 or use CRP ratings to determine RBC when the asset may have required an SVO-assigned designation if held directly.)

- Questions have been received on how companies comply with Life RBC LR044 instruction for Affiliate Type 4 "*The risk-based capital charge for the ownership of an investment subsidiary is based on the risk-based capital of the underlying assets, pro-rated for the degree of ownership. The basis for this calculation is the assumption that the charge should be the same as it would be if the life insurer held the assets directly."* Specifically, the measurement method for the SCA pursuant to *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* (audited U.S. GAAP equity) would not be consistent with the measurement of the assets if the assets were held directly (statutory basis). Questions arise whether the underlying assets within the investment subsidiary are converted to statutory basis of accounting prior to computation of RBC charge. In addition, there were questions as to how the RBC after covariance for the underlying assets owned is calculated for investment subsidiaries.

- According to Annual Statement instructions, investment subsidiaries also need to apply a "look-through" approach in Asset Valuation Reserve (AVR) calculation. However, diversity in practice has been observed and for companies that utilize Lines 5 – 14 of the AVR Equity and Other Invested Asset Component table to calculate AVR, the computation is not transparent.

- Questions have been raised on the current annual statement instructions for D-6-1 regarding the "imputed value on a statutory basis" and the direction for nonadmittance of the excess or reclassification in the "all other affiliates" category. Schedule D-6-1 does not determine the amount reported on balance sheet, as that amount is pulled from *Schedule D-2-2, Common Stocks*. Further, the A/S instructions for D-6-1 would not override the SSAP guidance that prescribes the measurement and admittance requirement as that is governed by SSAP No. 97, which is higher in the statutory hierarchy. These A/S instructions regarding the "imputed statutory value" appear to come from historical RBC guidance, and it is assumed that the calculation of the "imputed statutory value" was intended to be a pre-requisite for classifying as an investment sub. However, as the A/S guidance does not override SSAP, and what is captured would seemingly create a disconnect from what is reported on balance sheet, it seems to be causing confusion on application, as companies are not consistently reporting "investment subsidiaries" throughout the schedule, AVR and the RBC formula.

- From a review of the financial statements, the amounts reported for "investment subsidiaries" vary between D-6-1, AVR and RBC. From the 2023 filing, the amount reported in the RBC formula (which allows company RBC calculation based on the underlying assets) is significantly greater than the amount reported on D-6-1 and what is reported through the equity component of AVR.

The RBC background was noted from the 1995 "Raising the Safety Net" publication for RBC for P/C Insurance Companies is included as follows:

> The general principle in determining the RBC of … investment affiliates is to do so as if the affiliate were fully consolidated with the insurer. The committee recognizes that there is not necessarily any legal obligation for a parent to assist a subsidiary nor maintain adequate capital in the subsidiary; vice versa, a parent which wishes to remove excess capital from a subsidiary might sometimes face barriers in doing so. Nonetheless, the committee believes that the consolidation approach is the best way to measure the RBC of the parent, particularly when both the parent and the affiliate are going concerns. One particular advantage of this approach is that where there is a choice of whether to have ownership of an asset or

placement of particular insurance business in either the parent or the subsidiary, the RBC calculation for the parent remains the same whichever choice is made. The committee believes that this makes the RBC calculation less manipulable with respect to affiliate transactions.

D. Investment Affiliates - Investment affiliates are investment conduits whose function it is to hold and invest assets of the insurance company.* Note that money management subsidiaries are not investment affiliates for this purpose. The RBC for an investment conduit is determined on a consolidated or "see through" basis by applying the appropriate asset factors to the assets owned by the affiliate.

* An affiliate qualifies as an investment conduit if the following criteria are met:

i. 95 percent or more of the affiliate's assets would qualify as admitted assets if directly owned by the insurer.
ii. 95 percent or more of the affiliate's liabilities are paid-in capital, retained earnings or debt.
iii. Combining the prorata ownership share of the asset so fall the investment conduit affiliates with the owning insurer's assets does not violate any state requirements concerning diversification of investments or limitations on investments in a single entity.
iv. The investment conduit's statement value does not exceed the imputed value of the investment conduit using statutory accounting methodology admit the excess or move the affiliate to the "All Other Affiliated Common Stock" category.

Although the RBC calculation is within the purview of the Capital Adequacy (E) Task Force and its related RBC Working Groups, with the questions received for “investment subsidiaries,” as well as the current lack of detail on the underlying assets used to determine RBC, this agenda item proposes the following potential actions:

1) Revisions to SSAP No. 97 to incorporate statutory accounting guidance for SCAs that hold assets on behalf of the reporting entity and affiliate (investment subsidiaries). By incorporating in SSAP, consideration can be given as to prescribing the measurement method and potential nonadmittance thresholds if the assets within the investment subsidiary would be nonadmitted if held directly. (As detailed within, the existing reference to measurement and nonadmittance in the instructions for D-6-1 would not overrule the guidance in SSAP No. 97. If the revisions to SSAP No. 97 are not supported, then the Working Group could consider sponsoring a blanks proposal to clarify the instructions in D-6-1 to prescribe allocation of the underlying investments in a manner that coincides with the SCA measurement and admittance under SSAP No. 97. (For example, if the equity measurement reported on balance sheet per SSAP No. 97 is $100, but the imputed statutory value would be lower at $80 (or higher at $120), what should be reported on D-6-1 and how should that flow to RBC?)

2) Sponsor blanks proposals to capture new investment schedules, or perhaps expansions to existing investment schedules, to detail the underlying assets held within an investment subsidiary. As the RBC and AVR calculations require reporting entities to calculate RBC and AVR based on the underlying assets, this information should be readily available. If revisions are not incorporated into SSAP No. 97, these proposals can also clarify requirements for reporting as an investment subsidiary.

