ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE

Accounting Practices and Procedures (E) Task Force March 23, 2023, Minutes

Statutory Accounting Principles (E) Working Group March 22, 2023, Minutes (Attachment One)

Comments Received on Previously Exposed Items (Attachment One-A)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2017-33; Statutory Issue Paper No. 167—Derivatives and Hedging (Attachment One-B)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2022-15; SSAP No. 25 – Affiliate Reporting Clarification (Attachment One-C)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2022-16; ASU 2022-03, Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions (Attachment One-D)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2022-18; ASU 2022-04, Disclosure of Supplier Finance Program Obligations (Attachment One-E)

Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2022-17; Interest Income Disclosure Update (Attachment One-F)

Referral Dated Feb. 13, 2023, to Elizabeth Kelleher Dwyer, Chair of the Financial Condition (E) Committee, Marlene Caride, Chair of the Financial Stability (E) Task Force, Bob Kasinow, Chair of the Macroprudential (E) Working Group, Thomas Botsko, Chair of the Capital Adequacy (E) Task Force, Phillip Barlow, Chair of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Cassie Brown, Chair of the Life Actuarial (A) Task Force, Judy Weaver, Chair of the Financial Analysis (E) Working Group, Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group, Fred Andersen, Chair of the Valuation Analysis (E) Working Group; From Carrie Mears, Chair of the Valuation of Securities (E) Task Force; Regarding Referral on Additional Market and Analytical Information for Bond Investments (Attachment One-G)

Letter from D. Keith Bell (The Travelers Companies, Inc.), Rose Albrizio (Equitable) Representing Interested Parties; Dated January 9, 2023, to Michael F Consedine, NAIC Chief Executive Officer and Andrew Beal, NAIC Chief Operating Officer and Chief Legal Officer; Regarding Request for Accounting Practices and Procedures Manual PDF (Attachment One-H)

Response Letter from Michael Consedine, NAIC Chief Executive Officer, and Andy Beal, NAIC Chief Operating Officer and Chief Legal Officer; Dated February 6, 2023, to D. Keith Bell (The Travelers Companies, Inc.), Rose Albrizio (Equitable), and Interested Parties of the Statutory Accounting Principles (E) Working Group; Regarding Accounting Practices and Procedures Manual PDF (Attachment One-I)

Letter From David Hutchins, Chairperson of the Financial Reporting and Solvency Committee, American Academy of Actuaries; Dated Feb. 23, 2023, to Paul Lombardo and Fred Andersen, Co-Chairs of the Long-Term Care Actuarial (B) Working Group; Regarding Accounting Interpretation Request: Interaction Between Actuarial Guideline LI (AG 51) and Appendix A-010 (Attachment One-J)

Review of U.S. GAAP Exposures for Statutory Accounting (Attachment One-K)

Blanks (E) Working Group March 7, 2023, Minutes (Attachment Two)

Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2022-14BWG Modified; Effective Annual 2023; Modify Exhibit 1, Part 1 and 2, and Exhibit 8, Part 1 and 2, in the Life/Fraternal Blank to Include LOB Detail Reported on Analysis of Operations by Lines of Business. Update Crosscheck References on Summary of Operations, Analysis of Operations, 5-Year Historical and Schedule 5 (Attachment Two-A)

Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2022-15BWG; Effective Annual 2023; Revise the Language of the Schedule H, Part 5 to Remove the 5% of Premiums Filing Exemption (FE) (Attachment Two-B)
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2022-16BWG; Effective Annual 2023; Remove Supplemental Health Care Exhibit Part 3 and Supplemental Health Care Exhibit Expense Allocation Report (Attachment Two-C)

Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2022-18BWG; Effective Annual 2023; Instructional Corrections on the Handling of Exchange Traded Funds (ETFs) and/or Securities Valuation Office (SVO) Identified Funds within the Interest Maintenance Reserve (IMR) and the Asset Valuation Reserve (AVR) (Attachment Two-D)

Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2022-20BWG; Effective Annual 2023; Modify the Instructions and Blanks for the Annual Health Analysis of Operations by Lines of Business, and Underwriting and Investment Exhibit, Part 1, Part 2, Part 2A, Part 2B and Part 2D; Annual Life (Health Supplement) Analysis of Operations by Lines of Business; Quarterly Health Underwriting and Investment Exhibit to Change the Order of the Vision and Dental Lines of Business to be Consistent with all Other Statement Types (Attachment Two-E)

Blanks (E) Working Group Editorial Revisions to the Blanks and Instructions Presented at the March 7, 2023, Meeting (Attachment Two-F)
The Accounting Practices and Procedures (E) Task Force met in Louisville, KY, March 23, 2023. The following Task Force members participated: Cassie Brown, Chair, represented by Jamie Walker (TX); Mike Causey, Vice Chair, represented by Jackie Obusek (NC); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler represented by Sheila Travis and Todrick Burks (AL); Alan McClain represented by Chris Erwin (AR); Ricardo Lara represented by Kim Hudson; Andrew N. Mais represented by William Arfanis and Michael Shanahan (CT); Karima M. Woods represented by N. Kevin Brown (DC); Trinidad Navarro represented by Ryllynn Brown (DE); Michael Yaworsky represented by Jason Reynolds (FL); Doug Ommen represented by Kevin Clark (IA); Dean L. Cameron represented by Eric Fletcher and Jessie Adamson (ID); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Jeff Gaither (KY); Gary D. Anderson represented by John Turchi (MA); Timothy N. Schott represented by Vanessa Sullivan (ME); Anita G. Fox represented by Judy Weaver and Steve Mayhew (MI); Grace Arnold represented by Kathleen Orth (MN); Chlora Lindley-Myers represented by Debbie Doggett (MO); Troy Downing represented by Kari Leonard (MT); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Andrea Johnson (NE); Marlene Caride represented by John Sirovetz (NJ); Chris Nicolopoulos represented by Pat Gosselin and Doug Bartlett (NH); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Dale Bruggeman (OH); Glen Mulready represented by Eli Snowbarger (OK); Michael Humphreys represented by Diana Sherman and Matt Milford (PA); Elizabeth Kelleher Dwyer represented by John Tudino and Ted Hurley (RI); Michael Wise represented by Thomas Baldwin (SC); Larry D. Deiter represented by Johanna Nickelson (SD); Carter Lawrence represented by Trey Hancock (TN); Jon Pike represented by Jake Garn (UT); Scott A. White represented by Doug Stolte (VA); Kevin Gaffney represented by Dan Petterson (VT); Mike Kreidler represented by Steve Drutz (WA); and Nathan Houdek represented by Amy Malm (WI).

1. **Adopted its 2022 Fall National Meeting Minutes**

Walker directed the members to the Task Force’s 2022 Fall National meeting minutes. Obusek made a motion, seconded by Doggett, to adopt the Task Force’s Dec. 14, 2022, minutes (see NAIC Proceedings – Fall 2022, Accounting Practices and Procedures (E) Task Force). The motion passed unanimously.


Bruggeman provided the report of the Statutory Accounting Principles (E) Working Group, which met March 22. During this meeting, the Working Group adopted its 2022 Fall National Meeting minutes.

Bruggeman stated that during its March 22 meeting, the Working Group also adopted Issue Paper No. 167—Derivatives and Hedging, which historically documents new Statutory Accounting Principles (SAP) concept revisions to the documentation and assessment of hedge effectiveness, measurement method guidance for excluded components, and modified incorporation of the U.S. generally accepted accounting principles (GAAP) portfolio layer method and the partial-term hedging method in Statement of Statutory Accounting Principles (SSAP) No. 86—Derivatives. (Ref #2017-33)

Bruggeman stated that the Working Group adopted the following clarifications to statutory accounting guidance:

A. **SSAP No. 25—Affiliates and Other Related Parties**: Revisions clarify that any invested asset held by a reporting entity that is issued by an affiliated entity, or which includes the obligations of an affiliated entity, is an affiliated investment. (Ref #2022-15)
B. SSAP No. 34—Investment Income Due and Accrued: Revisions add and data-capture additional disclosures. Directed NAIC staff to submit a corresponding blanks proposal to the Blanks (E) Working Group for year-end 2023. (Ref #2022-17)

C. SSAP No. 100R—Fair Value: Revisions adopt, with modification, Accounting Standards Update (ASU) 2022-03, Fair Value Measurement of Equity Securities Subject to Contractual Sales Restrictions, with modification to reject the contractual sales restrictions disclosures. (Ref #2022-16)

D. SSAP No. 105R—Working Capital Finance Investments: Rejects guidance from ASU 2017-12, Derivatives and Hedging and ASU 2022-04, Disclosure of Supplier Finance Program Obligations, as the disclosures are for borrowers, not insurance entity investors. (Ref #2022-18)

Bruggeman stated that the Working Group exposed the following SAP clarifications to statutory accounting guidance for a public comment period ending June 9, except for agenda items 2023-03 and 2023-11EP, which have a public comment period ending May 5:

A. SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets and Issue Paper No. 16X—Updates to the Definition of a Liability: Exposure includes revisions that defer to topic-specific SSAP guidance that varies from the liability definition. (Ref #2022-01)

B. SSAP No. 20—Nonadmitted Assets and SSAP No. 21R—Other Admitted Assets: Exposed revisions clarify that pledged collateral must qualify as an admitted invested asset for a collateral loan to be admitted. The revisions require audits and the use of net equity value for valuation assessments when the pledged collateral is in the form of partnerships, limited liability companies, or joint ventures. (Ref #2022-11)

C. SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items: Exposed revisions to SSAP No. 24 to clarify rejection of ASU 2021-10, Government Assistance, and the incorporation of disclosures regarding government assistance. (Ref #2022-06)

D. SSAP No. 43R—Loan-Backed and Structured Securities: Exposed revisions to incorporate changes to add collateralized loan obligations (CLOs) to the financial modeling guidance and to clarify that CLOs are not captured as legacy securities. (Ref #2023-02)

E. SSAP No. 104R—Share-Based Payments and SSAP No. 95—Nonmonetary Transactions: Exposed revisions to adopt with modification ASU 2019-08, Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer. The revisions add guidance to include share-based consideration payable to customers. (Ref #2023-07)

F. Interpretation (INT) 03-02: Modification to an Existing Intercompany Pooling Arrangement: Exposed the intent to nullify INT 03-02, as it is inconsistent with SSAP No. 25. (Ref #2022-12)

G. INT 20-01: ASU 2020-04 and 2021-01 – Reference Rate Reform: Exposed revisions to revise the expiration date of INT 20-01 to Dec. 31, 2024. (Ref #2023-05)

H. Schedule D Reporting: Exposed revisions to SSAP No. 26R—Bonds, SSAP No. 21R, SSAP No. 43R, and other impacted SSAPs to refine guidance for the principles-based bond project. Directed NAIC staff to continue interim discussions with interested parties. (Ref #2019-21)
I. Review Annual Statement Instructions for Accounting Guidance: Exposed a proposed new project to review the annual and quarterly statement instructions to ensure that accounting guidance is reflected within the SSAPs. (Ref #2023-01)

J. C-2 Mortality Risk Note: Exposed revisions to SSAP No. 51R—Life Contracts, SSAP No. 59—Credit Life and Accident and Health Insurance Contracts, and SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance providing new disclosures, which provide net amount at risk detail needed to support updates to the life risk-based capital (RBC) C-2 mortality risk charges. This item was exposed with a shortened comment deadline of May 5. (Ref #2023-03)

K. Accounting Practices and Procedures Manual (AP&P Manual) Editorial Updates: Exposed editorial revisions. This item was exposed with a shortened public comment period ending May 5. (Ref #2023-11EP)

L. Appendix D—Nonapplicable GAAP Pronouncements: The following U.S. GAAP standards were exposed with revisions to reject, as they are not applicable to statutory accounting:

i. ASU 2019-07—Codification Updates to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization, and Miscellaneous Updates (Ref #2023-08)

ii. ASU 2020-09, Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762—Debt (Topic 470) (Ref #2023-09)

iii. ASU 2022-05, Transition for Sold Contracts, as not applicable for statutory accounting. (Ref #2023-10)

Bruggeman stated that the Working Group directed NAIC staff on the following items:

A. Tax Credits: Directed NAIC staff to proceed with drafting revised accounting guidance and a related issue paper for both SSAP No. 93—Low-Income Housing Tax Credit Property Investments and SSAP No. 94R—Transferable and Non-Transferable State Tax Credits. Revisions will consider final Financial Accounting Standards Board (FASB) guidance on tax equity investments and interested party feedback. (Ref #2022-14)

B. SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve: Directed NAIC staff regarding the consideration of negative interest maintenance reserve (IMR) with an intent to work on both a 2023 solution and a long-term solution as follows:

i. Recommend a referral to the Life Actuarial (A) Task Force on further consideration of the asset adequacy implications of negative IMR. Items to include: 1) developing a template for reporting within asset adequacy testing (AAT); 2) considering the actual amount of negative IMR that is admitted to be used in the AAT; 3) better consideration of cash flows within AAT (and documentation), as well as any liquidity stress test (LST) considerations; 4) ensuring that excessive withdrawal considerations are consistent with actual data (sales of bonds because of excess withdrawals should not use the IMR process); and 5) ensuring that any guardrails for assumptions in the AAT are reasonable and consistent with other aspects.

ii. Recommend a referral to the Capital Adequacy (E) Task Force for the consideration of eliminating any admitted net negative IMR from total adjusted capital (TAC) and the consideration of sensitivity testing with and without negative IMR.
Draft Pending Adoption

iii. Develop guidance for future Working Group consideration that would allow the admission of negative IMR up to 5% of surplus using the type of limitation calculation similar to that used for goodwill admittance. The guidance should also provide for a downward adjustment if the RBC ratio is less than 300.

iv. Review and provide updates on any annual statement instructions for excess withdraws, related bond gains/losses, and non-effective hedge gains/losses to clarify that those related gains/losses are through asset valuation reserve (AVR), not IMR.

v. Develop accounting and reporting guidance to require the use of a special surplus (account or line) for net negative IMR.

vi. Develop governance-related documentation to ensure sales of bonds are reinvested in other bonds.

vii. Develop a footnote disclosure for quarterly and annual reporting. (Ref #2022-19)

C. Corporate Alternative Minimum Tax (CAMT): Directed NAIC staff to continue work with industry and the Working Group on developing guidance for the reporting of the CAMT for interim Working Group discussion. (Ref #2023-04)

Bruggeman stated that the Working Group received updates on the following items:

A. Received a referral from the Valuation of Securities (E) Task Force to inquire about the NAIC Securities Valuation Office (SVO) obtaining the ability to calculate analytical information.

B. Announced that copyrighted PDF copies of the AP&P Manual will be made available through Account Manager upon purchase of the 2023 AP&P Bookshelf subscription.

C. Received a request from the American Academy of Actuaries (Academy) for clarification on observed diversity across issuers regarding long-term care (LTC) AAT under Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves (AG 51) and SSAP No. 54R—Individual and Group Accident and Health Contracts and Appendix A-010, Minimum Reserve Standards for Individual and Group Accident and Health Insurance Contracts.

D. Received an update on international activity as discussed by the International Association of Insurance Supervisors (IAIS) Accounting and Auditing Working Group (AAWG). This discussion noted that public consultations of Insurance Core Principle (ICP) 14: Valuation and ICP 17: Capital Adequacy are expected in July 2023.

E. Received an update on U.S. GAAP exposures, noting that pending items will be addressed during the normal maintenance process.

Bruggeman made a motion, seconded by Kasinow, to adopt the report of the Statutory Accounting Principles (E) Working Group (Attachment One). The motion passed unanimously.


Gosselin provided the report of the Blanks (E) Working Group, which met March 7. During this meeting, the Working Group adopted its Nov. 17, 2022, minutes (see NAIC Proceedings – Fall 2022, Accounting Practices and Procedures (E) Task Force, Attachment Two).
Gosselin stated that during its March 7, 2023, meeting, the Working Group also adopted its editorial listing and the following proposals:

A. 2022-14BWG Modified – Modify Exhibit 1, Part 1 and 2, and Exhibit 8, Part 1 and 2, in the life and accident and health/fraternal blank, to include the line of business detail reported on the Analysis of Operations by Lines of Business pages.

B. 2022-15BWG – In the life, accident and health/fraternal, and property/casualty (P/C) blanks, revise the language of the Schedule H, Part 5 to remove the 5% of premiums filing exemption.


D. 2022-18BWG – For the life and accident and health/fraternal blank, instructional corrections on the handling of exchange traded funds (ETFs) and/or SVO identified funds within the IMR and the AVR.

E. 2022-20BWG – Modify the instructions and blanks for various health exhibits to change the order of the Vision and Dental lines of business to be consistent with all other statement types.

Gosselin stated that the Working Group re-exposed proposal 2022-17BWG – Add new disclosure paragraph for Note 8 – Derivative Instruments and illustration to new disclosure to be data captured. Add electronic-only columns related to derivatives with excluded components to Schedule DB, Part A and Part B for both Section 1 and Section 2. Add new code column instructions for Schedule DB, Part A and B (SAPWG 2021-20). Re-exposed for a public comment period ending April 28.

Gosselin stated that the Working Group exposed nine new proposals for a public comment period ending April 28 for eight of the proposals and June 30 for proposal 2023-06BWG addressing Schedule D, Part 1, reporting.

Gosselin made a motion, seconded by Travis, to adopt the report of the Blanks (E) Working Group (Attachment Two). The motion passed unanimously.

Having no further business, the Accounting Practices and Procedures (E) Task Force adjourned.
Statutory Accounting Principles (E) Working Group Louisville, Kentucky March 22, 2023

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met in Louisville, KY, March 22, 2023. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kevin Clark, Vice Chair (IA); Sheila Travis (AL); Kim Hudson (CA); William Arfanis (CT); Rylynn Brown (DE); Cindy Anderson (IL); Stewart Guerin (LA); Judy Weaver (MI); Doug Bartlett (NH); Bob Kasinow (NY); Diana Sherman and Matt Milford (PA); Jamie Walker (TX); Doug Stolte and David Smith (VA); and Amy Malm (WI). Also participating were: Blase Abreo and Todrick Burks (AL); Michael Shanahan (CT); Bill Carmello (NY); Tom Botsko (OH); Doug Hartz (OR); and Rachel Hemphill (TX).

1. **Adopted its 2022 Fall National Meeting Minutes**

The Working Group met March 16, Feb. 22, Jan. 20, and Jan. 17 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) and paragraph 6 (consultations with NAIC staff related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings. No actions were taken during these meetings, as the discussion previewed the Spring National Meeting agendas and discussed other items with NAIC staff pursuant to the NAIC Policy Statement on Open Meetings.

Malm made a motion, seconded by Sherman, to adopt the Working Group’s Dec. 13, 2022, minutes (see **NAIC Proceedings – Fall 2022, Accounting Practices and Procedures (E) Task Force, Attachment One**). The motion passed unanimously.

2. **Adopted Non-Contested Positions**

The Working Group held a public hearing to review comments (Attachment One-A) on previously exposed items.

Walker made a motion, seconded by Weaver, to adopt the revisions detailed below as non-contested statutory accounting revisions. The motion passed unanimously.

   a. **Agenda Item 2017-33**

Bruggeman directed the Working Group to agenda item 2017-33: ASU 2022-01, *Issue Paper No. 167—Derivatives and Hedging* (Attachment One-B). Julie Gann (NAIC) stated that this agenda item is for an issue paper that provides historical documentation of the revisions adopted to *Statement of Statutory Accounting Principles (SSAP) No. 86—Derivatives from the review of Accounting Standards Update (ASU) 2017-22, Derivatives and Hedging and ASU 2022-01, Fair Value Hedging – Portfolio Layer Method*. Interested parties had no comments on the exposure.

   b. **Agenda Item 2022-15**

Bruggeman directed the Working Group to agenda item 2022-15: Affiliate Reporting Clarification (Attachment One-C). Jake Stultz (NAIC) stated that during the 2022 Fall National Meeting, the Working Group exposed statutory accounting principle (SAP) clarifications to SSAP No. 25—*Affiliates and Other Related Parties* to clarify that any invested asset held by a reporting entity, which is issued by an affiliated entity, or which includes the obligations of an affiliated entity is an affiliated investment. Interested parties had no comments on the exposure.
c. **Agenda Item 2022-16**

Bruggeman directed the Working Group to agenda item 2022-16: *ASU 2022-03, Fair Value Measurement of Restricted Securities* (Attachment One-D). Stultz stated that revisions to SSAP No. 100R—*Fair Value* were exposed for adoption with modifications to ASU 2022-03 to be consistent with existing statutory accounting guidance, but the revisions do not incorporate the new ASU disclosures on sales restrictions. He noted that the items restricted as to sale would be captured as restricted assets per SSAP No. 1—*Accounting Policies, Risks & Uncertainties and Other Disclosures*. He noted that ASU 2022-03 provides updated guidance for two specific scenarios: 1) the restriction is based on the entity holding the equity security; and 2) the restriction is a characteristic of equity security. Interested parties had no comments on the exposure.

d. **Agenda Item 2022-18**

Bruggeman directed the Working Group to agenda item 2022-18: *ASU 2022-04, Disclosure of Supplier Finance Program Obligations* (Attachment One-E). Robin Marcotte (NAIC) stated that this agenda item is a clarification to SSAP No. 105R—*Working Capital Finance Investments* to reject ASU 2022-04 for statutory accounting, as these disclosures are for borrowers in these programs and, as such, are not relevant for insurance reporting entities that may invest in these programs. Interested parties had no comments on the exposure.

3. **Reviewed Comments on Exposed Items**

a. **Agenda Item 2019-21**

Bruggeman directed the Working Group to agenda item 2019-21: *Principles-Based Bond Definition*. Gann stated that in November 2022 and at the 2022 Fall National Meeting, the Working Group exposed revisions to SSAP No. 26R—*Bonds*, SSAP No. 43R—*Loan-Backed and Structured Securities*, and other SSAPs, as necessary, to update statutory accounting guidance for the principles-based bond project. These revisions also included edits to SSAP No. 2R—*Cash, Cash Equivalents, Drafts and Short-Term Investments* to restrict asset-backed securities (ABS) from being captured in scope and SSAP No. 21R—*Other Admitted Assets* to include new guidance for the debt securities that do not qualify within the bond definition. In addition to the revisions, an updated issue paper detailing the discussions and revisions, as well as proposed reporting changes, were also exposed.

Gann stated that interested parties provided detailed comment letters included in the meeting materials. She stated that NAIC staff reviewed the comments and made several changes to the proposed guidance. She stated that one change pertains to nominal interest rate adjustments in the prior guidance. Under the prior exposure, if the principal or interest can fluctuate based on non-bond related variables, it would preclude the security from being a bond. Gann stated that NAIC staff included guidance to have a very limited exception for nominal interest rated related adjustments, mostly pertaining to sustainability type bonds, but not limited in scope to that specific instance. Also included was guidance in SSAP No. 21R for residual tranche securities. Gann stated that interested parties highlighted that the guidance for residual tranche securities was still in SSAP No. 26R and SSAP No. 43R, but residual tranche securities do not technically qualify as bonds. Gann stated that SSAP No. 21R also reflects additional revisions to the guidance proposed for non-bond debt securities. She stated that there are questions for interested parties regarding the method that is being used to amortize residual tranche securities, as well as for the assessments of other-than-temporary impairment (OTTI) and how that has occurred historically. She stated that NAIC staff recommended that the Working Group expose the revised SSAPS. She stated that SSAP No. 21R has been broken out so that it is its own stand-alone document, so the documents for exposure include SSAP No. 26R, SSAP No. 43R, SSAP No. 21R, and the other SSAP revisions. In addition to the SSAP guidance revisions, NAIC staff also proposed Schedule BA reporting line changes very similar to what was done in the past for the broader bond changes. Gann stated that NAIC staff recommended exposing the proposed reporting changes as a conceptual
change at the Working Group, and after considering comments, a blanks proposal could then be submitted to the Blanks (E) Working Group.

Michael Reis (Northwestern Mutual), representing interested parties, expressed his appreciation of the dialogue with NAIC staff and state insurance regulators, as well as support for the nominal interest rate adjustment that Gann discussed. He stated that interested parties continue to look forward to working with the NAIC staff and state insurance regulators on this project.

Gann stated that there were two additional items to highlight: 1) the issue paper detailing discussions and decisions for the principles-based bond project will be updated after this meeting for subsequent exposure; and 2) the Blanks (E) Working Group exposed the broad bond reporting changes (2023-06BWG) with a public comment period ending June 30.

Clark made a motion, seconded by Walker, to expose the above agenda items. The motion passed unanimously. After the Spring National Meeting, the chair agreed to extend the exposure deadline for the Schedule BA reporting changes to June 30 to mirror the exposure deadline for the blanks reporting changes. The SSAP exposures were not extended and have a public comment period ending June 9.

b. Agenda Item 2022-01


Marcotte stated that NAIC staff recommend exposure of additional clarifications, deferring to SSAP guidance, which provides topic-specific variations from the definition of a liability and SSAP No. 5R, and the related issue paper, as illustrated in the proposed revisions in the meeting materials. These clarifications are recommended because of the authoritative treatment that statutory accounting provides to the definition of an asset and liability in SSAP No. 4—Assets and Nonadmitted Assets and SSAP No. 5R. Marcotte stated that for U.S. generally accepted accounting principles (GAAP), the FASB conceptual framework definitions are not authoritative, but they are concepts to consider when developing and applying guidance. Particularly for liabilities, this is needed because of the existing variations in SSAPs, such as asset valuation reserve (AVR) and interest maintenance reserve (IMR) and the provision for reinsurance and other post-retirement benefits. Marcotte stated that the proposed footnote defers to other topic-specific guidance in other SSAPs when appropriate. She stated that due to prior interested parties’ comments, NAIC staff have also prepared a new agenda item 2023-01: Review Annual Statement Instructions for Accounting Guidance—which proposes a project to ensure that accounting guidance from the annual statement instructions are incorporated in the SSAPs, as needed.

Walker made a motion, seconded by Malm, to expose the additional clarifications deferring to SSAP guidance. The motion passed unanimously.

c. Agenda Item 2022-11

Bruggeman directed the Working Group to agenda item 2022-11: Collateral for Loans. Marcotte stated that during the 2022 Fall National Meeting, the Working Group re-exposed revisions to SSAP No. 21R to clarify that assets
pledged as collateral for admitted collateral loans must qualify as admitted invested assets. She stated that interested parties proposed a footnote on audit requirements allowing a third-party-determined fair value to be used in the place of an audited valuation.

NAIC staff recommended revisions to SSAP No. 21R, illustrated in the agenda item, proposing the clarification of guidance, along with the addition of a new footnote. This footnote, originating from state insurance regulators, noted that it was imperative to uphold and maintain audit requirements of joint ventures, limited liability companies (LLCs), or investments that would qualify as a subsidiary controlled entity if they were pledged as collateral for a loan. State insurance regulators had concerns that allowing these investments to qualify as acceptable collateral without an audit would lower the collateral requirement standard and allow for potential arbitrage within risk-based capital (RBC) and the admissibility of assets.

Marcotte stated that NAIC staff’s recommendation is to continue to require audits for joint ventures, limited LLCs, and partnerships, as well as investments that would qualify as subsidiary, controlled, and affiliated (SCA) entities if these items are pledged as collateral to support the admittance of a collateral loan. Furthermore, the recommendation proposes to revise the standard to note that a fair value comparison is required unless the collateral is an SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies or SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities investment, in which case the comparison to the loan is to the audited net equity value of the pledged collateral. Marcotte stated that this is closer to what the day two value would be in the event that the loan defaulted and the collateral was assumed by the insurance reporting entity. In addition, NAIC staff are recommending that the words “admitted” and “investment” be inserted into paragraph 4.b. of SSAP No. 20—Nonadmitted Assets for consistency. Marcotte recommended exposing the proposed edits to SSAP No. 21R and SSAP No. 20.

