

## 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

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 <u>Purposes and Procedures Manual of the NAIC Investment Analysis Office</u> 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...

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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 <u>Purposes and Procedures Manual of the NAIC Investment Analysis Office</u> . 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)
<b>...the value of only such of the assets</b> of such company as would constitute lawful investments for the insurer if acquired or held directly by the insurer.	<b>book value</b> , 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.soutrnglobal.net/Portal/Public/en-GB/DownloadImageFile.ashx?objectId=3245&ownerType=0&ownerId=11833>

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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

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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,



cc: Kazeem Okosun, NAIC; Maggie Chang, NAIC