3) Referrals to the Capital Adequacy (E) Task Force and related RBC Working Groups to incorporate details that allow regulators to verify the RBC calculation for the underlying assets in investment subsidiaries. If blanks reporting revisions are incorporated that provide this detail, then the RBC formula can likely pull

from those sources. If reporting revisions are not incorporated, then additional schedules or reporting lines would be necessary within the RBC formula.

Existing Authoritative Literature:

SSAP No. 46—Investments in Subsidiary, Controlled and Affiliated Entities –
Superseded by SSAP No. 88 as of Jan. 1, 2005.

7.b.ii Investments in noninsurance SCA entities that have no significant ongoing operations other than to hold assets that are primarily for the direct or indirect benefit or use of the reporting entity or its affiliates, shall be recorded based on the underlying equity of the respective entity's financial statements adjusted to a statutory basis of accounting and the resultant proportionate share of the subsidiary's adjusted surplus, adjusted for unamortized goodwill as provided for in SSAP No. 68. Examples include but are not limited to: (i) an insurer and a SCA entity that leases autos, furniture, office equipment, or computer equipment to the insurer; (ii) an insurer and a SCA entity that owns real estate property that is leased to the insurer for office space; and (iii) an insurer and an SCA entity that holds investments that an insurer could acquire directly (i.e., "look through" investment subsidiary);

SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities –

The current guidance requirement prescribes measurement based on the market value approach (8a) or an equity method (8b). The following guidance is divided as follows: 8bi: insurance subsidiaries, 8.b.ii: non-insurance subsidiaries that meet the activity and revenue test, 8bii: non-insurance subsidiaries not captured in 8a or 8bii, and 8biv: foreign insurance subsidiaries. There is no current guidance for an "investment subsidiary" and those SCAs would be captured under 8.b.iii and measured at the audited US GAAP equity.

8. The admitted investments in SCA entities shall be valued using either the market valuation approach (as described in paragraph 8.a.), or one of the equity methods (as described in paragraph 8.b.) adjusted as appropriate in accordance with the guidance in *SSAP No. 25—Affiliates and Other Related Parties*, paragraph 18.d.

a. In order to use the market valuation approach for SCA entities, the following requirements apply:

i. The subsidiary must be traded on one of the following major exchanges: (1) the New York Stock Exchange, (2) the NASDAQ, or (3) the Japan Exchange Group;

ii. The reporting entity must submit subsidiary information to the NAIC SCA analysts for calculation of the subsidiary's market value. Such calculation could result in further discounts in market value above the established base discounts based on ownership percentages detailed below;

iii. Ownership percentages for determining the discount rate shall be measured at the holding company level;

iv. If an investment in a SCA results in an ownership percentage between 10% and 50%, a base discount percentage between 0% and 20% on a sliding scale basis is required;

v. If an investment in a SCA results in an ownership percentage greater than 50% up to and including 80%, a base discount percentage between 20% and 30% on a sliding scale basis is required;

vi. If an investment in a SCA results in an ownership percentage greater than 80% up to and including 85%, a minimum base discount percentage of 30% is required.

vii. Further, the SCA must have at least two million shares outstanding, with a total market value of at least $50 million in the public's control; and

viii. Any ownership percentages exceeding 85% will result in the SCA being recorded on an equity method.

b. If a SCA investment does not meet the requirements for the market valuation approach in paragraph 8.a. or, if the requirements are met, but a reporting entity elects not to use that approach, the reporting entity's proportionate share of its investments in SCAs shall be recorded as follows:

i. Investments in U.S. insurance SCA entities shall be recorded based on either 1) the underlying audited statutory equity of the respective entity's financial statements, adjusted for any unamortized goodwill as provided for in SSAP No. 68—Business Combinations and Goodwill[1] or 2) the underlying audited statutory equity of the respective entity's financial statements, adjusted for any unamortized goodwill, modified to remove the impact of any permitted or prescribed accounting practices that depart from the NAIC Accounting Practices and Procedures Manual. Reporting entities shall record investments in U.S. insurance SCA entities on at least a quarterly basis, and shall base the investment value on the most recent quarterly information available from the SCA. Entities may recognize their investment in U.S. insurance SCA entities based on the unaudited statutory equity in the SCAs year-end annual statement if the annual SCA audited financial statements are not complete as of the filing deadline. The recorded statutory equity shall be adjusted for audit adjustments, if any, as soon as the annual audited financial statements have been completed. Annual consolidated or combined audits are allowed if completed in accordance with the Model Regulation Requiring Annual Audited Financial Reports as adopted by the SCA's domiciliary state;

ii. Investments in both U.S. and foreign noninsurance SCA entities that are engaged in the following transactions or activities:

(a) Collection of balances as described in *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers*

(b) Sale/lease or rental of EDP Equipment and Software as described in *SSAP No. 16—Electronic Data Processing Equipment and Software*

(c) Sale/lease or rental of furniture, fixtures, equipment or leasehold improvements as described in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*

(d) Loans to employees, agents, brokers, representatives of the reporting entity or SCA as described in *SSAP No. 20—Nonadmitted Assets*

(e) Sale/lease or rental of automobiles, airplanes and other vehicles as described in *SSAP No. 20—Nonadmitted Assets*

(f) Providing insurance services on behalf of the reporting entity including but not limited to accounting, actuarial, auditing, data processing, underwriting, collection of premiums, payment of claims and benefits, policyowner services

(g) Acting as an insurance or administrative agent or an agent for a government instrumentality performing an insurance function (e.g. processing of state workers compensations plans, managing assigned risk plans, Medicaid processing etc).