Bruggeman stated that the concept that nonadmitted assets cannot find their way into an admitted asset balance sheet came up several years ago. He stated there are some fair value considerations, but with SSAP No. 48 and SSAP No. 97 entities that almost always require an audit, and if that audit is the support to admit the loan receivable, the Working Group must ensure that if there are nonadmitted assets being pledged as collateral, they are not being moved up to the regulated entity balance sheet in a different way.

Andrew Morse (Global Atlantic Financial Group), representing interested parties, stated his appreciation of the collaborative and clear process on this topic. He stated that interested parties made a comment at the 2022 Fall National Meeting on this topic and have read the proposed exposure, and they believe it is significantly clearer in terms of what is needed. He added that interested parties’ ability to comment and engage in dialogue with state insurance regulators is appreciated.

Clark made a motion, seconded by Weaver, to expose the revisions to SSAP No. 21R proposing the addition of a new footnote and minor consistency edits to SSAP No. 20. The motion passed unanimously.

d. Agenda Item 2022-12

Bruggeman directed the Working Group to agenda item 2022-12: Review of INT 03-02: Modifications to an Existing Intercompany Pooling Arrangement. Marcotte stated that during the 2022 Fall National Meeting, the Working Group re-exposed the intent to nullify Interpretation (INT) 03-02: Modification to an Existing Intercompany Pooling Arrangement. With this re-exposure, the Working Group requested industry provide comments on specific instances in which the interpretation was being applied and specific staff-identified items were noted in the agenda.
Marcotte stated that interested parties provided comments that were included in the meeting materials. She stated that NAIC staff continue to recommend nullification of INT 03-02, as it is inconsistent with SSAP No. 25 guidance regarding economic and non-economic transactions between related parties. She stated that after speaking with interested parties, NAIC staff do not believe there is a compelling need to be different when valuing these types of intercompany transactions. She stated that the recommendation is exposure with an effective nullification date of Dec. 31, 2023. She stated that interested parties requested another exposure to allow for further discussion.

Bruggeman stated that there may be a need to review the guidance in SSAP No. 62R—Property and Casualty Reinsurance transactions, particularly with pooling and netting arrangements as part of this exposure and discussion to ensure SSAP No. 62R is not in conflict, and requested comments from state insurance regulators and industry on this dynamic during the exposure period.

Keith Bell (Travelers), representing interested parties, commented that while INT 03-02 is in conflict with SSAP No. 25, there is consistency and comparability of accounting because of the interpretation. He stated that there is concern that the nullification of INT 03-02 is going to cause a high risk of inconsistency of interpretation by companies, state insurance regulators, and auditors on the issue of economic versus non-economic transactions. He also stated that the nullification will end up with different reinsurance accounting depending on whether interest rates are going up or going down and for bonds with an unrealized gain versus unrealized loss position. He stated that there is also going to be inconsistency within an intercompany pooling arrangement depending on whether investments are in an unrealized gain or loss position. For example, the same company group could trigger both gains and losses, meaning some companies would end up with prospective reinsurance because of the change, and other companies within the same group would end up with retroactive reinsurance. Bell noted that there is going to be some inconsistency within a group based on the ownership chain of companies. If there is a single insurer at the top of the ownership chain, there will be a different set of rules on the economic distinction, versus having multiple companies at the top of the ownership chain. Bell stated that interested parties will look at the re-exposure, and they may present language that could narrow this down even further to be included in SSAP No. 62R as permanent guidance rather than be part of an INT.

Bruggeman requested that interested parties include specific wording or economic versus non-economic situations, as well as the unrealized gain/loss scenario he discussed for bonds. He stated that specificity or examples that could be provided, rather than a theoretical discussion, would help the Working Group understand how to incorporate necessary guidance within SSAP No. 62R. Bell stated that the response will include these details.

Malm made a motion, seconded by Walker, to re-expose INT 03-02 with an effective nullification date of Dec. 31, 2023. The motion passed unanimously.

e. Agenda Item 2022-14

Bruggeman directed the Working Group to agenda item 2022-14: New Market Tax Credits. Gann stated that this agenda item addresses new market tax credits, but more broadly, overall tax credit accounting. She stated that at the 2022 Fall National Meeting, the Working Group exposed both the agenda item and a discussion document that walked through proposed SSAP changes, and it requested feedback from state insurance regulators and interested parties. The Working Group received a very detailed comment letter from interested parties that addressed all the discussion document questions. Interested parties also provided two general key theme comments. One comment asked for a reconsideration of the existing guidance to have both the amortization of the investments and the use of the tax credits go through the same income statement line, consistent with U.S. GAAP. Gann stated that statutory accounting intentionally took a different approach when the guidance was
originally adopted. NAIC staff will research this to understand why the divergence from U.S. GAAP was undertaken and determine if there is a reason to change to be consistent with U.S. GAAP. The second comment pertained to the classification of tax credit investments that are in the form of debt on Schedule D and not Schedule BA. Gann stated that NAIC staff have received comments from state insurance regulators that they are more appropriate to be on Schedule BA and should not be reported as bonds. She stated that NAIC staff are requesting feedback from state insurance regulators if that is an incorrect assessment. She stated that NAIC staff are recommending that the Working Group direct NAIC staff to continue moving forward with drafting SSAP guidance, noting that the FASB has a pending issuance regarding the proportional amortization method. NAIC staff will also review comments received from interested parties, as well as the new U.S. GAAP ASU once it has been issued, and move forward with proposing SSAP revisions for exposure at a later date. She stated that NAIC staff also recommend direction to work with interested parties directly during the interim.

Bruggeman stated that there are currently only line items for low-income housing tax credits in Schedule BA of the financial statements and RBC calculations. He stated that there may come a time that if there are differentiations, the Working Group will inform interested state insurance regulators and interested parties of those and will pass that information along to the Capital Adequacy (E) Task Force.

Gann stated that it is anticipated that this project will continue to sponsor blanks and RBC reporting changes since current reporting is specific to low-income housing tax credits, and the project is expanding to encompass more types of tax credits.

Bruggeman stated that the Working Group does not need to make a motion for this agenda item, and NAIC staff have been directed based on these recommendations.

f. Agenda Item 2022-17

Bruggeman directed the Working Group to agenda item 2022-17: Interest Income Disclosure Update. Stultz stated that this agenda item came from the larger principles-based bond project. He stated that during one of the earlier exposures, interested parties suggested revisions to further enhance reporting for interest income. He stated that there are two distinct items that came from the original interested parties’ comments addressed in this agenda item. First, interested parties suggest data-capturing the gross nonadmitted and admitted amounts of interest income due and accrued. Second, interested parties suggested that a data element for paid-in-kind (PIK) interest mirror the definition included in the bond proposal project and reflect the cumulative amount of PIK interest included in the current principal balance. Stultz stated that from the original exposure of this agenda item, interested parties provided some revisions that are shown in the agenda. Interested parties also asked to have an effective date that is consistent with the bond project. He stated that because this disclosure is unrelated to that project overall, NAIC staff recommend that this be adopted for 2023 year-end reporting. He stated that NAIC staff’s recommendation is to adopt the agenda item with the interested parties’ suggested revisions but keep the 2023 year-end date. He stated that there is a corresponding Blanks (E) Working Group proposal that will be exposed, and NAIC staff will work closely with the interested parties to ensure that the language in the proposal is consistent with their suggested revisions.

Tip Tipton (Thrivent), representing interested parties, stated that they are appreciative of the changes made. He stated that these are just aggregate total amounts of deferred interest and PIK interest. He noted that beginning in 2025 with the bond project, the expectation is these will be identified separately for each investment, but for now, at least for 2023 and 2024, this will be just a total aggregate amount. He stated that is interested parties’ understanding, and they support this effort. He stated interested parties look forward to the opportunity to comment on the Blanks (E) Working Group proposal.
Clark made a motion, seconded by Walker, to adopt the agenda item with the interested parties’ suggested revisions but keep the 2023 year-end effective date (Attachment One-F). The motion passed unanimously.

g. Agenda Item 2022-19

Bruggeman directed the Working Group to agenda item 2022-19: Negative IMR. Gann stated during the 2022 Fall National Meeting, the Working Group exposed the agenda item as a new SAP concept. She stated that it detailed the current guidance and the history of negative IMR, but there were no actual recommendations included. She stated that the Working Group also had regulator-only discussions in January and February to hear company presentations regarding negative IMR. She stated that the Working Group also received a comment letter from the American Council of Life Insurers (ACLI) during the exposure period, which was included in the meeting materials. She stated that NAIC staff are requesting the Working Group to provide feedback and direction.

Brown stated that it is important to help state insurance regulators understand the impact of negative IMR and to have special reporting so it can be easily identified. She expressed support for a referral to the Capital Adequacy (E) Task Force in regard to RBC. She suggested an admittance limitation of 1% of capital and surplus. She stated that there are a variety of things for the Working Group to consider and discuss.

Hudson stated that the Working Group has a number of items that should be directed to NAIC staff. First, he suggested a referral to the Life Actuarial (A) Task Force on the asset adequacy implications of negative IMR, and he directed NAIC staff to help with the template for reporting asset adequacy. Secondly, he reiterated Brown’s comments for a referral to the Capital Adequacy (E) Task Force to consider the elimination of any net negative IMR from total adjusted capital (TAC) and consideration of sensitivity testing with and without negative IMR. Thirdly, he said he supports separate surplus reporting for the admitted negative IMR. Fourth, he recommended a cap on admitted negative IMR as a percentage of surplus, such as what exists for goodwill, and consideration of a downward adjustment when RBC reaches below 300%. Fifth, he suggested the consideration of an update to the instructions for excess withdrawal and related capital gains and loss to ensure that it is clear on the division between AVR and IMR. Sixth, he said there should be additional footnote disclosure.

Walker agreed with Hudson and emphasized that the Working Group is trying to find a solution quickly on this topic. She stated that the prior discussion of negative IMR was a multi-year long discussion that got nowhere. So, the Working Group may have to do an interim solution until feedback is received in response to the referrals to the task forces and other groups involved in this issue get a permanent solution. She stated that the Working Group should try to address the current issue while also establishing a robust and well-thought-out overall policy related to negative IMR.

Malm agreed with Walker, and she stated that the Working Group should not close the issue until a solution is reached to prevent this dynamic from reoccurring after another 10 years. She stated that the issues should be well documented, with full understanding of the pros and cons, and a conclusion reached.

Clark stated support for the comments that Walker and Malm made and the direction that Hudson laid out. He stated that he would add one element, which is one of the things that interested parties recommended in their comment letter, to include an opt-in approach that would come with documentation around asset-liability matching (ALM) policies. He stated that having an approach where there might be differences between companies may not be desirable, but he noted that there are elements of the opt-in idea that could be applied across the board. He stated that he is not sure that the current guidance specifies that sales of assets for other than reinvestment purposes cannot be deferred; therefore, that could be the presumption for why negative IMR should be admitted. He stated that explicitly spelling out what is permitted for IMR might be needed, as well as potentially...
some form of attestation from the company that any deferred losses were in fact for reinvestment purposes and not for non-reinvestment purposes.

Bruggeman stated the need to ensure the discussion and conclusions, with the final accounting guidance fully documented. He stated that this is one topic where there are instructions in the NAIC Annual Statement Instructions and generic instructions in SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve. He stated the Working Group needs to ensure that those are consistent with the hierarchy, so statutory accounting comes first. He stated that blanks instructions cannot change the accounting guidance. He stated that the Working Group needs to ensure that the language between the instructions, SSAP No. 7, and SSAP No. 86 are lined up as best as possible when discussing types of assets, such as bonds and interest rate-related impacts, especially with derivatives that have yet to be discussed. He stated that the whole idea with bonds is they are being carried at amortized cost. With amortized cost measurement, there is no recording of an unrealized gain or loss fluctuation during the life of the asset, and that is why IMR was established. He stated that where there are already assets, whether they are bonds or derivatives that are recorded at fair value, those items should probably not end up in IMR. He stated that there are instructional elements that are not laid out exactly right that should be addressed as part of this project.

Reis stated that the ACLI would like to thank the NAIC for picking up this issue with urgency. He stated that the ACLI would like to acknowledge that there was a prior Working Group discussion, a regulator-to-regulator session with the Life Actuarial (A) Task Force, a discussion at the Financial Condition (E) Committee, a discussion here today, and many state insurance regulator discussions with individual ACLI companies, and all of those efforts are very much appreciated. He stated that he wants to start with maybe the main thrust of the ACLI letter and try to address a few key points. He stated that the ACLI brought forth the opt-in approach in its letter because it believed it was something that would best address state insurance regulator concerns. He stated that it would be intended to be a very structured process that had many potential appropriate safeguards, such as proving reinvestments, ALM objectives being met, a recommendation of asset adequacy testing (AAT) tightening attestation, potentially tethering to RBC, and significant transparency. He stated that throughout state insurance regulator and individual member company discussions, the ACLI has been hearing a lot of different thoughts. Some participants really like the opt-in approach; some, perhaps Delaware, may want segregating surplus through a special surplus account, and they appreciate the detailed consideration that has been going into this. He stated that he believes the ACLI would support, maybe along the lines of what Clark suggested, either of those approaches or some combination of these approaches, certainly with the requisite safeguards mentioned. He stated that one common theme that the ACLI has heard from state insurance regulators is that they do not want to disincentivize prudent behavior transactions. At the same time, the ACLI has heard that state insurance regulators do not want to incentivize imprudent behavior or transactions. He stated that the ACLI certainly shares those objectives and welcomes any specific concerns that state insurance regulators have so they can help to address those. He stated that higher interest rates are generally positive for life insurance companies, and for all the reasons that IMR was developed, ACLI companies believe that it is important that financial strength be accurately reflected. Current interest rates, or even higher rates, will only exacerbate the negative IMR issue as companies look to make decisions throughout 2023 and beyond and likely many years down the road. Therefore, ACLI companies are hopeful that they can work with state insurance regulators and NAIC staff toward a year-end resolution if possible, and they are here to support that effort in any way they can. He stated that the ACLI is thankful for all the consideration, and it is certainly willing to discuss or take questions as well.

Bruggeman asked if there were any questions for Reis, and he stated that the options hint at incorporating governance within accounting, but there are, as Clark described, ways to do that. Bruggeman stated that he agrees with Clark that an opt-in is probably not the best way to get consistency; therefore, if something like that is supported by the Working Group, it would have to be across the board. He stated that asset adequacy testing is done through the Life Actuarial (A) Task Force, and with the actuarial assumptions, there are certain things that...
perhaps do not have as many guardrails. There are a lot of cash flow assessments to consider, and there is a bigger picture for the whole industry and the Financial Stability (E) Task Force on liquidity stress testing (LST). He stated that he does not know if that is part of AAT testing, and that it is kind of indirect. However, because these are deferred losses, if there is a liquidity stress within one company, which may not be in the whole industry, those create different kinds of issues, going to the heart of reinvestment.

Bruggeman stated that there is already a requirement for excess withdrawals, and if there are excess withdrawals and a company is forced to sell bonds, the loss that happens in that situation does not currently go through IMR. If the Working Group needs to tighten up that language, it may help ensure that reinvestment occurs. Bruggeman stated that in situations where losses go to IMR and reinvestment does not occur, then the Working Group and state insurance regulators need to understand to verify that it was because of the excess withdrawal. He stated that the state insurance regulators want to prevent any gamesmanship going on with that scenario.

Bruggeman stated that he is trying to ensure that the Working Group is addressing all components of this topic, and at the end of the discussion, the intent is to give directions to NAIC staff to move forward. He stated that he heard a percentage of surplus admittance limitation from Brown at 1%. He stated that NAIC staff have done an overall analysis by company, which was shared with state insurance regulators, on the percentage of net negative IMR that is currently nonadmitted compared to capital and surplus. He also noted that state insurance regulators received a five-year history of net negative IMR by reporting entity. He stated that there are individual circumstances where companies go from positive to negative, but there are several reporting entities that have been in a net negative IMR position for all five years. He stated there could be a lot of reasons why those companies have been in a net negative position, but recognizing this dynamic goes back to the key components of the original ACLI letter and what guardrails should exist before permitting an admitted asset for net negative IMR.

Reis stated that the ACLI letter does not oppose looking at the excess withdrawal guidance. He identified that certain liabilities with market value adjustments are believed to be excluded from the excess withdrawal guidance, and there are questions on why those were excluded. Regarding the data that details ongoing years of negative IMR by some reporting entities, he stated that the economy has been in a 30-year period of declining interest rates; therefore, the five-year historical data may not be the most useful assessment. He stated the results for net negative IMR could go back for an extended period.

Reis stated that an admittance limit of 1% of surplus is a small number compared to what companies are anticipating. He stated that the ACLI’s position is that an arbitrary safeguard of 1% is too low. He also stated concern with the view that IMR creates an intangible asset of prior realized losses that cannot be used to pay claims. He stated it is very important to understand the presence of the intangible asset with the current reporting of bonds at amortized cost, and he provided an example, noting that it is an oversimplification of the theory behind IMR. He stated that if a reporting entity has a bond that was bought for $100 on the balance sheet and because of rising interest rates, the fair value of the bond is $80, a reporting entity effectively has $80 of claims paying ability or liquidity, on the balance sheet has an intangible asset on the balance sheet of $20. This is because the bond is reporting at amortized cost (100), so there is an intangible asset reported with the bond, which is the difference between the fair value and the amortized cost. Reis stated that if a reporting entity was to sell the bond at fair value, predicated on reinvestment, the reporting entity would acquire a new bond for $80. As such, the reporting entity still has the same $80 liquid asset, and with the allocation to IMR for the $20 loss from the sale—$100 to $80—the reporting entity still has the same $20 in intangible assets they had when the bond was reported at $100. As such, in terms of financial position and a reporting entity’s claims paying ability from liquidity, a reporting entity would be in the same position pre- and post-bond sale with reinvestment. Reis stated that he has been asked why reporting entities do these transactions, and he noted that there are many reasons. He stated that a reporting entity could be doing it to shorten or lengthen portfolios to either affect disintermediation risk or
ensure that guarantees do not get hit in the long term. He stated that the duration of the sold bond and reinvested bond could be different, but that change does not affect claims paying ability or liquidity, and it could put reporting entities in a better spot in the long term. He stated that it has also been inquired as to whether the reporting entities reinvest with different credit-rated bonds, and he advised that entities do not necessarily think linearly, and if they are going to sell a AAA bond, then they are going to reinvest in another AAA bond. He noted that if the credit rating were different, higher or lower, that would be picked up in RBC. In conclusion, he stated that he wanted to be sure to make the point that liquidity and claims paying ability is not affected, as that is an important point.

Bruggeman requested discussion on how to direct NAIC staff to prepare guidance for exposure, and he opened the floor to begin with the admittance limit as a percentage of surplus. He stated that Brown has proposed a 1% limit, and goodwill is limited to 10% of surplus, noting that could be perceived as a large range between limits. Brown stated that it is a compromise to allow the admittance of even a small amount, but the 1% proposal is open to negotiation. She stated some think it should be 10%, but she believes it should be 1%, so perhaps somewhere in the middle would be a good place to start.

Bruggeman stated that he had heard potential support closer to the 15% used for the deferred tax asset (DTA), but he noted that there is a secondary guardrail there with the three-year limit, so that is why he believes maybe closer to the goodwill 10% limit may be more appropriate.

Brown stated that some states use 5% of capital and surplus in determining materiality, and if the amount is considered material, it is a big deal. However, she said she is certainly willing to hear what everyone else has to say.

Bruggeman suggested starting at 5% of capital and surplus as an admittance limit with an elimination of admittance if RBC goes below 300%. He asked if anyone objects to the 5% limit as the initial direction to staff. Reis asked if it makes sense to focus on the broader conceptual direction that seemingly makes sense and is without controversy and leave open a specific percentage in the exposure as something to debate further. Bruggeman stated his preference to have a percentage limit in the exposure. He stated that he is not aware of the support for the 10% goodwill limit, and he requested NAIC staff research that historical discussion. He stated support for 10%, but he is sensitive to Brown’s comments that materiality assessments are at 5%, noting that there could be a secondary guardrail where asset adequacy testing is the primary guardrail.

Clark stated that he is not opposed to an admittance limit for exposure, as the point of the exposure is to get comments before having additional discussion, and getting industry feedback will be important. He stated that the desire for an admittance limit makes logical sense from a conservatism perspective. But given the size of insurers’ balance sheets in comparison to surplus and the size of their fixed income portfolios, even a 10% allowance is going to be very small in comparison to what interest rates have done to some reporting entity’s fixed income portfolios. He stated that is an issue the Working Group should explore, but he believes it is going to be kind of a difficult one to meaningfully address the IMR impact of the significant rise in interest rates and what that has done to asset values with a 5% limit.

Malm stated that the analysis needs to be done before a percentage is set. She stated that industry should do an analysis as well because they know their investment portfolios and their surplus, and it would be beneficial for them to provide the Working Group with what they are projecting. Bruggeman stated that individual company analysis is key to understanding the potential impact if sales are planned for investments held at amortized cost.

Hartz stated that getting input from industry and considering the type of transaction that is giving rise to the negative IMR might be more important than a target rate or target percentage of surplus.
Walker stated that if the Working Group takes too much time for analysis, they will not arrive at a solution by year-end. As such, there is a give and take from a short-term solution versus a long-term solution. If there is a desire to have the long-term solution conversation, then it will likely take more time than what is available to have a solution this year. She stated that although it is only the first quarter, the Working Group already has a limited amount of time for a year-end solution. Bruggeman agreed with these comments.

Hudson stated support for a numerical cap even if it ends up not being the perfect solution. The Working Group needs to get something in place, and the initial limit can always be changed. He stated the Working Group should start off with the cap, if it is 5% of surplus, to start the discussion process. Weaver agreed to put in a percentage limitation, also acknowledging that it is under negotiation. Walker and Weaver both stated support for a 5% admittance limit to capital and surplus. Hartz also noted that 5% is between the 1% and 10% options being considered, so it is a good place to begin as an initial direction to NAIC staff.

Brown stated that once other safeguards are in place, the Working Group could consider raising the admittance limit. Bruggeman and Walker agreed with these comments.

Reis stated that the admittance limit is important and supports the idea that it will be subject to additional discussion.

Bruggeman then discussed providing direction to NAIC staff to provide referrals to both the Life Actuarial (A) Task Force and the Capital Adequacy (E) Task Force. For the referral to the Life Actuarial (A) Task Force, he requested further consideration of asset adequacy implications of negative IMR. He directed NAIC staff to assist in developing a template for AAT disclosures, noting that he is aware of the current initiative for an *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53) documentation enhancement. He stated that it is important to consider the actual amount of admitted negative IMR that is being used within the asset adequacy testing, because the higher the negative IMR, the more potential there is for an AAT liability. He requested the referral also address the considerations of cash flows within AAT with liquidity stress testing considerations to ensure that excessive withdrawal considerations are consistent with the actual data. He stated that it is important for the assumptions of cash flows and liquidity stress testing to be consistent, and he referred to the existing guidance for tax planning strategies, where it is noted that tax planning strategies cannot be inconsistent with other company assertions. He stated that the referral should request guardrails within AAT that are reasonable and consistent with other aspects.

Bruggeman stated that for the referral to the Capital Adequacy (E) Task Force, he requested consideration to remove any admitted net negative IMR from total adjusted capital (TAC) with inclusion of any other sensitivity testing that may be needed for IMR. He stated that RBC is supposed to be a weakness indicator and is a state insurance regulator tool, not a strength indicator for other uses. He stated that he knows it gets used for other things, but the state insurance regulator use and tool is the first priority. Brown and Walker agreed with this recommended referral.

In response to an inquiry from Reis asking whether the referral will remove admitted negative IMR from TAC for the RBC calculation, or just for sensitivity testing, Bruggeman confirmed that the referral is to remove admitted negative IMR from TAC in determining the RBC percentage. Bruggeman noted that the discussion on this aspect will occur at the Capital Adequacy (E) Task Force. He stated that this change may not be viable for year-end, so that is why other points and guardrails need to be considered.

Bruggeman directed NAIC staff to proceed with guidance to allocate the admitted negative IMR to special surplus. He stated that this allocation will make it easier to identify in the quarterly financials, as the IMR schedule is only completed for the annual reporting.
Bruggeman requested that NAIC staff review the annual statement instructions for excess withdrawals and for bonds and derivatives reported at fair value to ensure those gains and losses are not going through IMR. He also noted a need to review the AVR guidance, which is intended for credit losses, to ensure that the division between IMR and AVR is clear. He requested NAIC staff to also consider additional disclosure reporting that would help state insurance regulators identify or summarize aggregate activity, especially with quarterly reporting.

Bruggeman reiterated that the Working Group is trying to provide guidance quickly as an interim step, but it needs to have a long-term solution so that this is not a pending issue in another 10 years. Although it is unlikely to be fully done by year-end, he would like to work towards June 30 for the interim solution, as that allows the other affected groups to receive the interim guidance in a timely manner before it is applicable for year-end.

In response to an inquiry from Brown on a potential blanks referral, Bruggeman stated that the Working Group would consider a disclosure first as part of the interim discussion and then sponsor a blanks proposal.

In response to Weaver’s comments on the lengthy list of action items, items to consider, and the time that may be needed, Bruggeman stated he already had several of these identified, and he has given NAIC staff a preview, contingent on the discussion of the Working Group from this meeting. He stated that NAIC staff will move forward on this quickly as directed by the Working Group. He stated that the approach is trying to identify a good solution for industry but also ensure appropriate financial reporting and regulatory tools. Bruggeman stated that it would have been easier if a resolution to this topic had been established 20 years ago, but there were other urgent issues. He stated when interest rates increase more than 4% in a year, some weird circumstances happen.

Carmello asked for clarity on the referral to the Life Actuarial (A) Task Force, specifically on the topic of reasonable guardrails. He stated that there are no guardrails now on AAT other than in New York. He asked whether the Working Group will ask for guardrails to be established on a national basis. Bruggeman responded that the request to the Task Force is to look at the guardrails in place in New York, as well as other options, to see if there are any that can be incorporated. Carmello stated that Minnesota made a proposal for AG 53 guardrails last year, and it was voted down. As such, he does not believe the Working Group should be relying on AAT.

Hemphill stated that the question of whether there is a need for AAT guardrails dovetails with other work the Life Actuarial (A) Task Force and the Valuation Analysis (E) Working Group is going to be doing with AG 53. She stated that it might be a heavy change to make, but they may indeed find that there are guardrails needed, and if those changes are made, then that would provide actuaries more comfort with applying AAT to a greater extent. She stated that without guardrails, she would also be uncomfortable in relying on AAT, and it makes sense for the Life Actuarial (A) Task Force to review what could be established.

Walker stated that her message to industry is that there are going to be three groups that will be working on this negative IMR issue. While the Statutory Accounting Principles (E) Working Group is going to consider an interim solution, the longer-term resolution may be contingent on what the other groups decide. Walker stated that the solutions of those other groups may allow the state insurance regulators of the Working Group to decide whether to allow a higher admitted asset on the balance sheet. As such, it is going to be a balancing act, and there may be tough discussions on a long-term solution if there are no guardrails on AAT or changes to TAC, or other RBC calculation revisions. Without those revisions, the long-term solution may have a far less admitted amount than what industry might prefer.