(h) Purchase or securitization of acquisition costs

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[1] If the insurance SCA employs accounting practices that depart from the NAIC accounting practices and procedures, and the reporting insurance entity has not adjusted the valuation of the insurance SCA to be consistent with the NAIC accounting practices and procedures, (i.e., retains the effect of the permitted or prescribed practice in its valuation), disclosure about those accounting practices that affect the insurance SCA's net income and surplus shall be made pursuant to paragraph 37. If the reporting entity has adjusted the investment in the insurance SCA with the resulting valuation being consistent with the accounting principles of the AP&P Manual, the disclosures in paragraph 37 are not required.

and if 20% or more of the SCA's revenue is generated from the reporting entity and its affiliates, then the underlying equity of the respective entity's audited U.S. Generally Accepted Accounting Principles (GAAP) financial statements shall be adjusted to a limited statutory basis of accounting in accordance with paragraph 9. For purposes of this section, revenue means GAAP revenue reported in the audited U.S. GAAP financial statements excluding realized and unrealized capital gains/losses. Foreign SCA entities are defined as those entities incorporated or otherwise legally formed under the laws of a foreign country. Paragraphs 22-27 provide guidance for investments in holding companies;

iii. Investments in both U.S. and foreign noninsurance SCA entities that do not qualify under paragraph 8.b.ii., shall be recorded based on the audited U.S. GAAP equity of the investee. Foreign SCA entities are defined as those entities incorporated or otherwise legally formed under the laws of a foreign country. Additional guidance on investments in downstream holding companies is included in paragraphs 22-27. Additional guidance on the use of audited foreign GAAP basis financial statements for the U.S. GAAP equity valuation amount is included in paragraph 23.b.

iv. Investments in foreign insurance SCA entities shall be recorded based on the underlying U.S. GAAP equity from the audited U.S. GAAP basis financial statements, adjusted to a limited statutory basis of accounting in accordance with paragraph 9, if available. If the audited U.S. GAAP basis financial statements are not available, the investment can be recorded on the audited foreign statutory basis financial statements of the respective entity adjusted to a limited statutory basis of accounting in accordance with paragraph 9 and adjusted for reserves of the foreign insurance SCA with respect to the business it assumes directly and indirectly from a U.S. insurer using the statutory accounting principles promulgated by the NAIC in the *Accounting Practices and Procedures Manual*. The audited foreign statutory basis financial statements must include an audited footnote that reconciles net income and equity on the foreign statutory basis of accounting to the U.S. GAAP basis. Foreign insurance SCA entities are defined as alien insurers formed according to the legal requirements of a foreign country.

<u>2024 Annual Statement Instructions – Schedule D-6-1</u>

If a reporting entity has any common stock or preferred stock reported for any of the following required categories or subcategories, it shall report the subtotal amount of the corresponding category or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total or grand total line and number:

Category	Line Number
Preferred Stocks:	
Parent	0199999
U.S. Property & Casualty Insurer	0299999
U.S. Life Insurer	0399999
U.S. Health Entity #	0499999
Alien Insurer	0599999
Non-Insurer Which Controls Insurer	0699999
***Investment Subsidiary**	**0799999**
Other Affiliates	0899999
Subtotals – Preferred Stocks	0999999
Common Stocks:	
Parent	1099999
U.S. Property & Casualty Insurer	1199999
U.S. Life Insurer	1299999
U.S. Health Entity #	1399999
Alien Insurer	1499999
Non-Insurer Which Controls Insurer	1599999
***Investment Subsidiary**	**1699999**
Other Affiliates	1799999
Subtotals – Common Stocks	1899999

Totals – Preferred and Common Stocks 1999999

*NOTE: Investment Subsidiary shall mean any subsidiary, other than a holding company, engaged or organized primarily in the ownership and management of investments for the reporting entity. An investment subsidiary shall not include any broker dealer or a money management fund managing funds other than those of the parent company. The following criteria are applicable:

1. 95% or more of the investment subsidiary's assets would qualify as admitted assets;
2. The investment subsidiary's total liabilities are 5% or less of total assets;
3. Combining the pro-rata ownership shares of the assets of all the investment subsidiaries with the owning reporting entity's assets does not violate any state requirements concerning diversification of investments or limitations on investments in a single entity; and
4. **The investment subsidiary's book/adjusted carrying value does not exceed the imputed value on a statutory accounting basis. If the book/adjusted carrying value does exceed the imputed statutory value, the reporting entity may either nonadmit the excess or categorize such subsidiary in the "All Other Affiliates" category.**

2023 RBC Forecasting and Instructions:

AFFILIATED/SUBSIDIARY STOCKS – LR042, LR043, and LR044

(Only key excerpts included – bolded for emphasis.)

Affiliated/Subsidiary investments fall into two broad categories: (A) Insurance Affiliates/Subsidiaries that are Subject to risk-based capital; and (B) Affiliates/Subsidiaries that are Not Subject to risk-based capital. The risk-based capital for these two broad groups differs. **Investment subsidiaries are a subset of category A in that they are subject to a risk-based capital charge that includes the life RBC risk factors applied only to the investments held by the investment subsidiary for its parent insurer.** Publicly traded insurance affiliates/subsidiaries held at market value have characteristics of both broader categories. As a result, there is a two-part RBC calculation. The general treatment for each is explained below.

4. Investment Subsidiaries

An investment subsidiary is a subsidiary that exists only to invest the funds of the parent company. The term "investment subsidiary" is defined in the NAIC's Annual Statement Instructions as any subsidiary, other than a holding company, engaged or organized primarily to engage in the ownership and management of investments for the insurer. An investment subsidiary shall not include any broker-dealer or a money management fund managing funds other than those of the parent company. **The risk-based capital charge for the ownership of an investment subsidiary is based on the risk-based capital of the underlying assets, pro-rated for the degree of ownership. The basis for this calculation is the assumption that the charge should be the same as it would be if the life insurer held the assets directly.** Report information regarding any investment subsidiaries. Subsidiaries reported in this section will be assigned an affiliate code of "4" for investment subsidiaries. The amount of reported common stock should be the same as Schedule D, Part 6, Section 1, Line 1699999. Preferred stock information should be the same as Schedule D, Part 6, Section 1, Line 0799999.