Smith stated that the Working Group keeps talking about a long-term solution, but he believes it is important to highlight that this will be a new long-term solution. He stated the long-term solution that has been in place for 31 years is that negative IMR is nonadmitted. He stated that the recent discussion has implied that the Working
Group did not address this issue, and that is incorrect. He reiterated that since 1992, negative IMR has been required to be nonadmitted, and that long-term process should speak for itself.

Hartz stated that the long-term solution may be to leave the existing guidance as it is, as nonadmittance is more conservative. He stated not allowing negative IMR and leaving it nonadmitted is consistent with statutory accounting, but even in that circumstance, there may be special circumstances that state insurance regulators may need to consider.

Smith stated that he does not disagree with the discussion or the proposed actions, but he wants to be clear that the admittance of negative IMR will be a change to the long-time existing guidance. He noted that the existing guidance was an intentional decision.

Bruggeman expressed appreciation for the detailed discussion, and he requested that NAIC staff have the minutes explicitly detailed for historical purposes. He stated that the Working Group does not generally take a vote to direct NAIC staff, but for this topic, he would like to have a vote.

Malm made a motion, seconded by Walker, to direct NAIC staff to work on both a 2023 solution and a long-term solution as follows:

i. Recommend a referral to the Life Actuarial (A) Task Force on further consideration of the asset adequacy implications of negative IMR. Items to include: 1) developing a template for reporting within AAT; 2) considering the actual amount of negative IMR that is admitted to be used in the AAT; 3) better consideration of cash flows within AAT and documentation, as well as any LST considerations; 4) ensuring that excessive withdrawal considerations are consistent with actual data—sales of bonds because of excess withdrawals should not use the IMR process; and 5) ensuring that any guardrails for assumptions in the AAT are reasonable and consistent with other aspects.

ii. Recommend a referral to the Capital Adequacy (E) Task Force for the consideration of eliminating any admitted net negative IMR from TAC and the consideration of sensitivity testing with and without negative IMR.

iii. Develop guidance for future Working Group consideration that would allow for the admission of negative IMR up to 5% of surplus using the type of limitation calculation similar to that used for goodwill admittance. The guidance should also provide for a downward adjustment if the RBC ratio is less than 300%.

iv. Review and provide updates on any annual statement instructions for excess withdrawals, related bond gains/losses, and non-effective hedge gains/losses to clarify that those related gains/losses are through AVR, not IMR.

v. Develop accounting and reporting guidance to require the use of a special surplus—account or line—for net negative IMR.

vi. Develop governance-related documentation to ensure sales of bonds are reinvested in other bonds.

vii. Develop a footnote disclosure for quarterly and annual reporting.

The motion passed unanimously.
4. Considered Maintenance Agenda – Active Listing

Walker made a motion, seconded by Weaver, to expose the following agenda items for a public comment period ending June 9, except for agenda item 2023-03: New C-2 Mortality Risk Note and agenda item 2023-11-EP: AP&P Manual Editorial Updates, which will be exposed for a public comment period ending May 5. The motion passed unanimously.

a. Agenda Item 2023-01

Bruggeman directed the Working Group to agenda item 2023-01: Review Annual Statement Instructions for Accounting Guidance. Gann stated that this agenda item has been developed to establish a project to review the annual and quarterly statement instructions to ensure that primary accounting guidance is reflected within the SSAPs. Although the duplication or reference of accounting guidance may occur for ease in applying the reporting guidance, the focus of this project is to ensure that the annual or quarterly statement instructions are not the primary source of statutory accounting guidance. For the purposes of this agenda item, accounting guidance is intended to refer to measurement, valuation, admittance/nonadmittance, as well as when assets and liabilities should be recognized or derecognized within the statutory financial statements. This agenda item and project is proposed to address limited situations in which the annual statement instructions have been identified to reflect more detailed accounting guidance than the SSAPs. Under the statutory hierarchy, the SSAPs are Level 1 and the authoritative source for accounting provisions. If guidance does not exist in the SSAPs, then other sources of guidance can be considered based on the statutory hierarchy, but it is not intended that guidance purposely be captured in the annual statement instructions (which are level 3,) in lieu of the inclusion of guidance in the SSAPs.

Although it is anticipated that only limited situations will be identified, this agenda item proposes a broad project to review the instructions and identify where accounting guidance may need to be captured in the SSAPs.

b. Agenda Item 2023-02

Bruggeman directed the Working Group to agenda item 2023-02: SSAP No. 43R – CLO Financial Modeling. Gann stated that this agenda item proposes revisions to SSAP No. 43R to incorporate edits to reflect changes adopted by the Valuation of Securities (E) Task Force on Feb. 21 to include collateralized loan obligations (CLOs) in the Securities Valuation Office (SVO) financial modeling process.

This agenda item has been drafted to ensure the financial modeling guidance summarized in SSAP No. 43R reflects the practices, as directed by the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual). The Accounting Practices and Procedures Manual (AP&P Manual) is higher in the statutory hierarchy than the P&P Manual, but the primary source of authoritative guidance for financial modeling is the P&P Manual. Only a general description of the modeling process is included in SSAP No. 43R. The methodology to model CLOs is still being developed, but guidance that permits the SVO to model CLOs has been adopted and should be followed once CLOs begin to be financially modeled.

c. Agenda Item 2023-03

Bruggeman directed the Working Group to agenda item 2023-03: New C-2 Mortality Risk Note. Marcotte stated that the Life Risk-Based Capital (E) Working Group is working on a project to modify its C-2 mortality risk charges. The Life Risk-Based Capital (E) Working Group, in cooperation with the C-2 Mortality Work Group of the American Academy of Actuaries (Academy), developed structural updates to the life RBC treatment of group permanent life
and miscellaneous other instruction updates. The proposal assigns the same factors to group permanent life as individual permanent life for policies with and without pricing flexibility.

A new financial statement note will provide the development of net amounts at risk in the categories needed for the Life C-2 mortality risk charges. These categories are designed to create a direct link to a financial statement source and accompanying life RBC C-2 mortality risk updates.

As the notes to the financial statements are maintained by the Statutory Accounting Principles (E) Working Group, this agenda item is to add the requirement for the new proposed note into the Accounting Practices and Procedures Manual. An annual statement blanks proposal is being simultaneously exposed at the Life Risk-Based Capital (E) Working Group, which has requested year-end 2023 as the effective date for the note.

d. Agenda Item 2023-04

Bruggeman directed the Working Group to agenda item 2023-04: Corporate Alternative Minimum Tax Guidance. Marcotte stated that the Inflation Reduction Act (IRA) was enacted on Aug. 16, 2022, and it included a new corporate alternative minimum tax (CAMT), which goes into effect for the 2023 tax year. In December 2022, the Working Group adopted temporary guidance to address the CAMT in INT 22-02: Third Quarter 2022 through First Quarter 2023 Reporting of the Inflation Reduction Act - Corporate Alternative Minimum Tax.

This agenda item is to begin the project of providing guidance regarding the CAMT for periods after the first quarter of 2023. Interested parties have submitted initial informal recommendations to assist with preparing the guidance. The CAMT is more complex than the prior alternative minimum tax, and it is assessed at the consolidated return level using book income. She noted that the Working Group will need to have interim small group discussions and may also need to consider extending INT 22-02.

e. Agenda Item 2023-05

Bruggeman directed the Working Group to agenda item 2023-05: ASU 2022-06, Reference Rate Reform (Topic 848), Deferral of the Sunset Date of Topic 848. Stultz stated that the FASB issued ASU 2022-06 to extend the sunset date of the reference rate reform guidance that was included in ASU 2020-04, Reference Rate Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Reporting and ASU 2021-01, Reference Rate Reform (Topic 848), Scope.

Stultz stated that reference rate reform refers to the transition away from referencing the London Interbank Offered Rate (LIBOR), and other interbank offered rates (IBORs), and moving toward alternative reference rates that are more observable or transaction based. In July 2017, the governing body responsible for regulating LIBOR announced it would no longer require banks to continue rate submissions after 2021, thus likely sunsetting both the use and publication of LIBOR. An important item to note is that while LIBOR is the primary IBOR, other similar rates are potentially affected by reference rate reform. For simplicity, LIBOR will be the sole IBOR referenced throughout this agenda item.

With a significant number of financial contracts referencing LIBOR, its discontinuance will require organizations to reevaluate and modify any contract that does not contain a substitute reference rate. A large volume of contracts and other arrangements, such as debt agreements, lease agreements, and derivative instruments, will likely need to be modified to replace all references of IBORs that are expected to be discontinued. While operational, logistical, and legal challenges exist due to the sheer volume of contracts that will require modification, accounting challenges were presented as contract modifications and typically require an evaluation to determine whether the modifications result in the establishment of a new contract or the continuation of an existing contract. As is
often the case, a change to the critical terms, including reference rate modifications, typically requires the remeasurement of the contract, or in the case of a hedging relationship, a redesignation of the transaction.

To address ASU 2020-04, the Working Group issued INT 20-01: ASU 2020-04 – Reference Rate Reform, and this interpretation was then revised to incorporate guidance from ASU 2021-01. This agenda item recommends revisions to INT 20-01 to include the updated sunset date of Dec. 31, 2024.

f. Agenda Item 2023-06

Bruggeman directed the Working Group to agenda item 2023-06: Additional Updates on ASU 2021-10, Government Assistance. Marcotte stated that on Aug. 10, 2022, the Working Group adopted revisions to SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items in agenda item 2022-04: ASU 2021-10, Government Assistance. The revisions incorporate certain disclosures, adopted with modification from ASU 2021-10, to supplement existing disclosures regarding unusual or infrequent items.

This agenda item is to provide additional clarifications to SSAP No. 24, regarding follow-up questions that NAIC staff received regarding the adoption of the disclosures about government assistance in ASU 2021-10. The primary questions were regarding whether the adoption with modification of the ASU disclosures intended to allow insurers to use the grant and contribution model. If the intent was not to allow for the use of the grant and contribution model, then the question becomes in what situation these disclosures would be required. Because NAIC staff understanding is that the grant and contribution model was not intended to be permitted for statutory accounting, additional modifications to clarify this point have been proposed that reject ASU 2021-10 but still incorporate when the government assistance disclosures from ASU 2021-10 were adopted.

g. Agenda Item 2023-07

Bruggeman directed the Working Group to agenda item 2023-07: ASU 2019-08, Codification Improvements to Topic 718 and Topic 606. Stultz stated that in November 2019, the FASB issued ASU 2019-08 Compensation, Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer, which includes amendments to Topics 718 and 606. The changes to Topic 718 include share-based payment transactions for acquiring goods and services from non-employees, and in doing so, superseded guidance in Subtopic 505-50, Equity—Equity-Based Payments to Non-Employees. The changes to Topic 606 expand the scope of the codification to include share-based payment awards granted to a customer in conjunction with selling goods or services.

The amendments in ASU 2019-08 require an entity measure and classify share-based payment awards granted to a customer by applying the guidance in Topic 718. The amount recorded as a reduction of the transaction price is required to be measured on the basis of the grant-date fair value of the share-based payment award in accordance with Topic 718. The grant date is the date at which a grantor (supplier) and a grantee (customer) reach a mutual understanding of the key terms and conditions of a share-based payment award. The classification and subsequent measurement of the award are subject to the guidance in Topic 718 unless the share-based payment award is subsequently modified, and the grantee is no longer a customer.

For statutory accounting assessments, prior U.S. GAAP guidance related to share-based payments has been predominantly adopted with modification in SSAP No. 104R—Share-Based Payments. Statutory accounting modifications to the U.S. GAAP guidance have mostly pertained to statutory terms and concepts.
h. **Agenda Item 2023-08**

Bruggeman directed the Working Group to agenda item 2023-08: ASU 2019-07, Codification Updates to SEC Sections. Stultz stated that the FASB issued ASU 2019-07, Codification Updates to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization, and Miscellaneous Updates, which amends and supersedes certain U.S. Securities and Exchange Commission (SEC) sections in Topic 942, 944, and 946 to align codification guidance with SEC Releases No. 33-10532, 33-10231, and 33-10442. These SEC Releases amend a wide range of disclosure requirements, which were determined to be redundant, duplicative, overlapping, outdated, or superseded by other relevant literature. Additionally, the SEC Releases include several miscellaneous updates and corrections intended to clarify SEC guidance. SEC guidance from ASUs have generally been rejected as not applicable for statutory accounting in Appendix D, but all ASUs are reviewed for statutory accounting purposes to determine if the guidance should be considered for statutory accounting.

i. **Agenda Item 2023-09**

Bruggeman directed the Working Group to agenda item 2023-09: ASU 2020-09, Amendments to SEC Paragraphs. Stultz stated that the FASB issued ASU 2020-09, Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762—Debt (Topic 470), which amends and supersedes certain SEC sections in Topic 470 to align codification guidance with SEC Release No. 33-10762, which amends the SEC financial disclosure requirements for guarantors and issuers of guaranteed securities registered or being registered, and issuers’ affiliates whose securities collateralize securities registered or being registered in Regulation S-X to improve those requirements for both investors and registrants. The changes are intended to provide investors with material information, given the specific facts and circumstances, make the disclosures easier to understand, and reduce the costs and burdens to registrants. SEC guidance from ASUs have generally been rejected as not applicable for statutory accounting in Appendix D, but all ASUs are reviewed for statutory accounting purposes to determine if the guidance should be considered for statutory accounting.

j. **Agenda Item 2023-10**

Bruggeman directed the Working Group to agenda item 2023-10: ASU 2022-05, Transition for Sold Contracts. Stultz stated that this agenda item has been drafted to consider ASU 2022-05, Transition for Sold Contracts for statutory accounting. He noted that the FASB issued the ASU in December 2022 to amend specific sections of ASU 2018-12, Targeted Improvements for Long-Duration Contracts. The amendments made by the ASU are intended to reduce the implementation costs and complexity associated with the adoption of long-duration contracts (LDTI) for contracts that have been derecognized in accordance with the ASU before the LDTI effective date. The revisions captured in the ASU are summarized as follows: The amendments in the ASU amend the LDTI transition guidance to allow an insurance entity to make an accounting policy election on a transaction-by-transaction basis. An insurance entity may elect to exclude contracts that meet certain criteria from applying the amendments in the LDTI.

k. **Agenda Item 2023-11EP**

Bruggeman directed the Working Group to agenda item 2023-11EP: AP&P Manual Editorial Updates. Gann stated that this agenda item details editorial updates for the Accounting Practices and Procedures Manual. These revisions are captured in three broad categories:

- SSAP No. 86: Change a disclosure category from “intrinsic value” to “volatility value.”
• Various – Streamline references to the P&P Manual.
• Various – Changes to consistently reference percent (with % sign and not “percent”) throughout SSAPs.

5. **Discussed Other Matters**

   a. **Received and Discussed Valuation of Securities (E) Task Force Referral**

   Gann stated that the Working Group was one of several groups that received a referral from the Valuation of Securities (E) Task Force (Attachment One-G) to inquire about the NAIC SVO obtaining the ability to calculate analytical information by utilizing commercially available data sources and investment models instead of requesting individual insurance companies to incur the costs to implement system changes. The referral identifies that if the SVO had the capabilities, it could calculate for state insurance regulators various measures, including key rate duration, sensitivity to interest rate volatility, principal and interest cash flow projections for any security or portfolio for any given interest rate projection, loss estimates, and many other measurements. The referral asks each group to respond to the following questions by May 15:

   1. Indicate if your group is supportive of creating this capability within the SVO.
   2. List the investment analytical measures and projections that would be most helpful to support the work performed by your respective group.
   3. Describe how your group would utilize the data and why it would be of value.
   4. Are there other investment data or projection capabilities that would be useful to your group that could be provided by commercially available data sources or investment models? And if so, please list them.
   5. Any other thoughts you may have on this initiative.

   Bruggeman requested that the Working Group provide comments to NAIC staff by April 15 so a referral response could be submitted to the Valuation of Securities (E) Task Force.

   b. **2023 NAIC Accounting Practices and Procedures Manual**

   Gann stated that on Jan. 9, interested parties provided comments to the NAIC Chief Executive Officer and the Chief Operating Officer/Chief Legal Officer on the Bookshelf product limitations and the need for industry to have a searchable and printable portable document format (PDF) of the AP&P Manual (Attachment One-H).

   On Feb. 6, a response letter was provided (Attachment One-I) informing that for the 2023 AP&P Manual, the NAIC is proud to announce that a copyrighted PDF will be made available, at no additional charge, to those who purchase a subscription to the AP&P Manual. Similar to the current subscription process, access will be restricted to the individual level; however, the PDF will be searchable and printable like any other PDF document. This process is specific to the 2023 AP&P Manual only, and for the 2024 AP&P Manual, the NAIC is dedicated to finding an amicable, long-term solution that will result in ease of access for industry users.

   The process to obtain the PDF is anticipated to be automatic upon purchase of the 2023 AP&P Bookshelf subscription through Account Manager. Acquiring it through Account Manager is key to obtaining the PDF download, and manual processing will not be available.

   c. **American Academy of Actuaries Request**

   Marcotte stated that on Feb. 23, the Financial Reporting and Solvency Committee of the Health Practice Council
of the American Academy of Actuaries, submitted a request to the Long-Term Care Actuarial (B) Working Group and the Statutory Accounting Principles (E) Working Group that requests clarifications regarding some observed diversity in practice across issuers of long-term care insurance (LCTI) regarding how the new guidance in *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long Term Care Insurance Reserves* (AG 51), and specifically Section 4C, on determining when additional reserves may be necessary, interacts with existing guidance on accident and health (A&H) insurance reserve adequacy, as found in paragraph 24 of *SSAP No. 54R—Individual and Group Accident and Health Contracts* and paragraph 26 of *Appendix A-010—Minimum Reserve Standards for Individual and Group Accident and Health Insurance Contracts* (Attachment One-J). NAIC staff will work with the American Academy of Actuaries representatives and NAIC support staff of the Long-Term Care Actuarial (B) Working Group and the Valuation Analysis (E) Working Group to develop an agenda item for future Statutory Accounting Principles (E) Working Group discussion.

d. **Update on International Activity – IAIS AAWG**

Gann stated that she participates on behalf of the NAIC in the International Association of Insurance Supervisors (IAIS) Accounting and Auditing Working Group (AAWG). The AAWG focuses on developing, or providing input on, IAIS high-level principles-based supervisory and supporting material related to the accounting, auditing, valuation, reporting, and public disclosures of insurers. The AAWG monitors international developments and prepares comments letters and other papers in relation to the above focus, as deemed appropriate.

Recent discussions of the AAWG have focused on updates to Insurance Core Principle (ICP) 14: Valuation. Gann advised that public consultation of the draft revised ICP 14, as well as ICP 17: Capital Adequacy, is expected to occur in July 2023.

Other discussions of the AAWG have focused on the implementation of International Financial Reporting Standard (IFRS) 17: Insurance Contracts by other jurisdictions, and future discussions are expected to review the International Auditing and Assurance Standards Board (IAASB) proposed strategy and work plan for 2024–2027, as well as the proposed International Standard on Auditing (ISA) 500: Audit Evidence. NAIC staff are monitoring these discussions and requesting comments from state insurance regulators or industry if there are positions or concerns that should be communicated to the AAWG. NAIC staff anticipate including regular updates as any other matter within national meeting agendas.

e. **Review of U.S. GAAP Exposures**

Stultz identified two items with disclosure deadlines from January to February that will be reviewed by the Working Group in the normal maintenance process (Attachment One-K).

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.

https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2023/3-22-23 - spring/summary and minutes/sapwg minutes 03.22.23.docx

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# Statutory Accounting Principles (E) Working Group
## Spring National Meeting
### Comment Letters Received

## TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>COMMENTER / DOCUMENT</th>
<th>PAGE REFERENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comment Letters Received for Items Exposed for the Spring National Meeting</td>
<td></td>
</tr>
<tr>
<td>Interested Parties – February 10, 2023</td>
<td></td>
</tr>
<tr>
<td>- Principles-Based Bond Definition</td>
<td></td>
</tr>
<tr>
<td>- Ref #2019-21: Proposed Bond Definition</td>
<td></td>
</tr>
<tr>
<td>- Issue Paper: SSAP 86, Derivatives and Hedging</td>
<td></td>
</tr>
<tr>
<td>- Ref #2022-01: Conceptual Framework – Updates</td>
<td></td>
</tr>
<tr>
<td>- Ref #2022-11: Collateral for Loans</td>
<td></td>
</tr>
<tr>
<td>- Ref #2022-12: Review of INT 03-02: Modification to an Existing Intercompany Pooling Arrangement</td>
<td></td>
</tr>
<tr>
<td>- Ref #2022-14: New Market Tax Credits</td>
<td>2-18</td>
</tr>
<tr>
<td>- Ref #2022-15: SSAP No. 25 – Affiliate Reporting Clarification</td>
<td></td>
</tr>
<tr>
<td>- Ref #2022-16: ASU 2022-03, Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions</td>
<td></td>
</tr>
<tr>
<td>- Ref #2022-17: Interest Income Disclosure Update</td>
<td></td>
</tr>
<tr>
<td>- Ref #2022-18: ASU 2022-04, Disclosure of Supplier Finance Program Obligations</td>
<td></td>
</tr>
<tr>
<td>- Ref #2022-19: Negative IMR</td>
<td></td>
</tr>
<tr>
<td>Interested Parties – February 10, 2023</td>
<td>19-25</td>
</tr>
<tr>
<td>- Principles-Based Bond Definition</td>
<td></td>
</tr>
<tr>
<td>American Council of Life Insurers (ACLI) – February 17, 2022</td>
<td>26-42</td>
</tr>
<tr>
<td>- Ref #2022-19: SSAP No. 7 - IMR</td>
<td></td>
</tr>
</tbody>
</table>

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February 10, 2023

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

RE: Items Exposed for Comment by the Statutory Accounting Principles Working Group with Comments due February 10th

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the exposure drafts released for comment by the NAIC Statutory Accounting Principles (E) Working Group (the Working Group) on December 13, 2022, with comments due February 10th.

We offer the following comments:

**Principles-Based Bond Definition**

The Working Group exposed changes that include proposed revisions to reflect the bond definition in SSAP No. 26R—Bonds and SSAP No. 43R—Asset Backed Securities. Exposure also includes corresponding revisions to other SSAPs, which includes guidance restricting asset-backed securities (ABS) from SSAP No. 2R and guidance for debt instruments that do not qualify as bonds in SSAP No. 21R.

Interested parties have submitted a separate comment letter on these proposed changes.

**Ref #2019-21: Proposed Bond Definition**

The Working Group also exposed reporting changes for bonds under the principles-based bond project. In addition to a new schedule and granular reporting lines, the exposure includes proposed revisions to other schedules and instructions that reference bond reporting. The exposure also includes a revised issue paper to detail discussions and decisions on the bond
Interested parties have not provided any comments on these exposures during this comment period as we have provided comments previously on similarly exposed items. Also, based on conversations with NAIC staff, interested parties believe that our comments can be optimized once the official Blanks items are exposed from the Blanks Working Group in March.

**Issue Paper: SSAP 86, Derivatives and Hedging**

The Working Group proposed a new issue paper to detail revisions previously adopted with the review of ASU 2017-12, Derivatives and Hedging and ASU 2022-01 Fair Value Hedging – Portfolio Layer Method.

Interested parties have no comments on this item.

**Ref #2022-01: Conceptual Framework – Updates**

The Working Group re-exposed revisions to the definition of a liability and issue paper to incorporate the concepts from Financial Accounting Standards Boards (FASB) Concepts Statement No. 8.

Interested parties are currently reviewing the additional materials provided by NAIC staff and will comment at a later date.

**Ref #2022-11: Collateral for Loans**

The Working Group re-exposed revisions to SSAP No. 21R to clarify that invested assets pledged as collateral for admitted collateral loans must qualify as admitted invested assets.

The impact of the new exposed language can be interpreted to affect requirements for collateral loans which are backed by investments in joint ventures, partnerships, and LLCs. As commented during the 2022 NAIC National Fall Meeting, we believe that audits of joint ventures, partnerships, and LLCs, while required under SSAP No. 97 and SSAP No. 48 for those assets held directly, are not necessarily suited for the task of assessing sufficiency of collateral, because an audit does not validate fair value of the investment, which is a core standard of collateral guidance, and audits may be unreasonably costly for this narrow purpose.

Interested parties noted that regulators indicated concern over arrangements in which the collateral asset or the collateral loan itself may be related to or affiliated with the reporting entity. We believe that this concern is more directly addressed in recent industry exposures and adoptions over related party reporting; a collateral loan involving a related party is required to be labeled as such in annual statement filings. A collateral loan which is backed by a related joint venture, partnership, or LLC, is expected to be disclosed as such under existing SSAP No. 25 guidance. It is our view that in cases where an audit is not performed, allowing an unrelated third party to perform a fair value assessment would address objectivity concerns for this narrow purpose.
purpose, noting that primary guidance over related party transactions is addressed elsewhere outside of SSAP No. 21R.

Interested parties propose that the following footnote be included in SSAP No. 21R which would effectively permit companies with these investments to obtain a third-party valuation assessment in place of an audit, where the third-party assessment would satisfy both the admitted asset requirement as well as the fair value sufficiency requirement applicable to collateral assets.

Footnote:
Because an audit, which is required for certain investments in joint ventures, partnerships, and LLCs to be admitted assets, does not necessarily provide assurance over the fair value of such an investment which is collateral for a loan, companies are permitted to obtain a fair value assessment provided by an unrelated third party in place of an audit, in order for a collateral asset which is a joint venture, partnership, or LLC to qualify as an admitted asset under this standard.

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

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and re-exposed the intent to nullify INT 03-02. This re-exposure requested industry to provide comments on specific instances in which the interpretation was being applied. In addition, the following key points were noted for consideration during the exposure in response to some of the comments received.

Staff provided the following comments regarding some of the key points from industry. Interested parties’ response to each comment is provided in italics below following each comment:

1. In the current interest rate environment, the fair value of many bonds is below book value. For example, a bond with an amortized cost of $100 with a fair value of $85. The way INT 03-02 is written a bond with a fair value of 85 could be used to settle an intercompany reinsurance pooling obligation of $100. If the reporting entity paid with cash, they would be required to pay $100. The actual cash value of obligations when they are extinguished is a relevant measure of the transaction.

   If a bond was transferred at market value in order to settle the $100 pooling obligation as proposed by NAIC staff in the example above, a bond with a fair value of $100 would have to be used to settle the obligation. In the event that the bond was in an unrealized loss position at the time of the transfer, a realized loss would be recognized on the transferring entity’s books and the combined pool’s books. To avoid this situation, a legal entity could use cash to settle the obligation, but the use of such cash may not be the most efficient use of the transferring entity’s resources.
If the bond was transferred at FV as proposed by NAIC staff but the bond was in an unrealized gain position, a more significant issue would arise. Realized gains would be recorded in the financial statements of the transferring entity, thus resulting in an initial gain in surplus at the legal entity level of reporting as part of the intercompany pooling modification and requiring the intercompany pooling reinsurance to be accounted for as retroactive reinsurance.

There are extreme anomalies with transferring bonds at market value, as illustrated above.

2. Using book value for measurement of payments between affiliates can result in either unrecognized gains or losses of in effect dividend or losses. SSAP No. 25 requires such transfers of assets between affiliates to use fair value. If a subsidiary can pay the parent with assets that have a lower fair value than book value (ex, owes $100 but pays with a bond of 85), this has a similar effect as an unrecognized capital contribution to the subsidiary. SSAP No. 72 requires a capital contribution to be valued using fair value.

The hypothetical capital contribution noted by NAIC staff is mitigated by the fact that, in actual practice, the transferring company would likely have two options if it did not transfer the bond:

- The company could sell the bond, recognize a realized loss, and reinvest in a higher interest-bearing bond which would offset the realized loss over time.
- The company could hold the bond until maturity, at which point it is redeemed at the $100 par value.