Investments of Insurers Model Act (Model 280)

https://content.naic.org/sites/default/files/model-law-280.pdf
Section 2. Definitions For purposes of this Act:

TT. "Investment subsidiary" means a subsidiary of an insurer engaged or organized to engage exclusively in the ownership and management of assets authorized as investments for the insurer if each subsidiary agrees to limit its investment in any asset so that its investments will not cause the amount of the total investment of the insurer to exceed any of the investment limitations or avoid any other provisions of this Act applicable to the insurer. As used in this subsection, the total investment of the insurer shall include: (1) Direct investment by the insurer in an asset; and (2) The insurer's proportionate share of an investment in an asset by an investment subsidiary of the insurer, which shall be calculated by multiplying the amount of the subsidiary's investment by the percentage of the insurer's ownership interest in the subsidiary

Note that the act contains multiple references to investment subsidiaries on limitations and diversification etc.

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

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

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

Staff Recommendation – 2024 Fall National Meeting:
NAIC staff recommend that the Working Group move this item to the active listing and expose this agenda item with a request for comments on the options offered to clarify statutory accounting guidelines (and resulting reporting impacts) for investment subsidiaries. As noted, with the exception of possible revisions to SSAP No. 97, the other possible actions are to sponsor blanks proposals or send referrals to the Capital Adequacy (E) Task Force and related RBC groups with a request for revisions. (Determination on whether this is a SAP classification or a new SAP concept will be based on the action directed.)

Potential Actions:

1) **Revisions to SSAP No. 97 to incorporate statutory accounting guidance for SCAs that hold assets on behalf of the reporting entity and affiliate (investment subsidiaries).** By incorporating in SSAP, consideration can be given as to prescribing the measurement method and potential nonadmittance thresholds if the assets within the investment subsidiary would be nonadmitted if held directly. (As detailed within, the existing reference to measurement and nonadmittance in the instructions for D-6-1 would not overrule the guidance in SSAP No. 97. If the revisions to SSAP No. 97 are not supported, then the Working Group could consider sponsoring a blanks proposal to clarify the instructions in D-6-1 to prescribe allocation of the underlying investments in a manner that coincides with the SCA measurement and admittance under SSAP No. 97.)

2) **Sponsor blanks proposals to capture new investment schedules, or perhaps expansions to existing investment schedules, to detail the underlying assets held within an investment subsidiary.** As the RBC and AVR calculations require reporting entities to calculate RBC and AVR based on the underlying assets, this information should be readily available. If revisions are not incorporated into SSAP No. 97, these proposals can also clarify requirements for reporting as an investment subsidiary.

3) **Referrals to the Capital Adequacy (E) Task Force and related RBC Working Groups to incorporate details that allow regulators to verify the RBC calculation for the underlying assets in investment subsidiaries.** If blanks reporting revisions are incorporated that provide this detail, then the RBC formula can likely pull from those sources. If reporting revisions are not incorporated, then additional schedules or reporting lines would be necessary within the RBC formula.

Staff Review Completed by: Julie Gann, NAIC Staff—November 2024

Status:
On November 17, 2024, the Statutory Accounting Principles (E) Working Group moved this item to the active listing and exposed this concept agenda item requesting comments on options to clarify accounting guidelines and resulting reporting impacts for investment subsidiaries.

On March 24, 2025, the Statutory Accounting Principles (E) Working Group deferred agenda item for investment subsidiaries and directed NAIC staff to develop an agenda item for consideration of Delaware Statutory Trusts (DSTs) holding residential mortgage loans.

Staff Recommendation – 2025 Summer National Meeting:
Based on discussions with regulators, NAIC staff recommend revisions to eliminate the investment subsidiary concept from the instructions, effective December 31, 2026. As such, NAIC staff recommend exposure of proposed edits to D-6-1 and AVR along with Working Group direction to sponsor a corresponding Blanks proposal. These edits do not result in SSAP revisions as the concept of an investment subsidiary does not exist in SSAP No. 97. Upon adoption of the proposed blanks changes, NAIC staff recommends a referral to the Life Risk-Based Capital (E) Working Group to eliminate the corresponding RBC instructions. The edits that would be proposed in this referral are also illustrated below. NAIC staff also requests additional industry comments on any other investment classes currently reported as investment subsidiaries that may warrant separate consideration. At present, residential mortgage loans held within statutory trusts, as outlined in agenda item 2025-13, are under discussion for potential inclusion in *SSAP No. 37—Mortgage Loans*.

It is important to note that this change does not prohibit insurers from owning investment subsidiaries. As discussed, the Investments of Insurers Model Act (Model 280; see Authoritative Literature section) permits insurers to hold investments through such subsidiaries. However, Model 280 only authorizes the structure and does not provide accounting or reporting guidance. Accounting and reporting guidance is primarily established by the SSAPs and, secondarily per the statutory hierarchy, the Annual Statement Instructions.