We also note that modifications to intercompany pooling arrangements are subject to prior regulatory review and approval, and if the example noted by NAIC staff were part of a planned intercompany pooling transaction, the regulator could address it before granting approval to the intercompany pooling modification.

3. Staff agrees that at the ultimate parent level such transfer of assets (in accordance with SSAP No. 25 guidance) may be noneconomic in that the parent continues to hold an interest in the same assets. Therefore, at the parent level, such transfers of assets may result in the deferral of gains. Staff believes that losses would not be deferred at the ultimate parent level.

The issue noted by interested parties is not that the bond transaction may be economic at the subsidiary level but non-economic at the parent level. Rather, the interested parties letter notes that the transfer of reserves in an intercompany pooling modification is a non-economic transfer, and INT-03-02 treats the transfer of bonds consistently (i.e., non-economic) with the transfer of the liabilities.

4. Staff notes that while it may be more expedient to pay intercompany reinsurance pooling transactions with assets, the valuation used should be similar to if the obligation was extinguished with cash. Therefore, an entity can still choose to pay with assets, they just need to be valued consistently with SSAP No. 25 guidance.
This comment seems to imply that staff disagrees with the views of the Statutory Accounting Principles Working Group, which deliberated this issue in 2003 and decided that the appropriate guidance is SSAP No. 62 and not SSAP No. 25.

5. SSAP No. 62R, paragraph 36d provides an exception to retroactive reinsurance accounting guidance which allows for prospective accounting treatment for intercompany reinsurance among 100% owned affiliated provided there is no gain to the ceding entity. If there is a gain to the ceding entity, there is guidance in SSAP No. 62R, paragraph 37 which requires a more punitive method of accounting than either prospective or retroactive reinsurance accounting. Therefore, NAIC staff comment is that the statutory accounting objective is to provide different treatment for retroactive reinsurance contracts if there is a gain to the ceding entity. This is another reason that the guidance in INT 03-02 is problematic. The object is to correctly measure the effects of the contract, which drives the accounting. The objective is not to obscure whether there is a gain to the ceding entity, which can happen in the event that the assets used in payment are not measured correctly.

INT 03-02 avoids the gain in surplus issue by requiring that the transfer of bonds be at book value. This avoids inconsistent accounting of intercompany pooling modifications between prospective reinsurance accounting and retrospective reinsurance accounting. INT 03-02 provides consistent accounting for all such modification transactions.

Interested parties believe that INT 03-02 was not meant to address whether assets used as payments in an intercompany pooling modification are measured correctly, but rather the INT was meant to address which accounting is appropriate given the facts and circumstances of the transaction. We still believe that INT 03-02 provides a reasonable approach with respect to accounting for intercompany pooling modifications and provides consistency in reporting across companies.

6. Interested parties noted that modifications to intercompany pooling arrangements are typically effective retroactive to the beginning of the year. Staff notes that the payment value when the transaction is settled should be equivalent to the cash value of what is owed on the date of extinguishment of the liability.

This view raises the question of whether the “fair value” of the reserves need to be considered. That would be unprecedented and not consistent with any statutory accounting guidance.

7. Many of the interested parties’ comments regarding GAAP use of book value are more relevant to consolidated basis accounting which is not consistent with the legal entity basis of statutory accounting.

Interested parties respectfully disagree. The interested parties comment letter references the example of accounting for mergers, which is not the same as consolidation accounting.
8. Interested parties’ comments noted that there is a difference in treatment for intercompany pooling participants who are not 100% owned by a common parent. NAIC staff notes that retroactive pooling agreement changes with participants that are not 100% under common control do not meet the exception to retroactive accounting provided in SSAP No. 62R, paragraph 36d. NAIC staff notes that SSAP No. 62R, paragraph 37 provides guidance for retroactive reinsurance agreements among affiliates where there is a gain to the ceding entity.

This comment appears to conflate the issue of being under the control of a common parent versus under 100% common control of a group. The interested parties comment letter was distinguishing between intercompany pool entities which have a common parent versus intercompany pool entities which do not have a common parent. All of the intercompany pool entities are under 100% common control, but not necessarily under the same common parent.

As an example, there may be downstream insurance subsidiaries of two top-tier insurance entities. The downstream insurance subsidiaries do not have common parents but are under 100% common control of the group.

We believe that nullification of the existing INT will likely result in inconsistent interpretation of the guidance by both companies and regulators and will result in inconsistent accounting treatment.

Ref #2022-14: New Market Tax Credits

The Working Group moved this agenda item to the active listing, categorized as a new SAP concept, and exposed a discussion document to expand current statutory accounting guidance for low-income housing tax credits to capture all tax equity investments that provide general federal business tax credit and state premium tax credits if they meet specified criteria.

Interested parties agree with having uniformity in accounting and reporting for equity investments for which the return is earned primarily through tax credits. Interested parties agree that the proportional amortization method is an appropriate method to use for any type of investment (debt or equity) where the return is primarily earned through tax credits. We are providing responses to the questions exposed in the Discussion Paper in this document. There are two key take aways from our responses summarized as follows:

1. Interested parties ask the Working Group to consider allowing for the reporting of both the amortization of the investments and the use of the tax credits themselves in the same income statement line similar to what is required under U.S. GAAP.

2. Interested parties have concerns regarding tax credit investments that are issued in debt form and requiring those investments to be reported on Schedule BA instead of Schedule D. Interested parties believe that tax credit investments issued in debt form are better suited for Schedule D reporting.

We have provided responses to the questions in the Discussion Paper below for your
consideration.

1) Paragraph 1 – The scope intends to include programs that provide general business federal tax credits, which are income tax credits, and programs that meet the criteria that provide for state premium tax credits. This would be an extension from the FASB exposure that only permits income tax credits but is in line with comments received by the FASB that insurers receive credits for state premium tax. Comments are requested on the proposed inclusion for programs that meet the criteria in paragraph 3 that generate state premium tax credits.

Interested Parties Response: Interested parties agree that all investments, no matter what legal form, for which the return is earned primarily through tax credits should follow the proportional amortization method.

The proposal seems to only scope in equity investments in tax credit structures and a very limited set of debt tax credit investments. Interested parties note that there are also other types of debt investments for which the return is primarily earned through tax credits with many structures including cash payments as well. We have listed examples of such debt structures in the Appendix. We have the following comments specifically related to these debt investments for which the return is earned primarily through tax credits if the intent is to scope those investments as well into the proposal:

a. Currently, debt investments in CAPCOs which provide state tax credits follow the SSAP No. 26 guidance and reporting, including INT 06-02 Accounting and Reporting for Investments in a Certified Capital Company (CAPCO). It is unclear from the exposure whether these investments will continue to be reported on Schedule D and/or whether new investments under this program should follow the new revised guidance. See the Appendix for more information on these investments.

b. For companies that currently invest in bonds for which the return is primarily earned through tax credits, moving these investments to Schedule BA causes concerns since there are limitations on the amount of assets that can be reported on Schedule BA. These investments are sound and of high credit quality because the tax credits are highly probable and any contractual cash payments are typically escrowed in cash. Interested parties would also note that these programs are aimed at promoting the development and growth of distressed communities and moving them to Schedule BA may deter insurers from investing in these structures since the level of risk perceived from Schedule BA assets would not be commensurate with the return on these investments (more like debt returns versus more risky Schedule BA returns). Interested parties ask the Working Group to consider allowing for debt tax credit investments to be reported on Schedule D. Although tax credits in the legal form of debt may not result in a direct payment of cash from the borrower to the investor, there is a reduction in cash payments by the investor for income tax expenses, premium tax expenses, or state income taxes, depending on the nature of the tax credit investment. Interested parties note that cash is fungible so whether in the form of direct payments of cash from the borrower to the insurer for principal and interest or reduced insurer payments of taxes, the investment results in increased cash
available to the insurer. The debt form of tax credit investments has contractual fixed payments of principal and interest in the form of reduced cash payments as noted. From this perspective, these instruments may meet the proposed principle-based bond definition.

c. Companies currently report tax credit debt investments on Schedule D with an NAIC designation, which usually comes from the SVO. If the intent is for these investments to move to Schedule BA, it is imperative that these investments are allowed to be reported with an NAIC designation (see high credit quality referenced in prior paragraph). We would like to stress the fact that the risk profile of tax credit investments is not commensurate with equity-type risk as these investments tend to be of high credit quality with a very good history of performance. It is very important to take into consideration any potential RBC impacts when making any accounting or reporting changes.

d. Interested parties also note that if the proposal intends to scope in all tax credit investments in debt form, which we would be supportive of, this needs to be clarified in the exposure as the exposure may be interpreted to only include equity investments. For example, the criteria currently included in the exposure to apply the proportional amortization method is very specific to investments made in equity form. If the proposal is scoping in debt investments as well, the criteria need to be updated so that it is tailored to debt investments as well.

2) Paragraph 3 – The criteria mirror the concepts included in the proposed FASB guidance. Under U.S. GAAP, the use of the portfolio allocation method is an election, but under SAP, the guidance would be required if the criteria are met. (This would be consistent with the existing guidance in SSAP No. 93 for LIHTC.) Based on the FASB comment letters reviewed, the criteria are expected to be met for most state premium-based tax equity investments. Should other criteria be considered or are there concerns with requiring application if the criteria are met?

Interested Parties Response: Interested parties agree that the same criteria currently required under U.S. GAAP should apply to SAP for application of the proportional amortization method. Interested parties do not have an issue with the proportional amortization method being a requirement, as opposed to an option, if the criteria are met. We have two observations regarding the criteria:

a. Criteria “d” requires that “substantially all of the projected benefits are from tax credits and other tax benefits, determined on a discounted basis using a discount rate that is consistent with the cash flow assumptions utilized by the reporting entity for the purpose of making a decision to invest in the project.” Interested parties would like to confirm that this criterion along with the rest of the criteria are assessed at the time of purchase of the investment and not at every reporting period. This is consistent with the Bond project proposals for the principles-based bond definition also. For certain tax credit investments such as renewable energy tax credit investments, this criterion is usually met at origination. However, if the project does
not produce the actual amount of production tax credits expected at origination, the investee may be contractually required to make cash distributions from operations in excess of what was originally anticipated to compensate investors for the reduction in expected tax credits. In this case, substantially all of the projected benefits may end up not being from tax credits and other tax benefits. This is why it is important for the criteria to be assessed at origination.

b. As explained under question #1 if the intent is to also scope in debt investments, the criteria need to be modified so that both types of investments are addressed. We have included some examples of tax credit investments issued in debt form in the Appendix.

3) Paragraphs 5-8 – The information details IRS provisions to qualify for the tax credit and overall information on the use of tax credits investments. Under the IRS rules, the federal business tax credits are not transferable, as only the entity that has a true equity interest can take the tax credit. Furthermore, the designs are most often established to have provisions to liquidate the equity investment (through a put/call) at the end of the timeframe. Comments are requested on whether other designs are prevalent as well as inclusion of this guidance in the SSAP and/or the Issue Paper.

Interested Parties Response: We agree with the discussion topics in paragraphs 5-8 regarding federal and premium tax credit programs with a few exceptions. As explained in the Appendix, there are other forms of debt investments for which the return is primarily earned through tax credits that do not seem to be addressed in the Discussion paper. Interested parties would also like to clarify that debt tax credit investments are usually transferrable, but for debt tax credit investments that require the purchase of an equity interest, they would have to be transferred along with the equity investment. Therefore, although the debt piece may not be transferable on its own for those types of deals, it is transferable along with the equity.

In addition, the Discussion paper states “a guarantee of return disqualifies the investor as obtaining a tax credit for federal income tax purposes. A limited exception to this structure can exist for NMTC using a financial institution syndicating a NMTC in which the financial institution guarantees the credit or returns.” Interested parties note that guarantees exist in structures other than New Market Tax Credit (NMTC) structures. For example, there are at least 2 financial institution syndicators actively offering LIHTC transactions with an 80% tax credit guarantee for which tax opinions have been obtained to ensure this still qualifies the investor as a “true partner.” There are also various guarantees offered in the Renewable Energy Tax Credit space where guarantees may be issued by financial institutions to provide for a dollar-for-dollar guarantee for the first 25% of tax credits recaptured or disallowed. Any guarantees issued by financial institutions on the tax credits are done in a way that still ensures the eligibility of the credits. Our reason for bringing this up is that the Discussion Paper seems to limit the existence of such guarantees to NMTC deals and we want to clarify that guarantees exist in other tax credit transactions. At the same time, for the debt deals where these guarantees exist, the risk profile is even stronger since the insurer will get a return of all or a portion of its initial investment if the tax credits do not emerge and as a
result, we believe whether a guarantee exists or not, should be irrelevant to the use of the proportional method and the proposed reporting.

4) Paragraphs 10-14 – This information mirrors guidance from the proposed ASU with SAP clarifications. Comments are requested on whether SAP modifications should be considered.

**Interested Parties Response:** Interested parties request that SAPWG consider applying the same geography requirements under U.S. GAAP to SAP. Currently under SAP for Low Income Housing Tax Credit Investments, the amortization of the investment is reported in net investment income (NII) and the tax credits are reported in the tax expense line for federal tax structures and in state premium tax or state income tax for state tax structures. Under U.S. GAAP, both the amortization and the tax credits are reported together in the income tax line. We believe that reporting both the amortization and the tax credits in tax expense for federal programs and in the state premium tax or state income tax lines for state programs more faithfully represents the intent of the credits, which is to reduce the expenses and thus is a much better presentation of these investments. When the amortization is reported in net investment income, these investments are reported as if they had a negative return since the amortization is divorced from the tax credits, which is not a true representation of the return on these investments. If the tax credits allow state income tax or premium tax credits to be taken by an insurer, the expense line of the income statement will result in much more volatility when the amortization of the credits is not matched with the tax credits themselves in the same income statement line item. Not matching could have an indirect impact on insurers “rate setting” process on P&C business.

Interested parties would be happy to work with the Working Group to determine the best way to present tax credit investments on the investment schedules with amortization being reported in the same income statement line item as the tax credits themselves. One item that would have to be addressed for federal tax programs is whether a deferred tax asset (DTA) would still be recorded for any tax credit carryforwards. Under U.S. GAAP, DTAs are not recorded for LIHTC investments accounted for under the proportional amortization method since both the amortization and the tax credits are reported in income tax expense.

5) Paragraphs 15-16 - This guidance details the application of the proportional amortization method for statutory accounting. It is more detailed, but generally consistent with SSAP No. 93. The existing SAP guidance was driven from EITF 94-1 and refers to recognition at the time a tax credit can be included in a tax return. However, that guidance is contradictory with the recognition of tax credit carryforwards under both current SAP and U.S. GAAP. The proposed guidance in paragraph 11 reflects the new GAAP guidance for recognition in the year in which the credit arises, and the guidance in paragraph 16 identifies how carryforwards would be considered a DTA.

**Interested Parties Response:** Interested parties agree that DTAs would be set up for any tax credits that can be carried over. As stated above, we understand that under U.S. GAAP, there are no DTAs set up for tax credit carryovers since the amortization and the tax credits are reported in the same line.
6) Paragraphs 17-20 – These paragraphs provide explicit SAP provisions for admittance. If the program does not generate tax credits or if the reporting entity cannot use the tax credits, the guidance requires nonadmittance. Consideration was given as to whether admittance should be permitted based on the ability to liquidate the investment, but that is not proposed. As detailed in the scope criteria, substantially all of the projected benefits from the investment should be from tax credits or other tax benefits. From information gathered for the federal tax credit programs, liquidation may be restricted for set periods of time or be contingent on finding a buyer for the equity interest. Although a put/call provision may be in place to revert the equity interest at the end of the life for the investment, such amounts are nominal to the original investment amount. With the guidance, if the tax credits will not be received or cannot be utilized, then the investment shall be nonadmitted. If an entity cannot obtain or utilize tax credits from the investment, and can liquidate the investment, then a reporting entity should consider liquidating the investment to have cash for reinvestment/admittance purposes. Until then, the investment is proposed to be nonadmitted.

Interested Parties Response: Interested parties believe that it is too punitive to require non-admission of the whole investment if an entity does not have taxable income in a given year. As stated above, insurers may be able to utilize the tax credits through carryback to the prior year. If not, insurers would usually set up a DTA for any tax credit carryforwards if there is an expectation that the credits will be utilized in future years. Therefore, interested parties believe that if there is no valuation allowance on the tax credit DTA and the DTA is admitted under the three-year turnaround criteria, then the investment should be fully admitted. This would not preclude impairment analysis on the investment itself.

The Discussion Paper also includes discussion about requiring a tax opinion for admittance purposes. Interested parties would like to confirm that the tax opinion is required upon acquisition of the investment by the insurer and not at every reporting date.

It is also important to clearly distinguish between non-admission and impairment. Question #6 makes reference to the program not generating tax credits or the reporting entity not obtaining the tax credits. Under these circumstances, it seems that the guidance would point to impairment and not non-admission.

7) Paragraphs 21-24 – This guidance is generally consistent with SSAP No. 93, except the recognition of a liability for a future contribution follows the loss contingency guidance in SSAP No. 5R. This is consistent with the ‘probable’ threshold reflected under U.S. GAAP.

Interested Parties Response: Interested parties agree that the guidance in SSAP No. 5R regarding contingencies needs to be evaluated to determine if a commitment related to future contributions gives rise to a liability.

8) Paragraphs 25- Paragraph 25 is consistent with SSAP No. 93, except it incorporates fair value as the compared value. Current SSAP No. 93 uses the present value calculation, so it is retained as a proxy of fair value. U.S. GAAP uses fair value, and the existing disclosure in SSAP No. 93 also references fair value.
Interested Parties Response: Interested parties do not have an objection with incorporating fair value in the assessment of impairment. Since these investments do not trade frequently, most companies are probably already doing a present value calculation to determine fair value so this should not change what reporting entities are currently doing.

9) Paragraph 26 - This guidance incorporates concepts on whether the structure will continue to produce qualifying tax credits. The guidance specific to LIHTC from SSAP No. 93 is not retained. The guidance has divided the guidance for nonadmittance to reflect situations that impact a reporting entity’s use of tax credits and OTTI to reflect issues with the actual investment in generating qualified tax credits. Comments are requested on this approach and the principle concepts for OTTI.

Interested Parties Response: As stated under question #6, non-admitting the entire investment appears too punitive for companies that expect to utilize the credits in a later year. Interested parties agree that impairment would occur when the credits will not emerge at all. Question #6 needs to be clarified to explain these concepts since the way it is currently written, it seems to scope in the impairment criteria into the non-admission review.

10) Paragraph 27 – Disclosures in 27a-b are from U.S. GAAP.

Interested Parties Response: Interested parties do not have an objection with disclosing information about the nature of investments for which tax credits are earned. 27(b) seems repetitive with the other information that is being required under paragraph 28 regarding the amount of tax credits and other tax benefits during the years presented. If different information is being requested under 27b, it would be helpful for industry to get more clarity on what specifically is being requested under that item.

11) Paragraph 28 - Disclosures in paragraph 28 a-c come from U.S. GAAP. The disclosures in paragraphs 28d-e are based on concepts previously included SSAP No. 93. Comments are requested on whether those disclosures (or other disclosures from SSAP No. 93) should be included. (For 28d, the prior SSAP No. 93 disclosure was for a number of remaining years of unexpired tax credits and the required holding period, but since that is an individual investment disclosure, it has been modified to reflect an aggregate investment disclosure.)

Interested Parties Response: The proposed disclosures in paragraph 28 a-c are similar to what is already required under SSAP No. 93 so they should not be a concern. 28e will require additional work to be done since the requirement is to disclose the aggregate amount of tax credits to be earned each year on all tax credit investments for the next fifteen years, which is not currently disclosed. Such detail is not required for other investments. As a result, we would encourage SAPWG to evaluate whether it is needed.

12) Paragraph 30 – This disclosure is in SSAP No. 93 and comments are requested on whether it should be retained.

Interested Parties Response: This disclosure requires detailed balance sheet and income statement information for tax credit investments if, in the aggregate, tax credit investments exceed 10% of the total admitted assets of the reporting entity. It is probably rare for insurers
to hold tax credit investments that represent such a significant amount of total admitted
assets. In addition, detailed balance sheet and income statement information for the
underlying investees does not seem to provide very relevant information about these
investments since the return on these investments is primarily through tax credits and not
related to the earnings of the underlying investees. Interested parties believe that this
disclosure requirement should be removed.

**Other Interested Party Comments**

Although the Discussion paper is focused on SSAP No. 93 and equity investments for which the
return is primarily through tax credits, we provide the following observations regarding SSAP
No. 94 as we understand that the Working Group may add another project to its agenda
regarding this standard:

1. We believe that one of the key differences between SSAP No. 93 and SSAP No. 94 is
that SSAP No. 93 relates to tax credit structures where the insurer is an actual investor
(i.e. equity owner) whereas SSAP No. 94 addresses certificated state tax credits that are
purchased outright without the insurer owning an equity or debt security. More clarity on
the difference between both standards is welcomed especially since we understand that
under the Inflation Reduction Act, there will be certificated federal tax credits available
for purchase as well.

2. We note that the accounting under SSAP No. 94 requires for the certificates purchased to
be reported as “other-than-invested” assets. Therefore, these certificates are not currently
reported on Schedule BA. They are reported in the “Aggregate Write-Ins for Other Than
Invested Assets” balance sheet line. We would like to make sure that the Working Group
is aware of this difference in reporting.

3. The accounting for the certificates laid out in SSAP No. 94 requires that the carrying
value of the tax credits be reduced as the credits are redeemed through a reduction of an
insurer’s tax payable. Therefore, the way of amortizing the asset is similar to the
proportional amortization method, except that under SSAP No. 94, the amortization and
the tax credits are only reflected in the balance sheet. Any gains on these deals, which
are usually related to the fact that they are purchased at a discount, are required to be
reported in other income per SSAP No. 94, not NII. Interested parties look forward to
further discussing the income statement presentation of these gains if changes are made
to SSAP No. 93 regarding income statement presentation to ensure consistency in
reporting.

Some of the feedback received from interested parties is that in practice, the offset to the
tax liability account usually occurs in the year when the credit is available for use
regardless of when the tax return is filed. Clarification may be needed on this point in the
standard.
Ref #2022-15: SSAP No. 25 – Affiliate Reporting Clarification

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to SSAP No. 25 to clarify that any invested asset held by a reporting entity which is issued by an affiliated entity, or which includes the obligations of an affiliated entity is an affiliated investment.

Interested parties have no comments on this item.

Ref #2022-16: ASU 2022-03, Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to SSAP No. 100R to adopt ASU 2022-03, Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions with modification to be consistent with statutory language in the respective statutory accounting statements, as illustrated above. Note that this agenda item does not recommend incorporating the new proposed GAAP disclosures on sales restrictions, but identifies those items restricted as to sale would be captured as restricted assets per SSAP No. 1 and subject to admittance considerations under SSAP No. 4.

Interested parties have no comments on this item.

Ref #2022-17: Interest Income Disclosure Update

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to SSAP No. 34, to add additional disclosures, and to data-capture the disclosures.

Interested parties propose that the exposed changes which are an outgrowth of the Bond project should share the same effective date. This will also allow companies to make the system changes needed to provide this information.

Interested parties also suggest the following editorial revisions to the disclosures contained in SSAP No. 34 for clarification and to be consistent with the proposed Blanks changes:

7. The following disclosures shall be made for investment income due and accrued in the financial statements. (SSAP No. 37 captures disclosures for mortgage loans on nonaccrual status pursuant to paragraph 6.)

   a. The bases by category of investment income for excluding (nonadmitting) any investment income due and accrued;

   b. Disclose total amount excluded;
c. Disclose the gross, nonadmitted and admitted amounts for interest income due and accrued.

d. Disclose aggregate deferred interest and cumulative amounts of paid-in-kind (PIK) interest included in the current principal balance.

e. Disclose cumulative amounts of paid-in-kind (PIK) interest included in the current principal balance.

Ref #2022-18: ASU 2022-04, Disclosure of Supplier Finance Program Obligations

The Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to SSAP No. 105R to reject ASU 2022-04 for statutory accounting as the disclosures are not relevant for insurance entity preparers.

Interested parties have no comment on this item.

Ref #2022-19: Negative IMR

The Working Group moved this agenda item to the active listing, categorized as a New SAP Concept and exposed the agenda item with a request for comments by industry on potential guardrails and details on unique considerations. The Working Group directed NAIC staff to coordinate with the Life Actuarial (A) Task Force and request regulator-only sessions with industry to receive specific company information.

ACLI will submit a separate comment letter on February 17, 2023.

* * *

Thank you for considering interested parties’ comments. If you have any questions in the interim, please do not hesitate to contact us.

Sincerely,

D. Keith Bell

Rose Albrizio

cc: NAIC staff
Interested parties
Appendix A – Examples of Debt Tax Credit Structures

These are some of the debt tax credit structures of which industry is aware:

i. Bonds Issued by CAPCOs - Although the peak of these investments was in 2003, there has been a resurgence in functionally equivalent forms of this structure starting in 2010. Connecticut, Mississippi, Pennsylvania, Utah and Ohio have recently issued these bonds and legislative vehicles for these bonds are growing increasingly popular to address rural economic development. The bond is usually issued at a premium ranging from 50-90%. A material portion of the return in these structures is earned through cash payments (generally ranging from 40-60%). CAPCO and CAPCO-like deals are different from other state tax credit deals for a few reasons: (1) these entities have more time to invest the capital they receive than other state or federal deals; (2) they may have a smaller acquisition premium; (3) there is no equity investment required. Tax credit bonds issued by CAPCOs are usually only transferrable to affiliates of the reporting entity.

ii. Other State Tax Credits issued in Bond Form – Any state can issue debt investments where the investor earns tax credits outside of the CAPCO structures. Some of these are referred to as New Market Tax Credits (NMTC), which are different from the federal NMTC program. These programs multiplied as states saw the positive impact of the federal program on low-income communities. Unlike federal credits, these credits may be specially allocated by a partnership. In these deals, an issuer creates a special purpose vehicle (SPV), which purchases equity investments in entities that make investments in distressed communities. The SPV then issues securities to investors composed of tax credit debt and a small equity component (typically 1%) to be admitted as a partner and receive an allocation of credits. The tax credit debt has a higher acquisition premium than CAPCO and CAPCO-like structures (typically 90%). Although most of the return is earned through state tax credits, these investments earn about 10% of their return in cash. The tax credits earned by the SPV are passed on to the investors based on the SPV’s partnership agreement. This structure may be used in other contexts where credits can be specially allocated (e.g. state historic tax credits, low-income housing tax credits and other economic development tax credit programs). In order to transfer the bond investment, a sale of the equity interest must take place simultaneously to the same investor.

iii. State or Municipal Tax Credit Bond Strips – These include bonds issued by state or municipalities for certain projects such as school construction (i.e. Build America bonds). The bonds are stripped into a principal amount and the tax credit amount. Investors in the tax credit strips only earn a return through the tax credits provided by the municipality or state. These strips are transferrable. There are no cash payments on the tax credit strips as the return is solely earned through tax credits.

iv. Federal NMTC programs – These are already addressed in the exposure. To summarize, an investor must purchase a pro rata share of the equity and the debt in these structures. Federal tax credits are earned as long as the investor is an equity investor as well. In order to transfer the bond investment, a sale of the equity interest must take place simultaneously to the same investor. The return on these investments is earned solely through tax credits. The investor
receives cash for the principal on the bond, which is usually less than 10\% of the original investment since these investments are issued at a significant premium.
February 10, 2023

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

RE: Interested Parties Comments on the SSAP No. 26R, SSAP No. 43R, and Other SSAP exposures related to the Principle-Based Bond Definition Project

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the above-mentioned documents that were exposed for comment by the Statutory Accounting Principles Working Group (Working Group) on November 16, 2022.

Interested parties also appreciate the collaborative effort on this project, the receptivity to our comments in our previous letter(s), and the disciplined thought that has gone into this project. We continue to believe this effort is headed in the right direction and look forward to continued collaboration on what undoubtedly is a complex and wide-ranging project.

In that spirit, interested parties would like to provide the following comments.

Paragraph 6d of SSAP No. 26

Paragraph 6d is arguably one of the more complex concepts within the principle-based bond definition. This paragraph attempts to define non-debt variables that are or could be embedded within a financial instrument, that call into question the overall instrument’s debt or bond like characteristics, while not also capturing embedded derivatives commonly found within debt instruments that do not call into question their overall debt or bond like characteristics. Interested parties believe this paragraph generally captures regulator concerns, while appropriately recognizing instances where such embedded derivatives are or should not be of concern. The following focuses on two instances where interested parties believe regulators did not intend to capture (and should not want to capture) embedded derivatives within financial instruments that
could be considered non-debt variables, and thus where the overall financial debt instruments would not be considered bonds for reporting on schedule D.

**Credit Rating-Related Interest Rate Adjustments**

Paragraph 6d, includes an exclusion that prevents certain embedded derivatives from “tainting” the host financial instrument and thereby preventing it from being reported as a bond where the embedded derivative does not call into question its bond-like characteristics. This exclusion includes “credit-rating related interest rate adjustments” where a bond coupon rate could be adjusted upward if the entity issuing the debt is down-graded by a rating agency. Such adjustments align the interests of debtholders and issuing entities by incentivizing the issuing entity to keep its financial house in order and compensating the debtholder if it does not.

Interested parties agree with this exclusion but suggest it be modified from “credit-rating related” to “credit-quality related” to encompass the broader range of such adjustments that align interests of debtholders and issuing entities (e.g., debt to EBITDA ratio, interest coverage ratio, debt service coverage ratio, etc.). Such bonds are very prevalent in insurer portfolios.

**Sustainability-Linked Bonds (SLBs) With De Minimis Interest Rate Adjustments**

Interested parties believe paragraph 6d also would inappropriately capture certain bonds with an interest coupon rate linked to sustainability goals. For example, the debt may have coupon interest equal to either a fixed or floating rate (e.g., SOFR) that is adjusted based on one or more sustainability goals or variables (e.g., the company’s CO2 emissions or workplace injury record). That is, the company’s performance against the metrics, in this example, could cause the interest rate to either decrease or increase 5 basis points for a total range off the potential base interest rate of 10 basis points. Both the CO2 emissions and workplace injury record are metrics of the borrower’s operation of physical assets owned by the company.

Interested parties understand that the NAIC wants to focus on solvency when developing standards, and not necessarily make special accommodation for social causes at solvency’s expense. Though insurers are increasingly focused on environmental, social, and governance attributes of investments they make, risk/reward remains an overriding consideration. In the case of SLBs, the contingent coupon adjustments generally do not factor into the insurer’s risk/reward calculations as they are uniformly de minimis. Interested parties do not believe SLBs, which are somewhat prevalent, warrant non-schedule D reporting and potentially punitive risk-based capital treatment.

Interested parties therefore suggest either a special exclusion for these type of debt instruments such as “SLB-linked bonds with de minimis interest rate adjustments” or “SLB-linked bonds with interest rate adjustments with the potential to adjust the total return from interest by no more than 10%”. Quite possibly, it may be more appropriate for such a “de minimis” exclusion to be applied to other non-debt variables more broadly so there is not an abrupt cliff effect for non-schedule D reporting due to the potentially punitive risk-based capital treatment, for de minimis non-debt variables in general.
Interested parties look forward to working with regulators and NAIC staff on this issue to appropriately thread the needle between preventing concerns of regulators while also not capturing de minimis types of adjustments that are potentially both prevalent and not the primary concern of regulators.

**Paragraph 22 of SSAP No. 21 and Other Debt Securities That do not Qualify as Bonds**

SSAP No. 21 has proposed changes for Debt Securities That Do Not Qualify as Bonds and is meant to capture any security which does not qualify as either an issuer credit obligation (ICO) or asset back security (ABS) and addresses the accounting and reporting for such securities. Such securities in scope would be limited to:

- a. Debt securities for which the investment does not reflect a creditor relationship in substance,
- b. Debt securities that do not qualify for bond reporting due to a lack of substantive credit enhancement, or
- c. Debt securities that do not qualify for bond reporting due solely to a lack of meaningful cash flows.

These categories reflect instances where a debt instrument does not meet the principle-based bond definition as laid out in SSAP No. 26R. However, there may be further instances where a security does not meet the definition of a bond such as with paragraphs 5 and 7 of SSAP No. 26R (e.g., not meeting the definition of a security or not meeting the primary source of repayment requirements, respectively, etc.). Further, condition a. above is a potentially broad category inclusive of non-qualifying equity backed securities all the way toward financial instruments with embedded derivatives that are potentially de minimis. Interested parties would like to think this through with Staff if further refinement is necessary especially if the intent of these categories is to feed risk-based capital factors where additional refinement may be necessary.

Securities solely not meeting condition c. shall use the same accounting and measurement basis described in SSAP 43R – Asset-Backed Securities, including using a carrying value method determined by NAIC designation. Reporting entities that are reporting an amortized cost measurement shall obtain an NAIC designation in accordance with the parameters of the Purposes and Procedures Manual of the NAIC Investment Analysis Office and report the designation on Schedule BA. It is unclear if the NAIC designation required for accounting purposes would also be used for risk-based capital. Interested parties would like to think this through with Staff to understand the intent. For example, if the NAIC designation is not used for risk-based capital purposes, is it appropriate to require an NAIC designation for purely accounting purposes?

All other debt securities that do not meet conditions a. and b. shall be reported at acquisition cost, including brokerage and other related fees on Schedule BA. These securities are permitted as admitted assets, with subsequent measurement at the lower of amortized cost or fair value. Changes in measurement to reflect the lower value or to reflect changes in fair value shall be recorded as unrealized gains or losses.
Paragraph 22 includes the following:

*Debt securities in scope for which the source of repayment is derived through rights to underlying collateral, qualify as admitted assets only to the extent they are secured by admitted invested assets. Any amounts in excess of the fair value of the underlying admitted invested assets shall be nonadmitted.*

Interested parties believe we understand the rationale for why this was drafted. That is, if an ABS security does not meet either the substantive credit enhancement or meaningful cash flows criteria, the security in question is potentially very similar to a collateral loan. Nonetheless, this is a meaningful penalty (i.e., from bond treatment to non-admission) and interested parties would like a little more time to think through and discuss with Staff. This paragraph ultimately only came into our focus late in our review and we would like the opportunity to further think through the appropriateness of the abrupt cliff effect. For example, it is even conceivable, that a securitization would have the residual tranche be reported as an admitted asset while a more senior tranche would be a non-admitted asset.

Paragraph 10 (b) of SSAP No. 26R

Interested Parties noted that there is an inconsistency with the treatment of residual tranches between SSAP No. 43R and SSAP No. 26. SSAP No. 26 refers the reader to SSAP No. 21 to determine the accounting for residual tranches whereas SSAP No. 43R states that residuals are to be reported on Schedule BA as other invested assets at the lower of cost or market (SSAP No. 43R, paragraph 11.c). Since the revised SSAP No. 21 guidance only addresses debt securities (and does not address residual tranches) and we understand that the Working Group does not view residual tranches as debt instruments, we have the following proposed wording changes to SSAP No. 26 to address this inconsistency:

The first loss position may be issued as part of a securitization in the form of a debt or equity interest, or it may be retained by the sponsor and not issued as part of the securitization. If the first loss position (or a more senior position(s), if the first loss position(s) lacks contractual payments along with a substantive credit enhancement) is issued as part of the securitization, and does not have contractual principal and interest payments along with substantive credit enhancement and is held by a reporting entity, the investment(s) does not qualify for reporting as a bond and should be reported on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value consistent with the accounting treatment for residuals as a non-bond security pursuant to SSAP No. 21R—Other Admitted Assets.

Paragraphs 43 – 46 of SSAP No. 26R

Paragraphs 43 - 46 of SSAP No 26R are related to effective date and transition. Interested parties believe the transition guidance is appropriate under the circumstances but propose some minor editorial adjustments which we believe provide more granular meaning to what we believe was
the intent. These proposed adjustments related to the second and third sentences of paragraph 44 as follows:

*The bond definition requires assessments at the time of Acquisition (as of the origination date), and it is recognized that reporting entities may not have the means to complete historical assessments for securities held at the time of transition. For these instances, if information is not readily available for reporting entities to assess a security as of the date at acquisition origination, reporting entities may utilize current or acquisition information in concluding that a security qualifies for reporting as a bond as either an issuer obligation or asset-backed security.*

Interested parties believe the transition guidance should also indicate that the disclosures should reflect that the revised bond categories from the annual statement prospectively beginning with the first year of adoption and not result in a restatement of the prior year’s reporting.

**Further Clarification on RSATs**

Replication Synthetic Assets (RSATs) are nuanced types of transactions, which must be approved by the Securities Valuation Office (SVO). Interested parties propose the following edits to ensure that RSATs, which have been historically allowed, continue to meet the replication accounting requirements regardless of changes to the definition of a Schedule D Bond. Besides the edits proposed below, as a result of the accounting convention for certain bonds being other than amortized cost, interested parties would like to work with Staff on the specific paragraphs of SSAP No. 86 that currently address the accounting for replication transactions as changes may be needed to coincide with the effective date of the principles-based bond definition.

Provide a Footnote after the first sentence of the structured note definition in paragraph 6di of SSAP No. 26R to clarify that one needs to also look to SSAP No. 86:

*A replication (synthetic asset) transaction addressed in SSAP No. 86-Derivatives may reproduce the investment characteristics of an otherwise permissible investment that would not meet the principles-based bond definition (e.g., is distinct from a “structured note” as defined here); the admissibility, classification and measurement of a replication (synthetic asset) transaction are not preemptively determined by the principles-based bond definition, and should be evaluated in accordance with the guidance on replication (synthetic asset) transactions within SSAP No. 86- Derivatives.*

Propose further clarification in SSAP No. 86 by adding the following to the end of Footnote 5 within the exposure:

*A replication (synthetic asset) transaction addressed within this standard may reproduce the investment characteristics of an otherwise permissible investment that would not meet the principles-based bond definition (e.g., is distinct from a “structured note” as defined here); the admissibility, classification and measurement of a replication (synthetic asset) transaction are not preemptively determined by the principles-based bond definition, and*
should be evaluated in accordance with the guidance on replication (synthetic asset) transactions within this standard.

SSAP No. 43R – Example 2

Interested parties appreciate the proposed changes to Example 2 within SSAP No. 26R as they provide an example where recourse to assets can be outside of a securitization. This is a good clarification and makes the examples in aggregate more broadly instructive. Interested parties have two suggested changes, which we believe are editorial in nature that provide a nuanced technical clarification and a more formal conclusion within the example rationale.

Example 2: A reporting entity invested in a debt instrument issued by a SPV. Payments under the instrument are secured by a note, a legal assignment from the borrower of a lease for real property and an assignment of the lease payments from an operating entity tenant. Additional security is provided by a mortgage on the leased property (the “underlying collateral”). The leased property is owned by the borrower under the note -- the SPV does not have any ownership interest in the underlying collateral, though it has legal recourse to it through the mortgage. The tenant makes contractually-fixed payments over the life of the lease to the borrower, who has assigned both the lease and the lease payments to the SPV as security for the debt. While the debt is outstanding, the lease, the lease payments, and the mortgage all serve as security for the debtholders. Should a default occur, the debtholders can foreclose on and liquidate the real property as well as submit an unsecured lease claim in the lessee’s bankruptcy for any all or a portion of the defaulted lease payments. The loan-to-value (as a percentage of property value) at origination is 100%.

Example 2 Rationale: The reporting entity determined that the debtholder was in a fundamentally different position than if the real estate was owned directly. The lease is a cash generating non-financial asset which is expected to generate a meaningful level of cash flows for the repayment of the bonds which covers all interest payments and 50% of the principal payments. The level of reliance on the collateral value for sale or refinancing is just over the cutoff for using the practical expedient (<50%), so a full analysis is required. In reaching its determination, the reporting entity considered the predictable nature of the cash flows, which are contractually fixed for the life of the debt instrument, as well as the ability of the underlying collateral value to provide for the balloon payment through sale or refinancing in light of its characteristics. While the real property may have some market value volatility and periods of lower liquidity at points in time, the cash flows produced by the lease were concluded to reduce the loan balance to a level (50% loan-to-value) that would be able to be recovered by sale or refinancing at the maturity of the loan.

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Interested parties continue to support the development of high-quality bond standards and believe they are headed in the right direction. Staff has tackled this project with appropriate rigor and their
collaboration with us has been greatly appreciated. We stand ready to continue to assist as this project gets nearer the finish line.

Sincerely,

D. Keith Bell

Rose Albrizio

cc: Interested parties
    NAIC staff
Mike Monahan  
Senior Director, Accounting Policy  
202-624-2324 t  
mikemonahan@acli.com

February 17, 2023

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

Dear Mr. Bruggeman:

Re: Exposure Ref #2022-19: SSAP No. 7 - IMR

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide comments on the above referenced exposure as well as the thoughtful and timely attention this important topic is receiving from SAPWG and LATF.

The ACLI stands ready to continue working with the NAIC to create sufficient, yet practical, safeguards to ensure that the most appropriate treatment of Interest Maintenance Reserve (IMR) can be applied, and a company’s surplus and financial strength are properly reflected, while not disincentivizing prudent investment and risk management in the best interest of all.

A rising interest rate environment from historically low rates is generally favorable to the financial health of the life insurance industry. However, ACLI is concerned that without a change to the current treatment of negative IMR, the environment will give the inappropriate perception of decreased financial strength through lower surplus and risk-based capital ratios. This problem will only be exacerbated if interest rates remain at or near their current levels or increase further; therefore, it is imperative that we work together toward developing an industry-wide solution for implementation by year-end 2023.

Upon the sale of and subsequent reinvestment in a fixed income instrument, the reflection in surplus of either a gain or loss is not reflective of the true economics, as there is no change to solvency, liquidity, or claims paying ability because the difference between the reported amortized cost value and fair value is equal to the IMR. This letter addresses our assessment of the suitability of the five potential guardrails proposed at the SAPWG fall national meeting and raises two additional proposals for consideration.
Background

While this letter will focus on potential additional safeguards, as suggested at the SAPWG fall national meeting, this is a complex topic and we want to summarize, review, and expand on relevant background information largely included in our previous letter dated October 31, 2022.

The NAIC’s statutory accounting framework is largely an “amortized cost framework” in that fixed income investments are generally reported at amortized cost and long-term insurance liabilities are generally reported with locked and conservative assumptions.

We strongly support the NAIC framework, as it facilitates the issuance of long-term insurance products in the US market by not overly focusing on current market fluctuations. This is unlike many market valuation regimes where over-reliance or misapplication of current market conditions often distorts the financial solvency of insurance companies and can lead and has led to the decrease or elimination of such long-term product issuances in those regimes.

However, an amortized cost framework could also potentially distort the financial solvency of insurance companies through the misrepresentation of surplus. The IMR was developed as a safeguard to ensure surplus is properly reflected within the NAIC’s framework.

Specifically, in a declining interest rate environment, an insurance company could sell its fixed income investment portfolio, recognize gains, increase surplus and show increased financial strength. This increase in surplus would largely be illusory as the increased surplus would be offset by a lower yielding investment portfolio.

IMR requires deferrals of those gains from surplus, and the gains are amortized through income over the remaining life of the bonds sold to:

- Ensure accurate representation of a company’s reported surplus by eliminating the potential for overstatement of surplus, and
- Keep the relationship of anticipated investment yield consistent with that needed to support the liabilities.

But without IMR, a rising interest rate environment could result in similarly misleading surplus (in this case an illusory lack of surplus) because a company would be investing in higher yielding bonds.

When IMR was developed, it was anticipated that the IMR would work consistently for both net realized gains and losses; however, the allowance of a net negative IMR was not initially adopted upon implementation in 1992. It was expected that the issue would be addressed in subsequent years and remained on the SAPWG agenda at least until 2005 but was never addressed in any substantive way. This was largely because of a lack of urgency due to the decades-long declining interest rate environment where IMR was largely positive for life insurance companies.

This issue had been referred to SAPWG from the AVR/IMR working group which believed the basic rationale for the IMR would conclude that neither a maximum nor minimum is appropriate. It was fully
expected that the IMR, whether negative or positive, would be included in asset adequacy testing and addressed by the actuarial opinion.

We are very appreciative that SAPWG and LATF are looking to substantively revisit the negative IMR issue as anticipated during its original development. The current interest rate environment has changed circumstances in a meaningful way. While rising interest rates from historically low levels are beneficial to insurance companies, the recent rapid rise of interest rates has increased the urgency to address the negative IMR issue to avoid the misrepresentation of capital positions of insurance companies.

The current interest rate environment or a further rise in interest rates would only exacerbate the urgency as losses from bond sales could result in a significantly inappropriate portrayal of surplus that would be inconsistent with the rationale for which IMR was initially developed. In this case, insurers would show a significant illusory lack of surplus because they would be investing in higher yielding bonds.

IMR is an important construct that effectively adjusts liabilities so that the balance sheet liabilities net of IMR remain on the same basis as the reported balance sheet assets, limiting artificial volatility within surplus. As discussed above, negative IMR, from an asset-liability perspective, represents either high future income from reinvestments or future reserve releases that will be available to pay claims from an asset liability perspective.

Although the status quo use of permitted practices may grant relief for specific companies, it may lead to an unlevel playing field. Consequently, the ACLI wants to emphasize the importance of developing a uniform national standard for consistently ensuring the appropriate theoretical and practical treatment of IMR (e.g., symmetrical treatment of both gains and losses).

The ACLI would like to work with the NAIC to fulfill the original intent of IMR that ensures surplus and financial strength are properly reflected and do not disincentivize prudent investment and risk management. At the same time, we want to work with regulators to ensure IMR cannot somehow be circumvented in a rising interest rate environment, whether intentionally or inadvertently, to misrepresent financial strength.

**Common Interest to not Disincentivize Prudent Behavior**

We want to reiterate the importance of not disincentivizing prudent portfolio and asset liability management.

In addition to prudent portfolio management and managing credit/investment risk exposure, insurance companies manage duration. These prudent risk management processes all require on-going transactions that impact the IMR, such as whether it is sales and reinvestment in fixed income investments, which we discussed in our previous letter dated October 31, 2022, or use of derivatives to achieve the same appropriate end. We would note that bond sales may trigger derivative terminations that offset in IMR; however, derivatives settlements can impact IMR without an offset impact from a bond sale.

Hedging strategies are used to address product risks like contract guarantees, disintermediation, and reinvestment risks as part of prudent risk management practices utilized by life insurance companies.
These hedging strategies may involve interest rate swaps, caps, floors, swaptions, interest rate futures, among others, that also may generate IMR gains and losses.

For example, negative IMR can be generated by hedging strategies utilized for pension risk transfers. Once the contract is executed, insurers will enter hedging contracts to ensure interest rate certainty while awaiting cash and assets in-kind and/or the right investment opportunities to meet the long-term goals for the accounts. As the hedges are unwound to meet pricing and investment targets, immediate losses and negative IMR may be generated as interest rates rise, but the losses are ultimately offset over time with higher fixed instrument yields.

Further, many life insurance and annuity products have significant long term reinvestment risk, where premiums are received for many decades before benefit payments may be made. Companies may use interest rate futures, swaps, or bond forwards, to reduce reinvestment risk by locking in interest rates at which the future premiums will be invested. When interest rates rise, these hedging transactions may settle, roll-over, or be terminated, leading to expected IMR losses but are ultimately offset by future higher reinvestment yields. Without these hedging transactions, returns might not be equivalent to policyowner obligations, exposing the company to significant interest rate risk.

Similarly, life insurance companies may utilize stochastic asset liability modeling to establish asset duration targets that may include setting different asset duration targets by product if appropriate, through an asset segmentation plan. This considers scenarios where interest rates increase rapidly (where there is potential for disintermediation risk) and very low interest rates (considering product guarantees). Such analysis is refreshed on a regular basis to update the duration target based both on the liability in force characteristics and the economic environment. Portfolio asset duration is managed to the target on an ongoing basis and requires asset sales /purchases or use of derivatives that affect IMR. These are but several distinct examples of the types of prudent risk management practices utilized by life insurance companies.

A rising interest rate environment is generally favorable to the financial health of the life insurance industry. Without a change to the treatment of negative IMR, a rising interest rate environment will give the inappropriate perception of decreased financial strength through lower surplus and risk-based capital ratios, which is both counterintuitive and not reflective of the economics. It may create undesirable incentives for companies to deviate from prudent investment/risk management to avoid creating negative IMR.

It essentially creates two equally objectionable alternatives for insurers and their policyowners.

- Applying the current statutory guidance will improperly reflect financial strength through understating surplus,
- Insurers could take steps to manage their current capital position by limiting trading of fixed income investments and/or usage of derivatives, which would diminish significant economic value or worse, create a mismatch between assets and liabilities and prevent the ability to fulfil long-term contract obligations. Insurers may avoid hedging or trading to ensure future reinvestment risks are mitigated, by being incentivized to overly focus on managing misrepresented short-term...
financial position by effectively keeping asset duration shorter than their liabilities and taking on interest rate risk.

We do not believe this is in the best interest of insurance companies or their policyowners and believe it is a common interest we share with regulators. Consequently, developing a national standard for allowing negative IMR with appropriate safeguards should be a common goal for all.

Existing Safeguards

As noted above, IMR itself is a safeguard for the NAIC’s amortized cost framework that accomplishes two main objectives:

- Addresses the risk of misrepresentation of surplus, and
- Keeps the relationship of anticipated investment yield consistent with that needed to support the liabilities.

Excess Withdrawal Safeguard

An Excess Withdrawal safeguard is already embedded in the IMR framework for the situations in which asset sales are “forced”, either due to reputational or disintermediation events, and the liability that the assets supported no longer exists. At such a point, deferring gains and losses to IMR ceases.

While we believe this safeguard was primarily developed to address troubled companies or potential disintermediation in a rising interest rate environment, we understand regulators may want to re-assess the safeguard’s robustness. The ACLI supports such a re-assessment and looks forward to working with the NAIC.

Asset Adequacy Testing (AAT)

AAT is an additional safeguard that helps protect against further unintended consequences when IMR goes negative. Reflecting all admitted negative IMR in AAT would replace assets that generate investment income in AAT, where the starting point is statutory assets are equal to statutory liabilities. Unless the remaining assets can earn a sufficient yield due to reinvestment, there will be negative impacts to the results, which could lead to additional asset adequacy reserves and hence a reduction in statutory surplus. AAT provides a framework to ensure that there are sufficient margins to support claims alongside a negative IMR asset that eventually amortizes to zero, hence ensuring adequate reserves and proper representation of surplus. A simplified example of how AAT works with negative IMR in different reinvestment scenarios is included in Appendix I of this letter.

While we believe that AAT provides a robust safeguard that prevents a misuse of allowable negative IMR, we understand the NAIC wants to contemplate additional safeguards, as AAT may not be applied uniformly across states and practitioners and is only shared with regulators annually.

Additional Potential Safeguards

At the SAPWG fall national meeting the following five potential safeguards were discussed:
1) Ensure there is reinvestment in fixed income securities (see below),
2) Enhancement to asset adequacy testing (see below),
3) Shorten the amortization period for negative IMR (see Appendix II),
4) Limit negative IMR as a percentage of surplus, assets, etc. (see Appendix II), or
5) Restrict surplus via the special surplus funds (see Appendix II).

ACLI proposes two additional possibilities:

1) Limit based on the risk-based capital framework (see below), or
2) Create an “Opt-in Framework” with structured governance (see below).

The remainder of this letter outlines a broad framework of the aforementioned additional safeguards that we believe are responsive to regulators’ specific concerns. Redundant or more arbitrary potential safeguards are further discussed in Appendix II attached to this letter.

Ensure there is reinvestment in fixed income securities

IMR theory assumes sales of fixed income investments are reinvested in new fixed income investments. When doing so, the reinvestment is done in the current interest rate environment, and the difference in earnings arising from the reinvestment is roughly equal in magnitude, but opposite in direction, to the gain or loss realized on the old investment.

In a rising interest rate environment, a sale essentially transforms the loss to negative IMR. There is essentially no difference in balance sheet economics pre- and post-trade, related to liquidity or claims paying ability, as the difference between the reported amortized cost value, and fair value, upon sale, is equal to the negative IMR.

While AAT would arguably address any deficit in reinvestment as illustrated in our example in Appendix I, ACLI is open to supporting additional demonstrations of reinvestment in fixed income investment. This could be done, for example, by generally requiring the sum of the proceeds from the sale and maturity of bonds (line 12.1) and mortgage loans (line 12.3) are less than the sum of the cost of bonds acquired bonds (line 13.1) and mortgage loans (line 13.3) from the cash flow statement ultimately submitted to regulators in the annual statement.

Such a requirement would provide the following benefits:

1) It is objective, easily verifiable, and ultimately rolls up into the audited financial statements,
2) It eliminates the issue surrounding the “fungibility of cash” – that is “proving” reinvestment of each sale, which would be difficult and potentially inappropriate, if on a macro basis there was a major shift to equities for example, and
3) It demonstrates on a macro basis significant reinvestment is occurring.
We note that even if there were a significant shift to equities, in theory, this should be captured by AAT with equity investments being appropriately stressed, but it would also significantly reduce risk-based capital ratios which would provide significant dis-incentivization for this to occur.

Lastly, such a metric could be coupled with the “Opt-in Approach” proposed below, that would provide additional structure by requiring documentation and controls on prudent strategies for investment management, asset liability management or hedging deemed appropriate and against which future transactions could subsequently be verified as appropriate by the company’s domiciliary regulator.

**Enhancement to Asset Adequacy Testing**

We propose that negative IMR should only be allowed if it is included in AAT. This would replace assets that generate investment income in AAT when starting with statutory assets equal to statutory liabilities. Unless the remaining assets can earn a higher yield through reinvestment at higher rates, there will be negative impacts to the results, which could lead to additional asset adequacy reserves and a reduction in statutory surplus.

Fixed income investments that sit in surplus or non-product portfolios could be sold generating IMR. Therefore, we recommend the allowance of negative IMR only if it is included in AAT. This would further prevent any potential balance sheet manipulation, whether intentional or unintentional, through shifting assets with losses to non-insurance portfolios and admitting losses on assets that are not offset by matched liabilities.

This concept could also be coupled with the “Opt-in Approach” proposed below.

**Limit based on the risk-based capital framework**

One potential safeguard that was not mentioned by SAPWG at the fall national meeting is to allow negative IMR only if a company’s risk-based capital threshold showed that they were financially strong. This would have the following benefits:

1) Address regulator concerns on allowing negative IMR if a company was or was nearing being financially troubled,
2) Would not be arbitrary and would be based on an objective and verifiable threshold that would be available to regulators, potentially quarterly, and provide early warning to any concerns they may have in this regard, and
3) Would essentially achieve the same ends as shortening the amortization period, restricting capital, or creating an arbitrary limit.

We are willing to work with the NAIC to think through an appropriate threshold as well as what would occur if that threshold was subsequently crossed so there would not be inappropriate cliff effects.