The SSAPs previously contained specified guidance for investment subsidiaries but it was ultimately removed due to persistent challenges in distinguishing investment subsidiaries from operating subsidiaries. Although a dual test based on revenue and activity was originally used for making this determination, regulators observed that the dual test was being creatively interpreted to gain favorable RBC treatment. The current issue stems from the fact that while SSAP No. 97 guidance for investment subsidiaries was eliminated, the corresponding Annual Statement Instructions for Schedule D-6-1 and AVR regarding investment subsidiaries were not updated accordingly. As a result, insurers have continued to be able to report investment subsidiaries under that framework, which effectively allows look-through RBC treatment to be circumvented for investments held in investment subsidiaries. Because investment subsidiaries are no longer recognized under SSAPs, there is no applicable statutory accounting or measurement guidance for investments held through them. This also means there are no mechanisms to ensure compliance with SSAP requirements, state investment limitations, or the RBC calculation. Reporting of the imputed SAP valuation for RBC relies solely on company-provided records. Furthermore, Schedule D-6-1's instruction requires reporting entities to measure investment subsidiaries using "imputed statutory value" which is an undefined term and conflicts with SSAP No. 97 which requires measurement based on audited U.S. GAAP. It is anticipated that SCAs previously reported as investment subsidiaries would be subject to the guidance stipulated for *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, paragraphs 8.b.ii or 8.b.iii depending on whether the investment meets the activity test.

The removal of investment subsidiaries from the Annual Statement Instructions aligns with their prior elimination from the SSAPs. While reintroducing the investment subsidiary concept under SSAP No. 97 was considered, ongoing concerns remain regarding the difficulty in distinguishing operating subsidiaries from investment subsidiaries, as well as concerns over the complexity of changes which would be required to clarify look-through accounting treatment, RBC validation, and transparency of reporting.

Proposed changes to Annual Statement Instructions – For a SAPWG Sponsored Blanks Proposal:

2024 Annual Statement Instructions – Schedule D-6-1

If a reporting entity has any common stock or preferred stock reported for any of the following required categories or subcategories, it shall report the subtotal amount of the corresponding category or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total or grand total line and number:

Category	Line Number
Preferred Stocks:	
Parent	0199999
U.S. Property & Casualty Insurer	0299999
U.S. Life Insurer	0399999
U.S. Health Entity #	0499999
Alien Insurer	0599999
Non-Insurer Which Controls Insurer	0699999
~~***Investment Subsidiary**~~	~~**0799999**~~
Other Affiliates	~~0899999~~0799999
Subtotals – Preferred Stocks	~~0999999~~ 0899999
Common Stocks:	
Parent	1099999
U.S. Property & Casualty Insurer	1199999
U.S. Life Insurer	1299999
U.S. Health Entity #	1399999
Alien Insurer	1499999
Non-Insurer Which Controls Insurer	1599999
~~***Investment Subsidiary**~~	~~**1699999**~~
Other Affiliates	~~1799999~~ 1699999
Subtotals – Common Stocks	~~1899999~~ 1799999
Totals – Preferred and Common Stocks	~~1999999~~1899999

~~*NOTE: Investment Subsidiary shall mean any subsidiary, other than a holding company, engaged or organized primarily in the ownership and management of investments for the reporting entity. An investment subsidiary shall not include any broker dealer or a money management fund managing funds other than those of the parent company. The following criteria are applicable:~~

1. ~~95% or more of the investment subsidiary's assets would qualify as admitted assets;~~
2. ~~The investment subsidiary's total liabilities are 5% or less of total assets;~~
3. ~~Combining the pro-rata ownership shares of the assets of all the investment subsidiaries with the owning reporting entity's assets does not violate any state requirements concerning diversification of investments or limitations on investments in a single entity; and~~
4. ~~**The investment subsidiary's book/adjusted carrying value does not exceed the imputed value on a statutory accounting basis. If the book/adjusted carrying value does exceed the imputed statutory value, the reporting entity may either nonadmit the excess or categorize such subsidiary in the "All Other Affiliates" category.**~~

Proposed changes to RBC/AVR Instructions – To be Referred to LRBCWG:

2024 RBC Instructions:

AFFILIATED/SUBSIDIARY STOCKS – LR042, LR043, and LR044

(Only key excerpts included – bolded for emphasis.)

Affiliated/Subsidiary investments fall into two broad categories: (A) Insurance Affiliates/Subsidiaries that are Subject to risk-based capital; and (B) Affiliates/Subsidiaries that are Not Subject to risk-based capital. The risk-based capital for these two broad groups differs. ~~**Investment subsidiaries are a subset of category A in that they are subject to a risk-based capital charge that includes the life RBC risk factors applied only to the investments held by the investment subsidiary for its parent insurer.**~~ Publicly traded insurance affiliates/subsidiaries held at market value have characteristics of both broader categories. As a result, there is a two-part RBC calculation. The general treatment for each is explained below.

~~**4. Investment Subsidiaries**~~

~~An investment subsidiary is a subsidiary that exists only to invest the funds of the parent company. The term "investment subsidiary" is defined in the NAIC's Annual Statement Instructions as any subsidiary, other than a holding company, engaged or organized primarily to engage in the ownership and management of investments for the insurer. An investment subsidiary shall not include any broker-dealer or a money management fund managing funds other than those of the parent company.~~ ~~**The risk-based capital charge for the ownership of an investment subsidiary is based on the risk-based capital of the underlying assets, pro-rated for the degree of ownership. The basis for this calculation is the assumption that the charge should be the same as it would be if the life insurer held the assets directly.**~~ ~~Report information regarding any investment subsidiaries. Subsidiaries reported in this section will be assigned an affiliate code of "4" for investment subsidiaries. The amount of reported common stock should be the same as Schedule D, Part 6, Section 1, Line 1699999. Preferred stock information should be the same as Schedule D, Part 6, Section 1, Line 0799999.~~

2024 AVR Instructions:

~~Lines 5 through 14 – Subsidiary, Controlled or Affiliated Common Stock – Investment Subsidiaries~~