This concept could also be coupled with the “Opt-in Approach” proposed below.
Create an “Opt-in Framework” with Structured Governance

An “Opt-in Framework”, similar to the framework included within SSAP No. 108 – Derivative Hedging Variable Annuity Guarantees (SSAP No. 108), could be developed.

SSAP No. 108 recognizes the prudency of hedging guarantees embedded within variable annuity contracts while also recognizing the non-economic volatility created (and therefore inappropriate under/overstatement of surplus). It also recognized that this volatility was created because derivatives used in a dynamic hedging approach were required to be reported at fair market value, as they would not meet the strict hedge accounting requirements, while the liabilities did not require marking to market of the hedged guarantees.

To not disincentivize this prudent dynamic hedging, SSAP No. 108 requires additional structure and governance to avoid misrepresentation. The allowance of negative IMR has similar parallels.

Key provisions of SSAP No. 108 that could be considered for a framework for negative IMR allowability include:

- Explicit approval of a company’s domiciliary regulator prior to implementation,
- A clearly defined portfolio and asset liability management strategy (with documentation; analogous to SSAP No. 108 but tailored more appropriately for portfolio and asset liability management strategies),
- Actuarial certification of the asset liability management strategy, and
- Certification by a financial officer of the company (CFO, treasurer, CIO, or designated person with authority over the actual portfolio and asset liability management strategies).

This framework provides sufficient tools that allow for timely and appropriate regulatory review; additional tools could be specifically tailored for IMR.

In the context of a negative IMR, the approach could be tailored to incorporate documentation and controls of prudent strategies for investment management, asset liability management, and hedging strategies deemed appropriate and against which future transactions could subsequently be verified as necessary by the company’s domiciliary regulator.

Achieving the “opt-in” in the context of negative IMR could require satisfying these documentation requirements, in addition to incorporating and complying with a combination of one or more of the other potential safeguards mentioned above. This package of requirements and safeguards would constitute a national standard for allowing negative IMR that can be consistently applied across all companies.

*****

In the current interest rate environment, and with additional interest rate increases potentially on the horizon, the disallowance of negative IMR has become a serious and pressing issue for industry as we seek to execute prudent portfolio and risk management strategies that align with our economic realities. The ACLI looks forward to working with the NAIC to expedite a reasonable, permanent solution that fulfills the original intent of IMR and work on the appropriate additional safeguards that may be needed.
for year-end 2023 implementation. Lastly, ACLI recalls a specific question raised by regulators at the NAIC’s fall national meeting. We would like to understand this question and/or concern more fully and discuss with regulators or NAIC staff.

If you have any questions regarding this letter, please do not hesitate to contact us.

Sincerely,

[Signature]
Mike Monahan
Senior Director, Accounting Policy

[Signature]
Paul Graham
Senior Vice President, Policy and Legal
Appendix I

Simplified Example – How AAT Works With Negative IMR in Different Reinvestment Scenarios

This example illustrates the effectiveness of the AAT safeguard in ensuring company solvency even with an admitted negative IMR. In particular, the Appendix also illustrates how AAT bolsters the reinvestment guardrail.

Assumptions:
• A 10-year zero-coupon bond with a par value of $1,000 and interest rate of 3%.
• A 10-year endowment liability with a rate of 3% maturing for $1,344.
• The corresponding formulaic reserves at “time zero” would be $1,000 assuming a valuation rate of 3%.
• The assets and liabilities are cashflow matched and no AAT deficiencies are assumed. Investment income of $344 earned over ten years is sufficient to cover the increase in liability in the same period.

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<td><strong>Income</strong></td>
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<td><strong>Net Income (Loss)</strong></td>
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</table>
Rate Increase Scenario (with reinvestment opportunity)

If interest rates immediately rise to 4%, the insurer could sell the bond and reinvest (assume no policy surrenders):

- Formulaic reserves remain unchanged at $1,000 due to the valuation rate being locked in at 3% and no surrenders.
- The original bonds would be sold at a capital loss of $92 and would be reinvested in a higher yielding asset (earning 4%).
- The capital loss of $92 would be transferred into a negative IMR and amortized over ten years (remaining life).

In this scenario, even though the newly purchased bonds are recorded at $908, appearing lower than before the sale, the higher investment income of $436 is sufficient to cover the increase in liability and IMR amortization over ten years. No asset adequacy reserves would need to be established as part of the asset adequacy analysis\(^1\).

<table>
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<tr>
<th>Balance Sheet</th>
<th>12/31/22 Before Asset Sale</th>
<th>12/31/22 After Asset Sale</th>
<th>12/31/32</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td>1,000</td>
<td>908</td>
<td>1,344</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>1,000</td>
<td>908</td>
<td>1,344</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy Reserves</td>
<td>1,000</td>
<td>1,000</td>
<td>1,344</td>
</tr>
<tr>
<td>IMR Liability</td>
<td>0</td>
<td>(92)</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>1,000</td>
<td>908</td>
<td>1,344</td>
</tr>
</tbody>
</table>

\(^1\) Asset adequacy testing requires that assets included in testing be no greater than the reserves and liabilities being tested. Even if there were other assets in addition to the $908 bonds, a robust AAT safeguard would require that admitted negative IMR be reflected in AAT, effectively constraining the income generating assets that can used in AAT to support liabilities when testing for deficiencies. AAT pressures to set up asset adequacy reserves will increase unless reinvestment into higher yielding assets occurs.
### Income Statement

<table>
<thead>
<tr>
<th></th>
<th>12/31/22 – 12/31/32</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
</tr>
<tr>
<td>Net Investment Income before IMR</td>
<td>436</td>
</tr>
<tr>
<td>IMR Amortization</td>
<td>(92)</td>
</tr>
<tr>
<td><strong>Benefits and Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Benefits</td>
<td>0</td>
</tr>
<tr>
<td>Addition to Reserves</td>
<td>344</td>
</tr>
<tr>
<td><strong>Net Income (loss)</strong></td>
<td>0</td>
</tr>
</tbody>
</table>
Rate Increases, and Surrenders Scenario (No reinvestment opportunity)

Assume rates immediately rise to 4% and 50% of liabilities are immediately surrendered:

- 50% of the liability surrenders, with a surrender value of $500.
- Bonds are sold to fund withdrawals. Due to the rate increase, the book value of bonds sold ($551) is higher than their market value of ($500), resulting in a capital loss of $51.
- As withdrawal activity is not deemed to be excessive, the capital loss of $51 is transferred into negative IMR which is amortized over ten years.
- The remaining $449 of bonds would continue to earn their original interest rate of 3%.

In this scenario, the total assets included in asset adequacy analysis are $449 of original bonds (yielding 3%) and negative IMR at $51. However, these would be insufficient to cover the total remaining liability requirement of $672 after 10 years. Therefore, an AAT reserve of $51 would be established to cover this inadequacy, resulting in a P&L impact and ultimately a reduction to statutory surplus. Inclusion of the negative IMR in AAT accurately portrays the company’s surplus and results in additional reserves of $51. The additional assets (assumed to also earn 3% like the original bonds) backing the AAT reserves combined with the $449 of original bonds are now sufficient to cover the remaining liability requirement of $672 after 10 years.

<table>
<thead>
<tr>
<th>Balance Sheet</th>
<th>12/31/22</th>
<th>12/31/22</th>
<th>12/31/22</th>
<th>12/31/32</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before Asset Sale and Surrender</td>
<td>After Asset Sale and Surrender, but before AAT</td>
<td>After Asset Sale, Surrender, and AAT</td>
<td>12/31/32</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td>1,000</td>
<td>449</td>
<td>449</td>
<td>672</td>
</tr>
<tr>
<td>Extra Assets for AAT</td>
<td>0</td>
<td>0</td>
<td>51³</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>1,000</td>
<td>449</td>
<td>500</td>
<td>672</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy Reserves</td>
<td>1,000</td>
<td>500</td>
<td>500</td>
<td>672</td>
</tr>
<tr>
<td>AAT Reserves</td>
<td>0</td>
<td>0</td>
<td>51</td>
<td>0</td>
</tr>
<tr>
<td>IMR Liability</td>
<td>0</td>
<td>(51)</td>
<td>(51)</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>1,000</td>
<td>449</td>
<td>500</td>
<td>672</td>
</tr>
</tbody>
</table>

² Assumes that a 50% surrender does not constitute Excess Withdrawal Activity as defined in the Life, Accident & Health/Fraternal Annual Statement Instructions. If it did constitute Excess Withdrawal Activity, deferring losses to IMR would cease and result in an instant hit to statutory surplus.

³ Extra assets of $51 would be a reduction to surplus in the year of testing when the additional AAT reserves are recorded.
<table>
<thead>
<tr>
<th>Income Statement</th>
<th>12/31/22 – 12/31/32</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
</tr>
<tr>
<td>Net Investment Income before IMR</td>
<td>172</td>
</tr>
<tr>
<td>IMR Amortization</td>
<td>(51)</td>
</tr>
<tr>
<td><strong>Benefits and Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Benefits</td>
<td>0</td>
</tr>
<tr>
<td>Addition to Reserves</td>
<td>121</td>
</tr>
<tr>
<td>Addition to AAT Reserves on 12/31/22</td>
<td>51</td>
</tr>
<tr>
<td><strong>Net Income (loss)</strong></td>
<td>(51)</td>
</tr>
</tbody>
</table>
Other Potential Safeguards

Shorten Amortization Period

As negative IMR is included in AAT, shortening the amortization period arguably would not be needed but also contradicts the theory of IMR. We believe that shortening the amortization period asymmetrically would obviate one of the objectives of IMR – to keep the relationship of anticipated investment yield consistent with that needed to support the liabilities. Further it would introduce a host of practical challenges.

Examples of practical challenges from shortening the amortization period include:

- Shorten the amortization period only when net negative balances occur?
- If so, in what discrete period?
- For the year?
- What happens when the balance switches from negative to positive (or vice versa) during the year and amortization had already been shortened at the start of the year?

We also wanted to address a further potential concern that has been raised and is best illustrated in the following example:

- There is a $1 billion IMR gain with a 20-year amortization period
- Subsequently it is offset to zero by a $1 billion loss with a 1-year amortization period.
- Does this accelerate the gain recognition which was really the impetus behind IMR in the first place?

This would not be the case as gains and losses are amortized separately regardless of whether the gross balances offset one another. While it is true that on day 1, there would be an offset to zero, both the gains and losses are amortized separately, and in this case, in year two approximately $950 million (assuming straight line amortization for simplicity) would be the total credit IMR balance representing the gains that still need to be amortized.

As shortening the amortization period:

- contradicts the theory and objectives of IMR,
- is arbitrary,
- would create practical challenges to implement,
- would penalize strong companies the same as weakly capitalized companies, and
- would be unduly punitive to companies with strong and weak AAT practices alike.

We do not believe this solution to be appropriate, or in line with prudent best practices.
Limit as a percentage of surplus, etc.

Limiting negative IMR to a percentage of surplus would again be an arbitrary limit that contradicts the theory of IMR and would penalize strong and weak companies alike, similar to shortening the amortization period, and we believe it does not best serve an appropriate safeguard.

While we are not against further safeguards, we believe any additional safeguards should address a very specific concern of regulators and/or a concern that is not already adequately addressed by existing safeguards or are more tailored to specific concerns such as with the “Opt-in Approach” recommended.

Restrict Surplus via the special surplus fund

The effect of AAT requiring additional reserves is equivalent to restricting surplus available for dividends to stockholders or participating policyowners. Thus, restricting surplus (the special surplus fund) for an amount equal to allowable negative IMR would be redundant when AAT requires additional reserves. Further, because dividends are governed by varying state laws, restricting surplus would provide inconsistent treatment, which is a suboptimal solution. The same ends could be achieved elsewhere such as with a limit based on the risk-based capital framework in combination with the “Opt-in Approach” recommended.
Statutory Issue Paper No. 167

Derivatives and Hedging

STATUS
Finalized March 22, 2023

Original SSAP and Current Authoritative Guidance: SSAP No. 86

Type of Issue:
Common Area

SUMMARY OF ISSUE

1. Statutory accounting guidance for derivatives is in SSAP No. 86—Derivatives. Although SSAP No. 86 indicates “adoption of the framework” of specific U.S. GAAP guidance, the accounting and reporting guidance for derivatives, particularly with regards to the four U.S. GAAP derivative cornerstones, is distinctly different between SSAP No. 86 and FAS 133/ASC 815. For example, under U.S. GAAP, assessment effectiveness under U.S. GAAP is largely an income statement management tool (to offset variations consistently through net income or other comprehensive income – OCI), but as SAP uses an amortized cost measurement method for a number of hedged items, the criteria for hedge effectiveness and the measurement approach for derivatives must be adjusted accordingly.

2. In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities to improve the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements. In addition, the amendments incorporated certain targeted improvements to simplify the application of the hedge accounting guidance in current U.S. GAAP. ASU 2017-12 included a new concept for a ‘last of layer’ approach to make portfolio fair value hedge accounting more accessible for specific assets. With the issuance of the last-of-layer guidance, a number of questions were received. After considering those questions, ASU 2022-01 Fair Value Hedging – Portfolio Layer Method was issued. This ASU expanded the original guidance and provided additional specifications and guidance.

3. The Statutory Accounting Principles (E) Working Group has considered several revisions to SSAP No. 86 in response to the review of ASU 2017-12 and ASU 2022-01. This issue paper has been drafted to detail the revisions incorporated into statutory accounting. These revisions, except for those initially adopted in 2018, are considered new SAP concepts.

DISCUSSION

Topic 1: Hedge Documentation and Initial Assessment Efficiencies (Agenda Item 2018-30)

4. The overall intent of ASU 2017-12 was to reduce cost and complexity of applying hedge accounting by simplifying the way assessments of hedge effectiveness may be performed. It was noted that the efficiencies gained from the revisions in the ASU for U.S. GAAP filers would be lost if corresponding provisions were not considered for statutory accounting. Pursuant to a July 9, 2018, interested parties’ comment letter, three elements were requested to be considered by the Statutory Accounting Principles (E) Working Group in a nonsubstantive (SAP clarification) proposal. Interested parties noted that these elements will reduce the costs associated with hedge accounting, while neither changing the underlying accounting, nor creating any additional regulatory risks or concerns:
a. Allow companies to perform subsequent assessments of hedge effectiveness qualitatively if certain conditions are met.

b. Allow companies more time to perform the quantitative hedge effectiveness assessment.

c. Clarify that companies may apply the “critical terms match” method for a group of forecaster transactions if the transactions occur and the derivatives mature within the same 31-day period or fiscal month, and the other requirements for applying the critical match method are satisfied.

5. On August 4, 2018, the Working Group exposed revisions to incorporate hedge documentation and assessment efficiencies from ASU 2017-12. This item was exposed with a shortened comment period to allow for potential revisions and re-exposure if needed, to permit adoption and application prior to year-end 2018. On November 15, 2018, the Working Group adopted the exposed revisions as final. The revisions were adopted with an effective date of January 1, 2019, with early adoption permitted for year-end 2018. U.S. GAAP filers could only early adopt if they had also early adopted ASU 2017-12.

6. Additionally, in ASU 2017-12, in response to comments requesting a more flexible approach to hedging interest rate risk, the FASB decided to amend the guidance for hedging interest rate risk of financial instruments for both fair value and cash flow hedges. With the revisions, the FASB decided to redefine the term interest rate risk and eliminate the benchmark interest rate concept for variable-rate financial instruments. With the changes, the FASB incorporated the SIFMA rate in the list of eligible rates for fixed income instruments and noted that the FASB will add to the list of eligible benchmark rates as necessary. The revisions adopted to SSAP No. 86 are detailed in Exhibit A.

7. With the inclusion of revisions, certain elements from the U.S.GAAP guidance were not duplicated within statutory accounting. The elements were considered part of the prior adoption of the “FAS 133 / technical guidance” originally reflected in SSAP No. 86:

a. Exceptions from the initial prospective quantitative assessment were not captured in the statutory guidance as they were not necessarily new under ASU 2017-12. The following overview details when an initial prospective quantitative assessment would not be required:

i. In a cash flow or fair value hedge, the entity applies the short-cut method.

ii. In a cash flow or fair value hedge, the entity determines that the critical terms of the hedging instrument and the hedged item match.

iii. In a cash flow hedge, the hedging instrument is an option and it meets specific criteria detailed in the U.S. GAAP guidance

iv. In a cash flow hedge, a private company that is not a financial institution applies the simplified hedge accounting approach.

v. In a cash flow hedge, the entity assesses hedge effectiveness under the change in variable cash flows method permitted under U.S. GAAP, with all noted conditions being met.

vi. In a cash flow hedge, the entity assesses hedge effectiveness under the hypothetical derivative method permitted under U.S. GAAP and all the critical terms of the hypothetical derivative and the hedging instrument are the same.
vii. In a net investment hedge, the entity assesses hedge effectiveness using a method based on changes in spot exchange rates, and the conditions noted under U.S. GAAP are met.

viii. In a net investment hedge, the entity assesses hedge effectiveness using a method based on changes in forward exchange rates and the noted condition under U.S. GAAP are met.

b. The short-cut method and critical terms match method are current method permitted under U.S. GAAP retained under ASU 2017-12. Under these methods, an entity may qualitatively assume, in very limited circumstances, that

8. Ultimately, the revisions incorporated in 2018, effective January 1, 2019, with early application permitted, from ASU 2017-12 were limited to specific provisions, and related transition guidance, pertaining to the documentation and assessment of hedge effectiveness: 1) provisions allowing more time to perform the initial qualitative hedge effectiveness assessment; 2) provisions allowing subsequent assessments of hedge effectiveness to be performed qualitatively if certain conditions are met; and 3) revisions regarding use of the critical terms and short-cut method for assessing hedge effectiveness. With the adoption of the limited provisions, it was identified that the remaining provisions of ASU 2017-12 would be subsequently assessed for statutory accounting and shall not be considered adopted for statutory accounting until that assessment is completed, with a conclusion to adopt the U.S. GAAP guidance.

9. The revisions adopted in November 2018 included revisions to both SSAP No. 86 as well as Exhibit B – Assessment of Hedging Effectiveness. The subsequent revisions adopted in 2022 eliminated Exhibit B as well as incorporated new guidance through the SSAP. Ultimately, the final adopted guidance, as reflected in the AP&P Manual, is the authoritative guidance.

**Topic 2: Hedge Effectiveness and Measurement Methods for Excluded Components (Ref #2021-20)**

10. In December 2011, consideration began on revisions to facilitate effective hedge assessments consistently between statutory accounting and U.S. GAAP. The Working Group exposed a concept agenda item to solicit comments and directed NAIC staff to work with regulators and industry in developing revisions for consistent hedge effectiveness assessments and with the treatment of excluded components.

11. After working with industry, on April 4, 2022, the Working Group exposed two documents for public comment. The first document proposed revisions in the form of a new exhibit A to SSAP No. 86, which would replace both Exhibit A and Exhibit B. This new exhibit A would adopt with modification U.S. Guidance in determining hedge effectiveness. The second document proposed revised guidance to SSAP No. 86 to update the permitted excluded components to mirror U.S. GAAP but establish statutory-specific measurement methods for the excluded components.

12. The new Exhibit A intends to reflect the position that the assessment of hedge effectiveness for derivatives should be consistent between U.S. GAAP and SAP. In order words, transactions identified to be highly effective hedges under U.S. would be identified as highly effective hedged under statutory accounting. If a hedging instrument results with offsetting changes (or other permitted aspects) to a hedged item pursuant to the guidelines under U.S. GAAP to qualify as a highly effective hedge, the same assessment as a highly effective hedge should occur under SAP.

13. The Exhibit A would adopt, with modification U.S. GAAP guidance pertaining to the criteria for initial and subsequent hedge effectiveness detailed in the FASB Accounting Standards Codification (ASC) paragraphs 815-20-25-72 through 815-20-35-20, as modified through the issuance of ASU 2017-12.
Although the U.S. GAAP guidance for the assessment and determination of hedge effectiveness is proposed to be adopted, statutory modifications are captured to specify that the accounting and reporting of hedging instruments, including excluded components of the instruments, shall follow statutory specific guidance detailed in SSAP No. 86. The intent of this guidance is to clarify that the determination of whether a hedging instrument qualifies as an effective hedge shall converge with U.S. GAAP, but that the measurement method shall continue to follow statutory specific provisions. The adopt from U.S. GAAP only extends to revisions incorporated through ASU 2017-12, as such, any subsequent U.S. GAAP edits would require statutory accounting consideration before they were considered adopted.

14. In addition to new Exhibit A to SSAP No. 86, the Working Group also exposed proposed revisions to SSAP No. 86, paragraphs 23, 40-41 and Exhibit C, to expand the list of permitted excluded components in assessing derivative effectiveness to match U.S. GAAP and to establish statutory specific measurement requirements for each type of excluded component.

15. The prior SSAP No. 86 guidance reflected the list of permitted excluded components originally adopted from U.S. GAAP. Since the original inclusion in SSAP No. 86, and within ASU 2017-12, U.S. GAAP had expanded the list, and it was noted that the statutory accounting treatment of excluded components related to foreign currency transactions were hindering the ability to engage in those transactions. It was also identified that current measurement guidance within the SSAP was conflicting between the guidance and specific hedge procedures detailed in Exhibit C. Through the discussions with industry, it was identified that different measurement or recognition provisions should be considered to properly reflect the type of excluded component with the financial statements, with specific guidance included in SSAP No. 86 accordingly:

   a. If the excluded component pertains to the difference between a foreign currency spot price and the forward or future price (e.g., a forward spot rate), then this premium/discount shall be amortized into income over the life of the contract or hedged program. (This guidance addresses the excluded component in Exhibit A, paragraph 8.d.)

   b. If the excluded component pertains to a foreign currency swap cross-currency basis spread, the impact of fair value changes shall be reflected as a component of the foreign currency swap’s periodic interest accrual. (This guidance addresses the excluded component in Exhibit A, paragraph 8.e.)

   c. For all other excluded components, the excluded component shall be measured and reported at fair value, with changes in fair value recognized as unrealized gains or losses. (This guidance shall be applied to excluded components detailed in Exhibit A, paragraphs 8.a. through 8.c.)

16. On August 10, 2022, after the exposure timeframe, in which interested party comments were received supporting the proposed revisions, the Working Group adopted the exposed revisions. This adoption resulted with both the new Exhibit A that adopts with modification U.S. GAAP guidance in determining hedge effectiveness and the revisions to SSAP No. 86 to incorporate measurement method guidance for excluded components. These revisions were adopted with a January 1, 2023, effective date, with early adoption permitted. With the action to adopt, the Working Group directed a blanks proposal to incorporate Schedule DB reporting fields and templates to capture the new disclosures for excluded components. These disclosure and investment schedule changes will be in effect for year-end 2023. Companies that early adopt the revisions are directly to complete the required disclosures in a narrative format for year-end 2022.
17. In August 2022, considerations began to expand statutory accounting guidance to incorporate the portfolio layer method detailed in *ASU 2022-01, Fair Value Hedging – Portfolio Layer Method*. The guidance in ASU 2022-01 reflects an expansion of the last-of-layer method detailed in ASU 2017-12.

18. Under the last-of-layer approach captured in ASU 2017-12, for a closed portfolio of prepayable financial assets or one or more beneficial interests secured by a portfolio of prepayable financial instruments, entities were allowed to hedge a stated amount of the asset or assets in the closed portfolio that is anticipated to be outstanding for the designated hedged period. If the requirements for the last-of-layer method were met, prepayment risk is not incorporated into the measurement of the hedged item. With the application of this guidance, a number of questions were received. After considering those questions, FASB issued *ASU 2022-01, Fair Value Hedging – Portfolio Layer Method*, which expanded the guidance and provided additional specifications for application. Ultimately, for a closed portfolio of financial assets or one or more beneficial interests secured by a portfolio of financial instruments, an entity may designate as the hedged item or items a hedged layer or layers if the following criteria is met:

a. As part of the initial hedge documentation, an analysis is completed and documented to support the entity’s expectation that the hedged item or items (that is, the hedged layer or layers in aggregate) is anticipated to be outstanding for the designated hedge period. That analysis shall incorporate the entity’s current expectations of prepayments, defaults, and other factors affecting the timing and amount of cash flows associated with the closed portfolio.

b. For purposes of its analysis, the entity assumes that as prepayments, defaults, and other factors affecting the timing and amount of cash flows occur, they first will be applied to the portion of the closed portfolio that is not hedged.

c. The entity applies the partial-term hedging guidance to the assets or beneficial interests used to support the entity’s expectation. An asset that matures on a hedged layer’s assumed maturity date meets this requirement.

19. Similar to concepts supporting the adoption of prior U.S. GAAP revisions, there is a general assessment that determination of effective hedges shall be consistent between statutory accounting and U.S. GAAP. As such, new SAP concepts revisions to reflect the portfolio layer method in establishing effective hedge dynamics was proposed to be consistent with U.S. GAAP. With the U.S. GAAP guidance limiting the application of this guidance to hedges of recognized financial assets, a consistent scope threshold was established for statutory accounting.

20. The review of the portfolio layer method identified that U.S. GAAP prevents basis adjustments directly to assets hedged in a portfolio and it was considered on whether statutory revisions would be necessary to address similar basis adjustment revisions under statutory accounting. However, after further assessments, it was identified that the fair value measurement method under U.S. GAAP, which results in ongoing basis adjustments from changes in fair value over the derivative term, would not be a prominent issue under statutory accounting, which predominantly uses an amortized cost approach for effective hedges. With the use of amortized cost, basis adjustments do not occur until hedge termination or at designation of the hedge, therefore this was identified as not a key statutory accounting impact.

21. In addition to considering guidance for the portfolio layer method, representatives from interested parties proposed to also capture concepts for partial term hedges from ASU 2017-12. (As detailed in the
FASB criteria above in paragraph 18 for portfolio layer method hedges, application of the partial-term hedging guidance is used to support the entity’s expectation.) Prior review of partial term hedge concepts noted concern as how interim adjustments to hedged items, particularly for hedged liabilities, would be reflected in the financial statements. With the statutory accounting guidance to reflect derivative gains or losses as basis adjustments on the hedge item, if a hedge to a recognized liability resulted in a reduction to the presentation of the liability, this could misrepresent the financial statements as the liability itself had not been reduced. In considering these concerns and recognizing that a broader project would likely be needed to address these basis adjustments, representatives from industry recommended incorporated the U.S. GAAP guidance for partial term hedges, with a statutory modification to limit the application to hedges of recognized assets.

22. Although the proposal to limit partial term hedges to recognized assets is a modification from the overarching concept to mirror hedge effectiveness assessments between U.S. GAAP and SAP, it was identified as an approach that would be consistent with the U.S. GAAP scope application for the portfolio layer method and would reflect how industry currently uses partial term hedge transactions. As such, although the modification created a U.S. GAAP and SAP difference, the modification satisfies the current need for statutory guidance and prevents significant concerns on how the guidance could impact the presentation of liabilities. With this discussion, it was identified that subsequent consideration of the limitation to recognized assets could occur, with potential expansion to hedges of recognized liabilities as part of a broader discussion on how derivative gains and losses are recognized as basis adjustments.

23. The proposed revisions exposed to incorporate the portfolio layer method and the partial-term hedging method are summarized as follows:

   a. Revisions to SSAP No. 86, predominantly in paragraph 26.d., 26.f., and 26.g., to detail the ability to hedge recognized assets under the portfolio layer method and partial-term hedge. Also, revisions to paragraph 62 for a new disclosure for portfolio layer derivatives that no longer qualify for hedge accounting and the circumstances that led to the breach, as well as guidance in paragraphs 65.c. and 74.f. to detail relevant U.S. GAAP literature and the effective date.

   b. Revisions to SSAP No. 86 – Exhibit, Exhibit A – Assessment of Hedge Effectiveness, to add a new section on the assessment of portfolio layer method for hedge effectiveness. (Note – This exhibit was the new exhibit adopted in agenda item 2021-20 which replaced the prior Exhibit A and Exhibit B within SSAP No. 86.)

   c. Revisions to SSAP No. 86 – Exhibit C, paragraph 2.d., for which a portfolio layer method is discontinued to detail how the basis adjustment shall be allocated to the remaining individual assets in the closed portfolio. (Note – With the adoption of agenda item 2021-20, this Exhibit was renamed as Exhibit B.)

24. The proposed revisions reflect adoption of U.S. GAAP for the criteria for the portfolio layer method detailed in ASU 2022-01, criteria to only consider how changes in the benchmark interest rate affect the decision to settle the hedged item before its scheduled maturity date in ASC 815-20-25-6B, adding option in calculating the change in the hedged item’s fair value attributed to changes in the benchmark interest rate based on the benchmark rate components of the contractual cash flows detailed in FASB ASC 815-25-35-13, and the partial-term hedging method detailed in FASB ASC 815-25-35-13B. The adoption of the partial term hedging method reflects statutory modifications that limits its use only when the hedged item is a recognized asset. This is different than U.S. GAAP, which permits the partial term method for hedged liabilities. The statutory limitation is established to prevent interim basis adjustments to hedged liabilities.
that could present a reduction of reported liabilities on the financial statements when the actual liability has not been reduced. Reconsideration of this statutory limitation may occur after a broader project to consider how derivative basis adjustments to hedged liabilities shall be reflected in the financial statements.

25. On December 13, 2022, the Working Group adopted the exposed revisions. This adoption resulted with the revisions identified in paragraph 23 above. These revisions were adopted with a January 1, 2023 effective date, with early adoption permitted. The revisions shall be applied prospectively to qualifying new hedges.

25.26. An updated version of this Issue Paper was exposed on December 12, 2022, and adopted on March 22, 2023. The purpose of this Issue Paper is to document the historical actions resulting in new SAP concepts within SSAP No. 86—Derivatives. As issue papers are not represented in the statutory hierarchy, the adoption of this Issue Paper does not change the effective date of the previously adopted authoritative literature.

Exhibit 1 – Revisions adopted to SSAP No. 86 on November 15, 2018 (Agenda Item 2018-30)

38. At inception of the hedge, documentation must include:
   a. A formal documentation of the hedging relationship and the entity’s risk management objective and strategy for undertaking the hedge, including identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the hedging instrument’s effectiveness in offsetting the exposure to changes in the hedged item’s fair value or variability in cash flows attributable to the hedged risk will be assessed, including whether an entity will perform subsequent effectiveness assessments on a qualitative basis (per paragraph 42) and how it intends to carry out that qualitative assessment. There must be a reasonable basis for how the entity plans to assess the hedging instrument’s effectiveness;
   b. An entity’s defined risk management strategy for a particular hedging relationship may exclude certain components of a specific hedging derivative’s change in fair value, such as time value, from the assessment of hedge effectiveness, as discussed in paragraph 37 and Exhibit B;
   c. Signature of approval, for each instrument, by person(s) authorized, either by the entity's board of directors or a committee authorized by the board, to approve such transactions; and
   d. A description of the reporting entity's methodology used to verify that opening transactions do not exceed limitations promulgated by the state of domicile.

39. At inception, if an entity is required to perform an initial prospective assessment of hedge effectiveness on a quantitative basis (using information applicable as of the date of hedge inception), the assessment is considered to be performed concurrently at hedge inception if it completed by the earliest of the following: (815-20-25-3)
   a. The first quarterly hedge effectiveness assessment date.
   b. The date that financial statements that include the hedged transaction are available to be issued.
c. The date that the hedging instrument and hedged item no longer qualify for hedge accounting.

d. The date of expiration, sale, termination or exercise of the hedging instrument.

e. The date of dedesignation of the hedging relationship.

f. For a cash flow hedge of a forecasted transaction, the date that the forecasted transaction occurs.

**New Footnote** – Entities are required to perform an initial prospective assessment unless qualifying for an exception in accordance with ASU 2017-12, paragraph 815-20-25-3.

40. For all derivatives terminated, expired, or exercised during the year:

a. Signature of approval, for each instrument, by person(s) authorized, either by the entity's board of directors or a committee authorized by the board, to approve such transactions;

b. A description, for each instrument, of the nature of the transaction, including:
   i. The date of the transaction;
   ii. A complete and accurate description of the specific derivative, including description of the underlying securities, currencies, rates, indices, commodities, derivatives, or other financial market instruments;
   iii. Number of contracts or notional amount;
   iv. Date of maturity, expiry or settlement;
   v. Strike price, rate or index (termination price for futures contracts);
   vi. Counterparty, or exchange on which the transaction was traded; and
   vii. Consideration paid or received, if any, on termination.

c. Description of the reporting entity's methodology to verify that derivatives were effective hedges; and

d. Identification of any derivatives that ceased to be effective as hedges.

41. For derivatives open at quarter-end:

a. A description of the methodology used to verify the continued effectiveness of hedges, and whether the entity is using qualitative assessments pursuant to paragraph 42FN;

b. An identification of any derivatives that have ceased to be effective as hedges;

c. A description of the reporting entity's methodology to determine fair values of derivatives;

d. Copy of Master Agreements, if any, where indicated on Schedule DB Part D.
New Footnote: For purposes of this requirement, this statement adopts the guidance for effectiveness assessment after initial designation reflected in ASU 2017-12, including the concepts and restrictions for use of the short-cut method and the critical terms match method.

42. An entity may subsequently qualitatively assess hedge effectiveness, on a hedge-by-hedge basis, if both the conditions in paragraphs 42.a. and 42.b. were initially met. When an entity performs subsequent qualitative assessments of hedge effectiveness, it shall verify and document whenever financial statements or earnings are reported and at least every three months that the facts and circumstances related to the hedging relationship have not changed such that it can assert qualitatively that the hedging relationship was and continues to be highly effective. An entity may perform a quantitative assessment in any reporting period to validate whether qualitative assessments remain appropriate. When facts and circumstances change such that an entity no longer can assert qualitatively that the hedging relationship continue to be highly effective, then the entity shall begin performing quantitative assessments. (815-20-35-2A, 2C and 2D abbreviated)

a. An entity performs an initial quantitative test of hedge effectiveness on a prospective basis (that is, it is not assuming that the hedging relationship is perfectly effective at hedge inception) and the results of that quantitative test demonstrate highly effective offset.

b. At hedge inception, an entity can reasonably support an expectation of high effectiveness on a qualitative basis in subsequent periods.

RELEVANT LITERATURE

6059. This statement adopts the framework established by FAS 133, FASB Statement No. 137, Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133, An amendment of FASB Statement No. 133 (FAS 137) and FASB Statement No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, An amendment of FASB Statement No. 133 (FAS 138), for fair value and cash flow hedges, including its technical guidance to the extent such guidance is consistent with the statutory accounting approach to derivatives utilized in this statement. This statement adopts the provisions of FAS 133 and 138 related to foreign currency hedges. With the exception of guidance specific to foreign currency hedges and amendments specific to refining the hedging of interest rate risk (under FAS 138, the risk of changes in the benchmark interest rate would be a hedged risk), this statement rejects FAS No. 137 and 138 as well as the various related Emerging Issues Task Force interpretations. This statement adopts paragraphs 4 and 25 of FASB Statement No. 149: Amendment of Statement 133 on Derivative Instruments and Hedging Activities (FAS 149) regarding the definition of an underlying and guidance for assessing hedge effectiveness. All other paragraphs in FAS 149 are rejected as not applicable for statutory accounting. This statement adopts FSP FAS 133-1 and FIN 45-5: Disclosures about Credit Derivatives and Certain Guarantees, An Amendment of FASB Statement No. 133 and FASB Interpretation No.45 and Clarification of the Effective Date of FASB Statement No. 161 (FSP FAS 133-1 and FIN 45-4) and requires disclosures by sellers of credit derivatives. This statement rejects FSP FIN 39-1, Amendments of FASB Interpretation No. 39, and ASU 2014-03, Derivatives and Hedging – Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps – Simplified Hedge Accounting Approach.

61 This statement adopts certain revisions to ASC 815-20 included in ASU 2017-12. This adoption is limited to specific provisions, and related transition guidance, pertaining to the documentation and assessment of hedge effectiveness and only includes: 1) provisions allowing more time to perform the initial quantitative hedge effectiveness assessment; 2) provisions allowing subsequent assessments of hedge effectiveness to be performed qualitatively if certain conditions are met; and 3) revisions regarding use of
the critical terms and short-cut methods for assessing hedge effectiveness. The remaining provisions of ASU 2017-12 will be subsequently assessed for statutory accounting and shall not be considered adopted for statutory accounting until that assessment is complete.

6260. This statement adopts with modification revisions to ASC 815 as reflected within ASU 2016-05, Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. This guidance is modified to require prospective application, as such it is only applicable to future counterparty changes in derivative instruments, and this guidance cannot be used to adjust derivative transactions previously terminated. This statement adopts revisions to ASC 815-20-25-15 as reflected within ASU 2010-08, Technical Corrections to Various Topics. This statement adopts revisions to ASC 815-10-50-4K as reflected within ASU 2010-11, Derivatives and Hedging (Topic 815), Scope Exception Related to Embedded Credit Derivatives, but rejects all other GAAP revisions from ASU 2010-11 and ASU 2014-16, Derivatives and Hedging, Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity and ASU 2016-06, Derivatives and Hedging, Contingent Put and Call Options in Debt Instruments. These GAAP revisions are rejected as embedded derivatives are not separated from the host contract and recognized as derivatives under SSAP No. 86. Revisions are also incorporated to SSAP No. 86 to require disclosures on embedded credit derivatives that expose the holder of a financial instrument to the possibility of being required to make future payments. This disclosure is a modification to the GAAP disclosures specific to statutory accounting as embedded credit derivatives are not separately recognized under statutory accounting. It should be noted that the conclusions reached in this statement are not intended to usurp the rules and regulations put forth by states in their respective investment laws. The contents of this statement are intended to provide accounting guidance on the use of derivatives as allowed by an insurer’s state of domicile. It is not intended to imply that insurers may use derivatives or cash instruments that the insurer’s state of domicile does not allow under the state’s insurance regulatory requirements, e.g., in replication transactions.

6361. This statement adopts revisions to ASC 815-20 as reflected within ASU 2013-10, Derivatives and Hedging, Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a benchmark interest rate for Hedge Accounting Purposes. These revisions define a benchmark interest rate, clarify what can be used in the U.S. for a benchmark interest rate, and eliminate the prior restriction on using different benchmark rates for similar hedges.

Effective Date and Transition

6765. This statement is effective for derivative transaction entered into or modified on or after January 1, 2003. A modification is any revision or change in contractual terms of the derivative. SSAP No. 31 applies to derivative transaction prior to January 1, 2003. Alternatively, an insurer may choose to apply this statement to all derivatives to which the insurer is a party as of January 1, 2003. In either case, the insurer is to disclose the transition approach that is being used. Revisions adopted to paragraph 59 to reject FSP FIN 39-1 is effective January 1, 2013, for companies that have previously reported a position in the balance sheet that was net of counterparty agreements. (Companies that have previously reported derivative instruments and/or related collateral gross shall not be impacted by these revisions.) Revisions adopted in paragraph 15 clarify the reporting for amounts received/paid to adjust variation margin until the derivative contract has ended and are effective January 1, 2018, on a prospective basis, for reporting entities that have previously considered these amounts to reflect settlement or realized gains/losses. (Companies that have previously reported variation margin changes in line with the revisions shall not be impacted by these revisions.) Revisions to incorporate limited provisions from ASU 2017-12 pertaining to the documentation of hedge effectiveness (detailed in paragraph 61) are effective January 1, 2019, with early adoption permitted for year-end 2018. However, if the reporting entity is a U.S. GAAP filer, the reporting entity may only elect early adoption if the entity has also elected early adoption of ASU 2017-12 for year-end 2018.
SSAP NO. 86 - EXHIBIT B – ASSESSMENT OF HEDGING EFFECTIVENESS

The following is based on paragraphs 62-70 of FAS 133 to offer additional guidance on assessing hedging effectiveness. The intent of such is to remain consistent with FAS 133 U.S. GAAP with respect to assessing hedge effectiveness, including guidance in ASU 2017-12 that outlines when an entity may perform subsequent assessments of hedge effectiveness qualitatively.

1. This statement requires that an entity define at the time it designates a hedging relationship the method it will use to assess the hedge’s effectiveness in achieving offsetting changes in fair value or offsetting cash flows attributable to the risk being hedged. It also requires that an entity use that defined method consistently throughout the hedge period to assess at inception of the hedge and on an ongoing basis whether it expects the hedging relationship to be highly effective in achieving offset. If the entity identifies an improved method and wants to apply that method prospectively, it must discontinue the existing hedging relationship and designate the relationship anew using the improved method. Although this statement suggests a method for assessing whether a hedge is expected to be highly effective or measuring hedge ineffectiveness, the appropriateness of a given method of assessing hedge effectiveness can depend on the nature of the risk being hedged and the type of hedging instrument used. Ordinarily, however, an entity should assess effectiveness for similar hedges in a similar manner; use of different methods for similar hedges should be justified.

2. In defining how hedge effectiveness will be assessed, an entity must specify whether it will include in that assessment all of the gain or loss on a hedging instrument. As discussed in paragraph 33, this statement permits (but does not require) an entity to exclude all or a part of the hedging instrument’s time value from the assessment of hedge effectiveness, as follows:

   a. If the effectiveness of a hedge with an option contract is assessed based on changes in the option’s intrinsic value, the change in the time value of the contract would be excluded from the assessment of hedge effectiveness.

   b. If the effectiveness of a hedge with an option contract is assessed based on changes in the option’s minimum value, that is, its intrinsic value plus the effect of discounting, the change in the volatility value of the contract would be excluded from the assessment of hedge effectiveness.

   c. If the effectiveness of a hedge with a forward or futures contract is assessed based on changes in fair value attributable to changes in spot prices, the change in the fair value of the contract related to the changes in the difference between the spot price and the forward or futures price would be excluded from the assessment of hedge effectiveness.

In each circumstance above, changes in the excluded component would be included in unrealized gains or losses. As noted in paragraph 1 of this Exhibit, the effectiveness of similar hedges generally should be assessed similarly; that includes whether a component of the gain or loss on a derivative is excluded in assessing effectiveness. No other components of a gain or loss on the designated hedging instrument may be excluded from the assessment of hedge effectiveness.

3. In assessing the effectiveness of a cash flow hedge, an entity generally will need to consider the time value of money if significant in the circumstances. Considering the effect of the time value of money is especially important if the hedging instrument involves periodic cash settlements. An example of a situation in which an entity likely would reflect the time value of money is a tailing strategy with futures contracts. When using a tailing strategy, an entity adjusts the size or contract amount of futures contracts...
used in a hedge so that earnings (or expense) from reinvestment (or funding) of daily settlement gains (or losses) on the futures do not distort the results of the hedge. To assess offset of expected cash flows when a tailing strategy has been used, an entity could reflect the time value of money, perhaps by comparing the present value of the hedged forecasted cash flow with the results of the hedging instrument.

4. Whether a hedging relationship qualifies as highly effective sometimes will be easy to assess. If the critical terms of the hedging instrument and of the entire hedged item or liability (as opposed to selected cash flows) or hedged forecasted transaction are the same, the entity could conclude that changes in fair value or cash flows attributable to the risk being hedged are expected to completely offset at inception and on an ongoing basis. For example, an entity may assume that a hedge of a forecasted purchase of a commodity with a forward contract will be highly perfectly effective if:
   a. The forward contract is for purchase of the same quantity of the same commodity at the same time and location as the hedged forecasted purchase.
   b. The fair value of the forward contract at inception is zero.
   c. Either the change in the discount or premium on the forward contract is excluded from the assessment of effectiveness and included directly in unrealized gains and losses pursuant to paragraph 22.B, or the change in expected cash flows on the forecasted transaction is based on the forward price for the commodity.

5. In a cash flow hedge of a group of forecasted transactions, an entity may assume that the timing in which the hedged transactions are expected to occur and the maturity date of the hedging instrument match in accordance with paragraph if those forecasted transactions occur and the derivative matures within the same 31-day period or fiscal month. (815-20-25-84A)

56. However, assessing hedge effectiveness can be more complex. For example, hedge effectiveness would be reduced by the following circumstances, among others:
   a. A difference between the basis of the hedging instrument and the hedged item or hedged transaction (such as a Deutsche mark-based hedging instrument and Dutch guilder-based hedged item), to the extent that those bases do not move in tandem
   b. Differences in critical terms of the hedging instrument and hedged item or hedged transaction, such as differences in notional amounts, maturities, quantity, location, or delivery dates.

Hedge effectiveness also would be reduced if part of the change in the fair value of a derivative is attributable to a change in the counterparty’s creditworthiness.

67. A hedge that meets the effectiveness test specified in paragraphs 19.b. and 20.b. (that is, both at inception and on an ongoing basis, the entity expects the hedge to be highly effective at achieving offsetting changes in fair values or cash flows) also must meet the other hedge accounting criteria to qualify for hedge accounting. If the hedge initially qualifies for hedge accounting, the entity would continue to assess whether the hedge meets the effectiveness test. If the hedge fails the effectiveness test at any time (that is, if the entity does not expect the hedge to be highly effective at achieving offsetting changes in fair values or cash flows), the hedge ceases to qualify for hedge accounting. The discussions of measuring hedge effectiveness in the examples in the remainder of this Exhibit assume that the hedge satisfied all of the criteria for hedge accounting at inception.
**Exhibit 2 – Revisions adopted to SSAP No. 86 on August 10, 2021 (Agenda Item 2021-20)**

**Derivatives Used in Hedging Transactions**

22. Derivative instruments used in hedging transactions that meet the criteria of a highly effective hedge shall be considered an effective hedge and are permitted to be valued and reported in a manner that is consistent with the hedged asset or liability (referred to as hedge accounting). For instance, assume an entity has a financial instrument on which it is currently receiving income at a variable rate but wishes to receive income at a fixed rate and thus enters into a swap agreement to exchange the cash flows. If the transaction qualifies as an effective hedge and a financial instrument on a statutory basis is valued and reported at amortized cost, then the swap would also be valued and reported at amortized cost. Derivative instruments used in hedging transactions that do not meet or no longer meet the criteria of an effective hedge, or that meet the required criteria but the entity has chosen not to apply hedge accounting, shall be accounted for at fair value and the changes in the fair value shall be recorded as unrealized gains or unrealized losses (referred to as fair value accounting).

23. Entities shall not bifurcate the effectiveness of derivatives. A derivative instrument is either classified as an effective hedge or an ineffective hedge. Entities must account for the derivative using fair value accounting if it is deemed to be ineffective or becomes ineffective. Derivative instruments classified as effective with excluded components in determining hedge effectiveness pursuant to Exhibit A, paragraph 8, shall account for the derivative and excluded components pursuant to the guidance in paragraph 40. Entities may redesignate a derivative in a hedging relationship even though the derivative was used in a previous hedging relationship that proved to be ineffective. A change in the counterparty to a derivative instrument that has been designated as the hedging instrument in an existing hedging relationship would not, in and of itself, be considered a termination of the derivative instrument. An entity shall prospectively discontinue hedge accounting for an existing hedge if any one of the following occurs:

   a. Any criterion in paragraphs 26-38 is no longer met;

   b. The derivative expires or is sold, terminated, or exercised (the effect is recorded as realized gains or losses or, for effective hedges of firm commitments or forecasted transactions, in a manner that is consistent with the hedged transaction – see paragraph 24);

   c. The entity removes the designation of the hedge; or

   d. The derivative is deemed to be impaired in accordance with paragraph 18. A permanent decline in a counterparty’s credit quality/rating is one example of impairment required by paragraph 18, for derivatives used in hedging transactions.

**Hedge Effectiveness**

39. The measurement of hedge effectiveness for a particular hedging relationship shall be consistent with the entity’s risk management strategy and the method of assessing hedge effectiveness that was documented at the inception of the hedging relationship, as discussed in paragraph 41.

40. The gain or loss on a derivative designated as a hedge and assessed to be effective is reported consistently with the hedged item. (Therefore, if the hedged item is reported at amortized cost, and the hedging instrument is consistent with that measurement method, fluctuations in fair value would not be

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1 Pursuant to paragraph 19, the gross reported value of a derivative and the determination of unrealized gains or losses shall exclude the impact of financing premiums. Premiums payable or receivable from the acquisition or writing of a derivative shall not be reflected in the gross reporting of derivatives or in determining the fair value change in a derivative.
recognized as unrealized gains or losses for either the hedging item or hedging instrument.) If an entity’s
defined risk management strategy for a particular hedging relationship excludes a specific component of
the gain or loss, or related cash flows, on the hedging derivative from the assessment of hedge effectiveness
(as discussed in Exhibit BA, paragraph 8), specific accounting treatment shall be followed for the that
excluded component: of the gain or loss shall be recognized as an unrealized gain or loss. For example, if
the effectiveness of a hedge with an option contract is assessed based on changes in the option’s intrinsic
value, the changes in the option’s time value would be recognized in unrealized gains or losses. Time value
is equal to the fair value of the option less its intrinsic value.

a. If the excluded component pertains to the difference between a foreign currency spot price
   and the forward or future price (e.g., a forward spot rate), then this premium/discount shall
   be amortized into income over the life of the contract or hedged program. (This guidance
   addresses the excluded component in Exhibit A, paragraph 8.d.)

b. If the excluded component pertains to a foreign currency swap cross-currency basis spread,
   the impact of fair value changes shall be reflected as a component of the foreign currency
   swap’s periodic interest accrual. (This guidance addresses the excluded component in
   Exhibit A, paragraph 8.e.)

c. For all other excluded components, the excluded component shall be measured and
   reported at fair value, with changes in fair value recognized as unrealized gains or losses.
   (This guidance shall be applied to excluded components detailed in Exhibit A, paragraphs
   8.a.-8.c.

41. Hedging instruments with excluded components shall be identified in the financial statement
    investment schedule (Schedule DB) and shall be disclosed pursuant to paragraph 41.g.

Proposed New Disclosure Paragraph (This is proposed as a new paragraph 41.g, with reordering of
subsequent paragraphs.)

 g. For hedging instruments with excluded components for determining hedge effectiveness:

   i. In the investment schedule, identify hedging instruments with excluded
      components, and report the current fair value of the excluded component, the fair
      value of the excluded component that is reflected in the reported BACV for the
      hedging instrument (this item would not be applicable for foreign-currency
      forwards and currency swaps where the forward points or cross-currency basis,
      respectively, are the excluded component), and the change in fair value reported
      as an unrealized gains/loss. (Note – These items will be proposed in electronic
      columns to Schedule DB.)

   ii. In the notes to the financial statements, provide information on the aggregate
       excluded components by category: Time Value, Intrinsic Value, Forward Points
       and Cross Currency Basis Spread. The aggregate amounts reported should
       include the following (as applicable): current fair value, recognized unrealized
       gain/loss, the fair value reflected in BACV, and for the excluded forward points
       (e.g., forward spot rates), the aggregate amount owed at maturity, along with
       current year and remaining amortization. (Note – These items will be captured in
       a blanks proposal/template.)
Relevant Literature

64. This statement adopts the framework established by FAS 133, FASB Statement No. 137, Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133, An amendment of FASB Statement No. 133 (FAS 137) and FASB Statement No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, An amendment of FASB Statement No. 133 (FAS 138), for fair value and cash flow hedges, including its technical guidance to the extent such guidance is consistent with the statutory accounting approach to derivatives utilized in this statement. This statement adopts the provisions of FAS 133 and 138 related to foreign currency hedges. With the exception of guidance specific to foreign currency hedges and amendments specific to refining the hedging of interest rate risk (under FAS 138, the risk of changes in the benchmark interest rate would be a hedged risk), this statement rejects FAS No. 137 and 138 as well as the various related Emerging Issues Task Force interpretations. This statement adopts paragraphs 4 and 25 of FASB Statement No. 149: Amendment of Statement 133 on Derivative Instruments and Hedging Activities (FAS 149) regarding the definition of an underlying and guidance for assessing hedge effectiveness. (The adoption from FAS 149 on the assessment of hedge effectiveness is impacted by the adoption with modification of guidance from ASU 2017-12 as detailed in paragraph 65.b., with the guidance from ASU 2017-12 superseding the prior adoption to the extent applicable.) All other paragraphs in FAS 149 are rejected as not applicable for statutory accounting. This statement adopts FSP FAS 133-1 and FIN 45-5: Disclosures about Credit Derivatives and Certain Guarantees, An Amendment of FASB Statement No. 133 and FASB Interpretation No.45 and Clarification of the Effective Date of FASB Statement No. 161 (FSP FAS 133-1 and FIN 45-4) and requires disclosures by sellers of credit derivatives. This statement rejects FSP FIN 39-1, Amendments of FASB Interpretation No. 39, and ASU 2014-03, Derivatives and Hedging – Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps – Simplified Hedge Accounting Approach.

65. This statement adopts, with modification, certain revisions to ASC 815-20 included in ASU 2017-12. Remaining provisions of ASU 2017-12 will be subsequently assessed for statutory accounting and shall not be considered adopted for statutory accounting until that assessment is complete.

a. Revisions effective January 1, 2019, with early adoption permitted. This adoption is limited to specific provisions, and related transition guidance, pertaining to the documentation and assessment of hedge effectiveness and only includes: 1) provisions allowing more time to perform the initial quantitative hedge effectiveness assessment; 2) provisions allowing subsequent assessments of hedge effectiveness to be performed qualitatively if certain conditions are met; and 3) revisions regarding use of the critical terms and short-cut methods for assessing hedge effectiveness.

b. Revisions effective January 1, 2023, with early adoption permitted, are limited to the criteria for initial and subsequent hedge effectiveness detailed in the FASB Accounting Standards Codification (ASC) paragraphs 815-20-25-72 through 815-20-35-20, as modified through the issuance of ASU 2017-12. This adoption reflects statutory modifications to specify that the accounting and reporting of hedging instruments, including excluded components of the instruments, shall follow statutory specific guidance detailed in the statement. The intent of this guidance is to clarify that the determination of whether a hedging instrument qualifies as an effective hedge shall converge with U.S. GAAP, but that the measurement method shall continue to follow statutory specific provisions. The adoption of the referenced ASC paragraphs only extends to revisions incorporated through ASU 2017-12; therefore, any subsequent U.S. GAAP edits would require statutory accounting consideration before considered adopted.
The remaining provisions of ASU 2017-12 will be subsequently assessed for statutory accounting and shall not be considered adopted for statutory accounting until that assessment is complete.