~~Report the book/adjusted carrying value of all common stocks owned in an investment subsidiary or that portion of the book/adjusted carrying value of holding company subsidiaries that represents investments in investment subsidiaries in Column 1, any related party encumbrances on these common stocks in Column 2, and any third party encumbrances on these common stocks in Column 3. If a portion of the book/adjusted carrying value of a holding company subsidiary is reflected in Column 1, the debt of that holding company subsidiary should be reflected in Columns 2 and 3. However, the total holding company debt to be reflected in Columns 2 and 3 should not exceed the aggregate book/adjusted carrying value of any investment subsidiaries on the holding company subsidiary books. (An investment subsidiary is any subsidiary, other than a holding company subsidiary, engaged or organized to engage primarily in the ownership and management of investments authorized as investments for the reporting entity. A broker-dealer or money management firm that manages outside funds is not an investment subsidiary. This definition is intended to be identical to the investment subsidiary definition for Risk-Based Capital (RBC) purposes and will be amended if the RBC definition is changed.) Allocate the common stock value in Column 1 and the encumbrances in Columns 2 and 3 among Lines 5 through 14 based on the nature of the underlying investment held by the investment subsidiary. Follow the Securities Valuation Office guidelines and categorize these assets as if the SVO had assigned a NAIC designation of 1 through 6, P1 through P6, or RP1 through RP6. Report the sum of Columns 1, 2, and 3 in Column 4.~~

~~For Lines 5 through 11, multiply the amount in Column 4 by the appropriate bond, preferred stock, or other fixed income instrument (excluding mortgage loans) reserve factors (as listed in Columns 5, 7 and 9 of the various sections of the Equity Component schedule) and report the products in Columns 6, 8 and 10, respectively.~~

~~For Line 12, multiply the amount in Column 4 by the reserve factors calculated for Columns 5, 7 and 9 (see instructions for Line 1 of this schedule) and report the products in Columns 6, 8 and 10, respectively.~~

~~For Line 13, multiply the amount in Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.~~

~~For Line 14, multiply the amounts included in Column 4 by the reserve factors and breakdowns used for directly owned real estate and report the products in Columns 6, 8 and 10, respectively.~~

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Dale Bruggeman, Chair, Statutory Accounting Principles (E) Working Group
Kevin Clark, Vice-Chair, Statutory Accounting Principles (E) Working Group

FROM: Philip Barlow, Chair, Life Risk-Based Capital (E) Working Group
Ben Slutsker, Vice-Chair, Life Risk-Based Capital (E) Working Group

DATE: May 28, 2025

RE: Asset Valuation Reserve (AVR) Equity and Other Invested Asset Component Line 15, 16, 68 & 69 Referral

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On May 1, 2025, the Life Risk-Based Capital (E) Working Group received and discussed a comment letter from the American Council of Life Insurers (ACLI) in response to exposure of Proposal 2025-04-L Other Long-Term Assets (LR008) (Attachment A). The ACLI raised questions regarding AVR equity reporting lines for common stock in SCAs and other affiliates and requested clarifications and updates to the AVR instructions. The Working Group directed NAIC Staff to refer to the comments to the Statutory Accounting Principles (E) Working Group (SAPWG) for further review to determine if changes and/or clarifications in Annual Statement Blanks instructions are needed.

Background

Currently, the Life and Fraternal Annual Statement provided the following instructions for AVR Equity and Other Invested Asset Component Table Line 15, 16, 68 and 69:

AVR Equity Line	Instructions (Excerpt and emphasis added)
Line 15 - Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries	Report the book/adjusted carrying value of all subsidiary, controlled or affiliated company common stocks owned that have been valued according to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* in Columns 1 and 4…
Line 16 - Subsidiary, Controlled or Affiliated Common Stocks – Other	Report that portion of the book/adjusted carrying value of all common stocks of all subsidiary, controlled or affiliated companies, that have not been included on Lines 4 through 15, in Columns 1 and 4…

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509 p | 202 471 3990
Kansas City 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600
New York One New York Plaza, Suite 4210, New York, NY 10004 p | 212 398 9000
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Line 68 – Investments with the Underlying Characteristics of Common Stock – Affiliated Certain Other (See SVO Purposes & Procedures Manual)	…Line 68 should show all Schedule BA assets owned where the characteristics of the underlying investments are similar to subsidiary, controlled or affiliated company common stocks owned and these assets should be valued according to the Purposes and Procedures Manual of the NAIC Investment Analysis Office. Categorize these assets consistent with the directions for Pages 32 and 33, Lines 1 through 4, 15 and 16…
Line 69 - Investments with the Underlying Characteristics of Common Stock – Affiliated Other – All Other	…. Categorize these assets consistent with the directions for Pages 32 and 33, Lines 1 through 4, 15 and 16…

ACLI has expressed confusions as to what Subsidiary, Controlled or Affiliated (SCA) Investments should have been categorized in respective AVR Equity lines referenced above. Through detailed review, NAIC Staff noted the following:

1) AVR Equity Line 15 and 68 singled out “certain SCAs” that are eligible to lower AVR Maximum Reserve Factors (e.g. Maximum Reserve Factor of 0.20 for Certain Other SCA vs. 0.25 for All Other SCA) . Such a design was supported by working groups and/ or task force when AVR was first instituted in 1992. The eligible SCAs were required to be valued in accordance with Securities Valuation Office (SVO) Purpose & Procedures Manual (P&P Manual) Section 4(B)(i) and Section 4(B)(iii).

Excerpt from 1992 SVO P&P Manual are focused on valuations of SCA, see Attachment B for the full Manual:

SVO P&P Section 4(B)(i)	SVO P&P Section 4(B)(iii)
*…**the value of only such of the assets** of such company as would constitute lawful investments for the insurer if acquired or held directly by the insurer.*	***book value**, defined as in Section 4 (A)(c)*, provided, however, that the common stock of a non-insurance company may not be valued on the basis of this subsection (iii);* ** 4(A)(c) states: Association Values for common stocks which are not publicly traded which are issued by insurance companies will be equal to book value, which shall be calculated as follows: by dividing the amount of its capital and surplus as shown in its last annual statement or subsequent report of examination (excluding from surplus, reserves required by statute and any portion of surplus properly allocable to policyholders, rather than stockholders) less the value (par or redemption value, whichever is the greater) of all of its preferred stock, if any, outstanding, by the number of shares of its common stock issued and outstanding.*

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2) Subsequent to 1992, there were several iterations of SVO P&P Manual in which the valuation methodologies were refined (e.g. version 1994, 1995, 1998 etc.). These iterations were believed to be the impetus where the AVR instruction was generically amended to use the terminology “Certain Other (See SVO Purposes and Procedures Manual) as it is currently used.

3) In 2017 the instructions for valuation of SCA investments were deleted from SVO P&P Manual and moved to Exhibit A of *Statement of Statutory Accounting Principles No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*. The deletion of the valuation instructions for SCA investments was accompanied by a decision of the Valuation of Securities Task Force to transfer oversight of this activity from the Task Force and the SVO to the Statutory Accounting Principles Working Group and the Financial Regulatory Services Division. The AVR instructions were not updated because of this transfer of valuation function.

4) Subsequent to 2017, there were a couple updates to the AVR factors (in general, not specifically for AVR lines referenced above) as a result of tax effect changes and/or NAIC Designation Categories deployment.

In light of the historical development summarized above, the Working Group would appreciate consideration by SAPWG for possible updates and/or clarifications to SSAP No. 97 (if needed) and the AVR instructions. Specifically, the SAPWG may want to assess whether the AVR SCA lines 15 & 16 for “Affiliated – Certain Other” and “Affiliated – All Other” should be retained and if so, propose guidance for consistent reporting within the two categories.

Please contact NAIC Staff of the Life Risk-Based Capital (E) Working Group with any questions.

Cc: Maggie Chang, Kazeem Okosun, Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden

Attachment A – ACLI Comment Letter to Proposal 2025-04-L Other Long-Term Assets dated April 23, 2025

Attachment B – SVO P&P Manual effective for 1992

https://naic.soutronglobal.net/Portal/Public/en-GB/DownloadImageFile.ashx?objectId=3245&ownerType=0&ownerId=11833

Brian Bayerle
Chief Life Actuary
202-624-2169
BrianBayerle@acli.com

Shannon Jones
Sr. Director, Financial Reporting Policy
202-624-2029
ShannonJones@acli.com

Marc Altschull
Senior Actuary
202-624-2089
MarcAltschull@acli.com

Colin Masterson
Sr. Policy Analyst
202-624-2463
ColinMasterson@acli.com

April 23, 2025

Philip Barlow
Chair, NAIC Life Risk-Based Capital (E) Working Group (LRBC)

Re: Proposal 2025-04-L (LR008 Other Long-Term Assets)

Dear Chair Barlow:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide feedback on RBC Proposal Form 2025-04-L which seeks to reorganize the LR008 - Other Long-Term Assets page to ensure BA assets of the same risk components (C-1o vs. C1-cs) are grouped, so as to facilitate proper MODCO/Funds Withheld Reinsurance Agreement adjustments within that section.

ACLI is generally supportive of this Proposal, but we do have one editorial comment and a few more broad considerations that we would wish to see discussed prior to adoption.

For consistency, we suggest that the term "equity interests" be capitalized like the remaining terms in the header and subtotal/total lines throughout the document. ACLI also recommends that the line references shaded in gray be updated since the Blanks (E) Working Group adopted 2023-12 effective 1/1/25 and as such, those references, especially for Surplus/Capital notes, have a different line number than “99” as illustrated in the proposal.

More conceptually, the exposure states that “affiliated non-insurance stock” should be included in C1-cs and Schedule BA Affiliated Common Stock – All Other has been moved into the non-insurance stock section. This only leaves Life with AVR in C1-o section but this category would not apply to foreign insurance affiliated companies, as foreign insurance companies do not have an AVR (something that would also be true if there was a foreign affiliated P&C or health insurance company, based on our current understanding). Therefore, we would propose that foreign affiliated insurance company stock should be treated similarly to Life with AVR and included in C1-o, which would require a new line added to the blanks.

Additionally, if the BA-Affiliated Certain Other category, per the AVR instructions, is intended to capture “where the characteristics of the underlying investments are similar to subsidiary, controlled or affiliated company common stocks owned, and these assets should be valued according to the Purposes and Procedures Manual of the NAIC Investment Analysis Office” and non-insurance entities are included in C1-cs in the RBC proposal, the AVR Instructions should clarify that only non-insurance entities are reported in BA Affiliated Common Stock – All Other in the AVR. Clarification should be made as to where a reporting entity would classify investments in insurance companies that do not hold AVR (i.e., foreign, health, P&C) so that it would feed from the AVR into the RBC Blanks correctly.

Thank you very much for your consideration of our comments, and we look forward to further discussion at a future LRBC Working Group Meeting.

Sincerely,

Shannon K Jones

Colin Masterson

cc: Kazeem Okosun, NAIC; Maggie Chang, NAIC

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Attachment G

August 11, 2025

To: Dale Bruggeman (MO), Chair, Statutory Accounting Principles (E) Working Group
Kevin Clark, (IA), Vice Chair, Statutory Accounting Principles (E) Working Group

From: Rachel Hemphill (TX), Chair, Life Actuarial (A) Task Force,
Craig Chupp (VA), Vice Chair, Life Actuarial (A) Task Force

RE: Life Actuarial (A) Task Force Coordination with the Statutory Accounting Principles (E) Working Group 2025

The Statutory Accounting Principles (E) Working Group charges requires the Working Group to coordinate with the Life Actuarial (A) Task Force on changes to the AP&P Manual related to the *Valuation Manual* (VM)-A, Requirements, and VM-C, Actuarial Guidelines, as well as other VM requirements. This process will include the receipt of periodic reports on changes to the VM on items that require coordination. To facilitate the coordination, the Task Force will provide to the Working Group a memorandum of VM amendments, actuarial guidelines and valuation related NAIC model revisions. This memorandum provides the Working Group updates to the publications since the 2024 NAIC Summer Meeting.

Valuation Manual – Attachment A to this memo includes a detailed listing of the amendments made to the VM since the 2024 NAIC Summer Meeting. The amendments were adopted by the Life Insurance and Annuities (A) Committee on July 14, 2025. The full amendments package adopted by the A Committee is available at https://content.naic.org/pbr_data.htm under the "Next Year" subsection of the "Valuation Manual" website section. All of the amendments will be considered by the Executive (EX) Committee and Plenary at the 2025 NAIC Summer Meeting.

The working group should consider the following amendments, in particular:

- Amendment Proposal Form (APF) 2024-13 which clarifies the reflection of negative interest maintenance reserves (IMRs) in principle-based reserving and asset adequacy analysis,
- APF 2025-04 that implements the generator of economic scenarios (GOES) and includes an optional phase-in of the impacts to reserves, and
- APF 2025-11 which adds a new principle based reserving methodology for non-variable annuities and includes an optional implementation period.

Actuarial Guidelines – Since the 2024 NAIC Summer Meeting the Task Force has created or revised the actuarial guidelines created listed below:

Actuarial Guideline LV (AG 55) – Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties

- AG 55 addresses state insurance regulators concerns about potential asset inadequacy and insufficient reserves resulting from certain reinsurance transactions by requiring additional disclosures for in-scope reinsurance transactions. Depending on the risk of the reinsurance treaty and other factors, the additional disclosures could include cash-flow testing, attribution analysis, or other analyses.
- Life Insurance and Annuities (A) Committee adoption – July 14, 2025
- Executive (EX) Committee and Plenary consideration for adoption – August 13, 2025

NAIC Models – The Task Force has not created or revised any models since the 2024 NAIC Fall Meeting.

Attachment A

LATF VM Amendment	Valuation Manual Reference	Valuation Manual Amendment Proposal Descriptions	LATF Adoption Date
2024-11	Valuation Manual Section II, Subsection 1.G	This amendment is to coordinate with Blanks updates that have been made. Specifically, in Exhibit 1, Part 1 there is now an “individual” column rather than an “ordinary” column and the separate industrial and credit life columns were removed, by BWG 2022-14.	9/5/2024
2024-14	VM-31 Section 3.F.3.f	This amendment adds VM-31 Section 3.F.3.f(iii) to require reporting on waiver of surrender charges provisions.	11/15/2024
2024-13	VM- 20 Section 7.D.7 VM-30 Section 3.B.5	This amendment clarifies the reflection of negative interest maintenance reserves (IMRs).	12/12/2024
2024-15	VM-21 Section 11.B.3 (Mortality)	This amendment corrects an error introduced in amendment 2024-07 that unintentionally changed the industry mortality table from a ceiling to a floor for variable annuity guaranteed living benefits (VAGLBs).	12/12/2024
2025-01	VM-20, Sections 3.C.1.g and 6.B.5.d	This amendment ensures that groups with higher anticipated mortality reflect appropriate margins in the mortality rates used for the basic reserve/NPR calculation.	3/22/2025
2025-03	VM-20, Section 9.D.5	This amendment modifies the universal life with secondary guarantee (ULSG) lapse assumption for policies with minimal cash surrender value (CSV) so that the required industry table is a guardrail rather than a prescribed assumption.	3/22/2025
2025-02	VM-02 Section 3.A. (Nonforfeiture Rates); VM-20 Section 3.C.2.a. and 3.C.2.b.	This amendment clarifies the rounding rules associated with the calculation of rates from the NAIC model Standard Valuation Law and model Standard Nonforfeiture Law for Life Insurance.	4/24/2025
2024-16	VM-02, Section 3, Guidance Note	The addition to the guidance note in this amendment adds clarity to the nonforfeiture requirements for UL policies where the CSV is based on multiple sets of accounts with different guaranteed interest rates.	5/8/2025
2025-07	VM-21, Section 6 VM-31, Section 3.12	As of January 1, 2025, the company-specific market path method (CSMP) is no longer an option for calculating the Additional Standard Projection Amount (ASPA) under VM-21. This amendment removes references to the CSMP.	5/8/2025
2025-08	VM 30, Section 3.A.4	This amendment revises the Identification Section of the Life Actuarial Opinion to handle appointed actuaries who are employed by one company within an insurance group, and who sign opinions on behalf of other companies within the group.	6/5/2025
2025-09	VM-20, Section 8.C.3.c	This amendment clarifies requirements to ensure that expense risk in reinsurance is adequately reserved for.	6/5/2025
2025-10	VM-20 Section 7.E.1.g and VM-21 Section 4. D.4.b	This amendment revises the reinvestment guardrail to have a minimum quality rather than a prescribed quality.	6/5/2025
2025-04	VM-20 Section 6, VM-20 Section 7, VM-20 Appendix 1, VM-21 Section 8, VM-31 Section 3	This amendment updates the Valuation Manual economic scenario generator references for the adoption of the Conning-maintained prescribed economic scenario generator.	6/12/2025
2025-06	VM-01 definitions of Qualified Actuary and Appointed Actuary	This amendment updates the definitions of Qualified Actuary and Appointed Actuary to add reference to the knowledge statements adopted by LATF.	6/12/2025
2025-11	Valuation Manual, Section II Subsections 2, 3, 6, VM-01, VM-22, VM-31, VM-G, and VM-V	This amendment introduces a new principle-based reserving framework for non-variable annuities, located in Section VM-22 of the NAIC Valuation Manual.	6/18/2025