Effective Date and Transition

This statement is effective for derivative transaction entered into or modified on or after January 1, 2003. A modification is any revision or change in contractual terms of the derivative. SSAP No. 31 applies to derivative transaction prior to January 1, 2003. Alternatively, an insurer may choose to apply this statement to all derivatives to which the insurer is a party as of January 1, 2003. In either case, the insurer is to disclose the transition approach that is being used.

a. Revisions adopted to paragraph 64 to reject FSP FIN 39-1 is effective January 1, 2013, for companies that have previously reported a position in the balance sheet that was net of counterparty agreements. (Companies that have previously reported derivative instruments and/or related collateral gross shall not be impacted by these revisions.)

b. Revisions adopted in paragraph 16 clarify the reporting for amounts received/paid to adjust variation margin until the derivative contract has ended and are effective January 1, 2018, on a prospective basis, for reporting entities that have previously considered these amounts to reflect settlement or realized gains/losses. (Companies that have previously reported variation margin changes in line with the revisions shall not be impacted by these revisions.)

c. Revisions to incorporate limited provisions from ASU 2017-12 pertaining to the documentation of hedge effectiveness (detailed in paragraph 65) are effective January 1, 2019, with early adoption permitted for year-end 2018. However, if the reporting entity is a U.S. GAAP filer, the reporting entity may only elect early adoption if the entity has also elected early adoption of ASU 2017-12 for year-end 2018.

d. Revisions adopted April 2019 to explicitly include structured notes in scope of this statement are effective December 31, 2019. Revisions adopted July 2020 to define “derivative premium,” require gross reporting of derivatives without the impact of financing premiums and require separate recognition of premiums payable and premiums receivable, are effective January 1, 2021.

e. Revisions adopted August 2022 that adopt with modification the criteria for initial and subsequent hedge effectiveness detailed in the FASB ASC paragraphs 815-20-25-72 through 815-20-35-20, as modified through the issuance of ASU 2017-12 and that incorporate statutory accounting revisions for the accounting and reporting of excluded components are effective January 1, 2023, with early adoption permitted. These revisions shall be applied prospectively for all new and existing hedges. Entities shall detail the adoption of this guidance as a change in accounting principle pursuant to SSAP No. 3—Accounting Changes and Corrections of Errors.

With the adoption of the new Exhibit A as detailed in the subsequent section, Exhibit C will be renamed Exhibit B. Due to the details of Exhibit A (including the FASB ASC paragraphs not duplicated in the SSAP), the following Exhibit B section is included before the new Exhibit A in this issue paper for ease of readability.
EXHIBIT C-B – SPECIFIC HEDGE ACCOUNTING PROCEDURES FOR DERIVATIVES

Specific hedge accounting procedures for derivative instruments are outlined below.

1. Call and Put Options, Warrants, Caps, and Floors:
   a. Accounting at Date of Acquisition (purchase) or Issuance (written): The premium paid or received for purchasing or writing a call option, put option, warrant, cap or floor shall either be (i) recorded as an asset (purchase) or liability (written) on the Derivative line on the Assets (or) Liabilities pages or (ii) combined with the hedged item(s) individually or in the aggregate;
   b. Statement Value:
      i. Open derivatives hedging items recorded at amortized cost:
         (a) Options, warrants, caps, and floors purchased or written shall be valued at amortized cost in a manner consistent with the hedged item. (Components of a hedging instrument excluded from the determination of hedge effectiveness shall be recognized at fair value, with changes in fair value recognized as unrealized gains/losses throughout the duration of the hedging instrument. These components are not captured within the guidance for effective hedges detailed within this section.);
         (b) The amortization period and methods used shall result in a constant effective yield over the life of the hedged item or program. (For floating rate hedged items, the estimated effective yield shall be based on the current rate so the changes in yields attributable to changes in interest rates will be recognized in the period of change). Specific treatment includes:
            (1) Holdings in derivatives purchased or written within a year of maturity or expiry need not be amortized;
            (2) For hedges of forecasted transactions or firm commitments, the derivative may be recorded at cost until the hedged transaction occurs or it is determined that the hedge was not effective (see (d) in this section 1.b.i.);
            (3) For other derivatives, the amortization period is usually from date of acquisition (issuance) of the derivative to maturity of the hedged item or program.
         (c) For hedges where the cost of the derivative is combined with the hedged item, the statement value is zero. The fair value of the derivative and hedged item shall be determined and reported separately, either individually or in the aggregate;
         (d) For hedges of forecasted transactions or firm commitments, the derivative shall be recorded at cost until (1) the hedged transaction occurs or (2) it is determined that the hedge was not effective (when the derivative is valued in accordance with (e) in this section);
Ref #2017-33

c) If during the life of the derivative it or a designated portion of the derivative is no longer effective as a hedge, valuation at amortized cost ceases and the derivative or the designated portion of the derivative shall be valued at its current fair value with gains and losses recognized in unrealized gains or unrealized losses to the extent it ceased to be an effective hedge.

d. Gain/Loss on Termination of an option, warrant, cap or floor accounted for under hedge accounting (includes closing, exercise, maturity, and expiry):

i. Exercise of an Option: The remaining book value of the derivative shall become an adjustment to the cost or proceeds of the hedged item(s) received or disposed of individually or in aggregate;

ii. Sale, maturity, expiry, or other closing transaction of a derivative which is an effective hedge—Any gain or loss on the transaction, except for excluded components, will adjust the basis (or proceeds) of the hedged item(s) individually or in aggregate. Alternatively, if the item being hedged is subject to IMR, the gain or loss on the terminated hedging derivative may be realized and shall be subject to IMR upon termination. For hedging instruments with excluded components in determining hedge effectiveness, the unrealized gain/loss from the change in fair value of the excluded component shall be realized upon the closing transaction. This gain/loss shall not be used to adjust the basis or proceeds of the hedged item.

iii. Gain/loss on termination of derivatives will be recognized currently in net income (realized gain/loss) to the extent they ceased to be effective hedges.

iv. Upon the redesignation of a derivative from a currently effective hedging relationship:

(a) with an item(s) carried at amortized cost to another effective hedging relationship with an item(s) carried at amortized cost, the derivative shall continue to be recorded at amortized cost and no gain or loss on the derivative shall be recognized.

(b) with an item(s) carried at amortized cost or fair value to an effective relationship with an item(s) carried at fair value, the accounting for the derivative shall be consistent with (ii) above.

(c) with an item(s) carried at fair value to an effective relationship with an item(s) carried at amortized cost, the accounting for the derivative shall be consistent with (ii) above.

2. Swaps, Collars, and Forwards (see also discussion in Introduction above):

a. Accounting at Date of Opening Position:

i. Any premium paid or received at date of opening shall either be (a) recorded on the Derivative line on the Assets (or) Liabilities pages or (b) combined with the hedged item(s), individually or in the aggregate;
b. Statement Value:

i. Open derivatives hedging items recorded at amortized cost:

(a) Swaps, collars, and forwards shall be valued at amortized cost in a manner consistent with hedged item. (Components of a hedging instrument excluded from the determination of hedge effectiveness not addressed in 2.b.iii. shall be recognized at fair value, with changes in fair value of the excluded component recognized as unrealized gains/losses throughout the duration of the hedging instrument. These components are not captured within the guidance for effective hedges detailed within this section.);

(b) The amortization period and methods used shall result in a constant effective yield over the life of the hedged item or program. (For floating rate hedged items the estimated effective yield shall be based on the current rate so the changes in yields attributable to changes in interest rates will be recognized in the period of change.) Specific treatment includes:

(1) Holdings in derivatives purchased or written within a year of maturity or expiry need not be amortized;

(2) For hedges of forecasted transactions or firm commitments, the derivative shall be recorded at cost until (a) the hedged transaction occurs or (b) it is determined that the hedge was not effective (see (5) in this section 2.b.i.);

(3) For other derivatives the amortization period is usually from date of acquisition (issuance) of the derivative to maturity of the hedged item or program;

(4) For hedges where the cost of the derivative is combined with the hedged item, the statement value is zero. The fair value of the derivative and hedged item shall be determined and reported separately, either individually or in the aggregate;

(5) If during the life of the derivative it or a designated portion of the derivative is no longer effective as a hedge, valuation at amortized cost ceases and the derivative or a designated portion of the derivative shall be valued at its current fair value with gains and losses recorded in unrealized gains or unrealized losses to the extent that it ceased to be an effective hedge. Upon redesignation into an effective hedging relationship, the derivative’s mark to fair value through unrealized gain or loss shall be reversed.
ii. Open derivatives hedging items recorded at fair value (where gains and losses on the hedged item are recognized as adjustments to unassigned funds (surplus)):

(a) Swaps, collars, or forwards shall be valued at current fair value with changes in fair value recognized currently consistent with the hedged item; this will result in unrealized gain/loss treatment with adjustment to unassigned funds (surplus);

(b) For hedges where the derivative is combined with the hedged item, the fair value of the derivative and hedge item shall be determined and reported separately, either individually or in the aggregate. The cost (book value) basis used to figure gain/loss on the derivative is zero.

iii. Open foreign currency swap and forward contracts hedging foreign currency exposure on items denominated in a foreign currency and translated into U.S. dollars where fair value accounting is not being used:

(a) The foreign exchange premium (discount) on the currency contract shall be amortized into income over the life of the contract or hedge program. The foreign exchange premium (discount) is defined as the foreign currency (notional) amount to be received (paid) times the net of the forward rate minus the spot rate at the time the contract was opened. For forward contracts, an excluded component representing a foreign exchange premium (discount) (forward points) on the currency contract shall be amortized into income over the life of the contract or hedge program. Amortization is not required if the contract was entered into within a year of maturity. For foreign currency swaps, an excluded component representing a cross-currency basis spread, is recognized into income through the foreign currency swap’s periodic interest accruals. Amortization is not required if the contract was entered into within a year of maturity;

(b) A foreign currency translation adjustment shall be reflected as an unrealized gain/loss (unassigned funds (surplus) adjustment) using the same procedures as done to translate the hedged item;

(c) The unrealized gain/loss for the period equals the foreign currency (notional) amount to be received (paid) times the net of the current spot rate minus the prior period end spot rate;

(d) The statement value of the derivative equals the amortized cost plus:

1. For forward contracts, the amortized (premium) discount plus the cumulative unrealized gain/(loss) on the contract.

2. For foreign currency swaps, the cumulative unrealized gain/(loss) on the contract. The cross-currency basis spread is recorded through the Investment Income Due and Accrued or Other Liabilities, as a component of the foreign currency swap’s periodic interest accrual.
The cumulative unrealized gain/loss equals the foreign currency (notional) amount to be received (paid) times the net of the current spot rate minus the spot rate at the time the contract was opened;

(e) Recognition of unrealized gains/losses and amortization of foreign exchange premium/discount on derivatives hedging forecasted transactions or firm commitments shall be deferred until the hedged transaction occurs. These deferred gains/losses will adjust the basis or proceeds of the hedged transaction when it occurs;

(f) For hedges where the cost of the foreign currency contract is combined with the hedged item, the statement value on Schedule DB is zero. The fair value of the derivative and hedged item shall be determined and reported separately, either individually or in the aggregate;

(g) If during the life of the currency contract it or a designated portion of the currency contract is not effective as a hedge, the derivative shall be recorded at fair value and valuation at amortized cost shall cease. To the extent it ceased to be an effective hedge, a cumulative unrealized gain/loss (surplus adjustment) will be recognized equal to the difference between the carrying value of the derivative on the balance sheet and the fair value of the derivative if either of the following occur:

1. During the life of the currency contract it or a designated portion of the currency contract is not effective as a hedge.

2. The entity decides to terminate the derivative in advance of scheduled maturity.

notional amount or designated notional amount times the difference between the forward rate available for the remaining maturity of the contract (i.e., the forward rate as of the balance sheet date) and the forward rate at the time it ceased to be an effective hedge.

iv. Open derivatives hedging items recorded at fair value, where gains and losses on the hedged item are recognized currently in earnings: swaps, collars and forwards shall be valued at current fair value with changes in fair value recognized currently in earnings together with the gains and losses on the hedged item.

(a) If during the life of the derivative it or a designated portion of the derivative is no longer effective as a hedge, recognition of changes in fair value through earnings ceases. The derivative shall continue to be valued at its current fair value, but thereafter gains or losses shall be recognized in unrealized gains or unrealized losses to the extent it ceased to be an effective hedge.

c. Cash Flows and Income:

i. Where the cost of the derivative is not combined with the hedged item:
Ref #2017-33

(a) Amortization of premium paid or received on derivatives is an adjustment to net investment income or another appropriate caption within operating income consistent with the reporting of the hedged item;

(b) Periodic cash flows and accruals of income/expense are to be reported in a manner consistent with the hedged item, usually as net investment income or another appropriate caption within operating income.

ii. Where the cost of the derivative is combined with the hedged item, the cash flows and income of the derivative on Schedule DB is zero. All related amortization and cash flow accounting shall be reported with the hedged item instead of with the derivative.

d. Gain/Loss on Termination of a swap, collar or forward accounted for under hedge accounting (includes closing, exercise, maturity, and expiry):

i. Exercise—The remaining book value of the derivative shall become an adjustment to the cost or proceeds of the hedged item(s) received or disposed of individually or in aggregate;

ii. Sale, maturity, expiry, or other closing transaction of a derivative which is an effective hedge—Any gain or loss on the transaction, except for excluded components, will adjust the basis (or proceeds) of the hedged item(s) individually or in aggregate. Alternatively, if the item being hedged is subject to IMR, the gain or loss on the terminated hedging derivative may be realized and shall be subject to IMR upon termination.

iii. Gain/loss on termination of derivatives will be recognized currently in net income (realized gain/loss) to the extent they ceased to be effective hedges.

iv. Upon the redesignation of a derivative from a currently effective hedging relationship—

(a) with an item(s) carried at amortized cost to another effective hedging relationship with an item(s) carried at amortized cost, the derivative shall continue to be recorded at amortized cost and no gain or loss on the derivative shall be recognized.

(b) with an item(s) carried at amortized cost or fair value to an effective relationship with an item(s) carried at fair value, the accounting for the derivative shall be consistent with (ii) above.

(c) with an item(s) carried at fair value to an effective relationship with an item(s) carried at amortized cost, the accounting for the derivative shall be consistent with (ii) above.

The following new Exhibit A replaces both Exhibit A and Exhibit B within the existing SSAP No. 86. This is new guidance within SSAP No. 86, and the tracked changes shown in the section below reflect the modifications from U.S. GAAP. References to the FASB ASC are included in this issue paper for historical reference and will not be duplicated within the SSAP.
EXHIBIT A – DISCUSSION OF HEDGE EFFECTIVENESS

The guidance within this exhibit reflects the adoption, with modification, of FASB Accounting Standards Codification (ASC) 815-20-25-72 through 815-20-35-20, as revised through the issuance of ASU 2017-12: Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12) (issued on August 28, 2017). This adoption captures the U.S. GAAP guidance for the assessment and determination of hedge effectiveness, with modification to require the accounting and reporting of hedging instruments, including excluded components of hedging instruments to follow specific statutory accounting guidance in SSAP No. 86. The intent of this guidance is to clarify that the determination of whether a hedging instrument and derivative transaction qualifies as an effective hedge shall converge with U.S. GAAP, but that the measurement and reporting of effective hedge transactions shall follow statutory specific provisions. The adoption only extends to revisions incorporated to the FASB ASC through ASU 2017-12, therefore any subsequent U.S. GAAP edits to the ASC would require statutory accounting adoption before application. The guidance within this Exhibit reflects excerpts from the U.S. GAAP ASC, but do not reflect the full U.S. GAAP guidance referenced in the adopted language. The exclusion of cited guidance is to manage the extent of detail included within SSAP No. 86. Excerpts not duplicated within from the cited U.S. GAAP guidance are considered adopted unless subject to the specific accounting and reporting statutory exclusion. This Exhibit intends to supplement the guidance in SSAP No. 86 on hedge effectiveness. In any event in which this Exhibit could be interpreted as conflicting with the SSAP No. 86 guidance, the guidance in the body of SSAP No. 86 shall be followed.

Hedge Effectiveness Criteria Applicable to Both Fair Value Hedges and Cash Flow Hedges

1. This guidance addresses hedge effectiveness criteria applicable to both fair value hedges and cash flow hedges. (815-20-25-74)

2. To qualify for hedge accounting, the hedging relationship, both at inception of the hedge and on an ongoing basis, shall be expected to be highly effective in achieving either of the following: (815-20-25-75)

   a. Offseting changes in fair value attributable to the hedged risk during the period that the hedge is designated (if a fair value hedge)

   b. Offseting cash flows attributable to the hedged risk during the term of the hedge (if a cash flow hedge), unless the hedging instrument is used to modify the contractually specified interest receipts or payments associated with a recognized financial asset liability from one variable rate to another variable rate, except as indicated in paragraph 815-20-25-50

3. If the hedging instrument (such as an at-the-money option contract) provides only one-sided offset of the hedged risk, either of the following conditions shall be met: (815-20-25-76)

   a. The increases (or decreases) in the fair value of the hedging instrument are expected to be highly effective in offsetting the decreases (or increases) in the fair value of the hedged item (if a fair value hedge).

   b. The cash inflows (outflows) from the hedging instrument are expected to be highly effective in offsetting the corresponding change in the cash outflows or inflows of the hedged transaction (if a cash flow hedge).
4. There would be a mismatch between the change in fair value or cash flows of the hedging instrument and the change in fair value or cash flows of the hedged item or hedged transaction in any of the following circumstances, among others: (815-20-25-77)

   a. A difference between the basis of the hedging instrument and the hedged item or hedged transaction, to the extent that those bases do not move in tandem

   b. Differences in critical terms of the hedging instrument and hedged item or hedged transaction, such as differences in any of the following:

      i. Notional amounts

      ii. Maturities

      iii. Quantity

      iv. Location (not applicable for hedging relationships in which the variability in cash flows attributable to changes in a contractually specified component is designated as the hedged risk)

      v. Delivery Dates

5. An entity shall consider hedge effectiveness in two different ways—in prospective considerations and in retrospective evaluations: (815-20-25-79)

   a. Prospective considerations. The entity's expectation that the relationship will be highly effective over future periods in achieving offsetting changes in fair value or cash flows, which is forward looking, must be assessed on a quantitative basis at hedge inception unless one of the exceptions detailed in ASU 2017-12, paragraph 815-20-25-3(b)(2)(iv)(01)² is met. Prospective assessments shall be subsequently performed whenever financial statements or earnings are reported and at least every three months. The entity shall elect at hedge inception in accordance with paragraph 815-20-25-3(b)(2)(iv)(03) whether to perform subsequent retrospective and prospective hedge effectiveness assessments on a quantitative or qualitative basis. See paragraphs 815-20-35-2A through 35-2F for additional guidance on qualitative assessments of hedge effectiveness. A quantitative assessment can be based on regression or other statistical analysis of past changes in fair values or cash flows as well as on other relevant information. The quantitative prospective assessment of hedge effectiveness shall consider all reasonably possible changes in fair value (if a fair value hedge) or in fair value or cash flows (if a cash flow hedge) of the derivative instrument and the hedged items for the period used to assess whether the requirement for expectation of highly effective offset is satisfied. The quantitative prospective assessment may not be limited only to the likely or expected changes in fair value (if a fair value hedge) or in fair value or cash flows (if a cash flow hedge) of the derivative instrument or the hedged items. Generally, the process of formulating an expectation regarding the effectiveness of a proposed hedging relationship involves a probability-weighted analysis of the possible changes in fair value (if a fair value hedge) or in fair value or cash flows (if a cash flow hedge) of the derivative instrument and the hedged items for the hedge period. Therefore, a probable future change in fair value will

² Reference to this ASU 2017-12 guidance is consistent with the guidance in SSAP No. 86, paragraph 42, footnote 5.
be more heavily weighted than a reasonably possible future change. That calculation technique is consistent with the definition of the term expected cash flow in FASB Concepts Statement No. 7, Using Cash Flow Information and Present Value in Accounting Measurements.

b. Retrospective evaluations. An assessment of effectiveness may be performed on a quantitative or qualitative basis on the basis of the entity’s election at hedge inception in accordance with paragraph 815-20-25-3(b)(2)(iv)(03). That assessment shall be performed whenever financial statements or earnings are reported, and at least every three months. See paragraphs 815-20-35-2 through 35-4 for further guidance. At inception of the hedge, an entity electing a dollar-offset approach to perform retrospective evaluations on a quantitative basis may choose either a period-by-period approach or a cumulative approach in designating how effectiveness of a fair value hedge or of a cash flow hedge will be assessed retrospectively under that approach, depending on the nature of the hedge initially documented in accordance with paragraph 815-20-25-3. For example, an entity may decide that the cumulative approach is generally preferred, yet may wish to use the period-by-period approach in certain circumstances. See paragraphs 815-20-35-5 through 35-6 for further guidance.

(ASC paragraph 815-20-25-79A not included in Exhibit A.)

6. All assessments of effectiveness shall be consistent with the originally documented risk management strategy for that particular hedging relationship. An entity shall use the quantitative effectiveness assessment method defined at hedge inception consistently for the periods that the entity either elects or is required to assess hedge effectiveness on a quantitative basis. (815-20-25-80)

7. This Subtopic guidance does not specify a single method for assessing whether a hedge is expected to be highly effective. The method of assessing effectiveness shall be reasonable. The appropriateness of a given method of assessing hedge effectiveness depends on the nature of the risk being hedged and the type of hedging instrument used. Ordinarily, an entity shall assess effectiveness for similar hedges in a similar manner, including whether a component of the gain or loss on a derivative instrument is excluded in assessing effectiveness for similar hedges. Use of different methods for similar hedges shall be justified. The mechanics of isolating the change in time value of an option discussed beginning in paragraph 13 815-20-25-98 also shall be applied consistently. (815-20-25-81)

8. In defining how hedge effectiveness will be assessed, an entity shall specify whether it will include in that assessment all of the gain or loss on a hedging instrument. An entity may exclude all or a part of the hedging instrument’s time value from the assessment of hedge effectiveness, as follows: (815-20-25-82)

a. If the effectiveness of a hedge with an option is assessed based on changes in the option’s intrinsic value, the change in the time value of the option would be excluded from the assessment of hedge effectiveness.

b. If the effectiveness of a hedge with an option is assessed based on changes in the option’s minimum value, that is, its intrinsic value plus the effect of discounting, the change in the volatility value of the contract shall be excluded from the assessment of hedge effectiveness.
c. An entity may exclude any of the following components of the change in an option's time value from the assessment of hedge effectiveness:
   i. The portion of the change in time value attributable to the passage of time (theta)
   ii. The portion of the change in time value attributable to changes due to volatility (vega)
   iii. The portion of the change in time value attributable to changes due to interest rates (rho).

d. If the effectiveness of a hedge with a forward contract or futures contract is assessed based on changes in fair value attributable to changes in spot prices, the change in the fair value of the contract related to the changes in the difference between the spot price and the forward or futures price shall be excluded from the assessment of hedge effectiveness.

e. An entity may exclude the portion of the change in fair value of a currency swap attributable to a cross-currency basis spread.

9. No other components of a gain or loss on the designated hedging instrument shall be excluded from the assessment of hedge effectiveness nor shall an entity exclude any aspect of a change in an option's value from the assessment of hedge effectiveness that is not one of the permissible components of the change in an option's time value. For example, an entity shall not exclude from the assessment of hedge effectiveness the portion of the change in time value attributable to changes in other market variables (that is, other than rho and vega). (815-20-25-83)

Note – The following ASC Paragraphs 815-20-25-83A and 83B are not adopted within SSAP No. 86 as they address measurement and recognition. Measurement and recognition guidance shall follow the provisions detailed in SSAP No. 86.

For fair value and cash flow hedges, the initial value of the component excluded from the assessment of effectiveness shall be recognized in earnings using a systematic and rational method over the life of the hedging instrument. Any difference between the change in fair value of the excluded component and amounts recognized in earnings under that systematic and rational method shall be recognized in other comprehensive income. Example 31 beginning in paragraph 815-20-55-235 illustrates this approach for a cash flow hedge in which the hedging instrument is an option and the entire time value is excluded from the assessment of effectiveness. (815-20-25-83A)

For fair value and cash flow hedges, an entity alternatively may elect to record changes in the fair value of the excluded component currently in earnings. This election shall be applied consistently to similar hedges in accordance with paragraph 815-20-25-81 and shall be disclosed in accordance with paragraph 815-10-50-4EEEE. (815-20-25-83B)

10. If the critical terms of the hedging instrument and of the hedged item or hedged forecasted transaction are the same, the entity could conclude that changes in fair value or cash flows attributable to the risk being hedged are expected to completely offset at inception and on an ongoing basis. For example, an entity may assume that a hedge of a forecasted purchase of a commodity with a forward contract will be perfectly effective if all of the following criteria are met:
The forward contract is for purchase of the same quantity of the same commodity at the same time and location as the hedged forecasted purchase. Location differences do not need to be considered if an entity designates the variability in cash flows attributable to changes in a contractually specified component as the hedged risk and the requirements in paragraphs 815-20-25-22A through 25-22B of the FASB Codification are met. (815-20-25-84)

b. The fair value of the forward contract at inception is zero.

c. Either of the following criteria is met:
   i. The change in the discount or premium on the forward contract is excluded from the assessment of effectiveness pursuant to paragraphs 815-20-25-81 through 25-83.
   ii. The change in expected cash flows on the forecasted transaction is based on the forward price for the commodity.

11. In a cash flow hedge of a group of forecasted transactions in accordance with paragraph 28.a. of the SSAP guidance 815-20-25-15(a)(2), an entity may assume that the timing in which the hedged transactions are expected to occur and the maturity date of the hedging instrument match in accordance with paragraph 10.a. 815-20-25-84(a) if those forecasted transactions occur and the derivative matures within the same 31-day period or fiscal month. (815-20-25-84A)

12. If all of the criteria in paragraphs 10-11 815-20-25-84 through 25-84A are met, an entity shall still perform and document an assessment of hedge effectiveness at the inception of the hedging relationship and, as discussed beginning in paragraph 815-20-35-9, on an ongoing basis throughout the hedge period. No quantitative effectiveness assessment is required at hedge inception if the criteria in paragraphs 10-11 815-20-25-84 through 25-84A are met (see paragraph 815-20-25-3(b)(2)(iv)(01)). (815-20-25-85)

(ASC paragraphs 815-20-25-86 to 815-20-25-97 not included in Exhibit A.)

Computing Changes in an Option's Time Value

13. In computing the changes in an option's time value that would be excluded from the assessment of hedge effectiveness, an entity shall use a technique that appropriately isolates those aspects of the change in time value. Generally, to allocate the total change in an option's time value to its different aspects—the passage of time and the market variables—the change in time value attributable to the first aspect to be isolated is determined by holding all other aspects constant as of the beginning of the period. Each remaining aspect of the change in time value is then determined in turn in a specified order based on the ending values of the previously isolated aspects. (815-20-25-98)

14. Based on that general methodology, if only one aspect of the change in time value is excluded from the assessment of hedge effectiveness (for example, theta), that aspect shall be the first aspect for which the change in time value is computed and would be determined by holding all other parameters constant for the period used for assessing hedge effectiveness. However, if more than one aspect of the change in time value is excluded from the assessment of hedge effectiveness (for example, theta and vega), an entity shall determine the amount of that change in time value by isolating each of those two aspects in turn in a prespecified order (one first, the other second). The second aspect to be isolated would be based
on the ending value of the first isolated aspect and the beginning values of the remaining aspects. The portion of the change in time value that is included in the assessment of effectiveness shall be determined by deducting from the total change in time value the portion of the change in time value attributable to excluded components. (815-20-25-99)

(ASC paragraphs 815-20-25-100 and 815-20-25-101 not included in Exhibit A.)

Assuming Perfect Hedge Effectiveness in a Hedge with an Interest Rate Swap

15. The conditions for the shortcut method do not determine which hedging relationships qualify for hedge accounting; rather, those conditions determine which hedging relationships qualify for a shortcut version of hedge accounting that assumes perfect hedge effectiveness. If all of the applicable conditions in the list in paragraph 17.815-20-25-104 are met, an entity may assume perfect effectiveness in a hedging relationship of interest rate risk involving a recognized interest-bearing asset or liability (or a firm commitment arising on the trade [pricing] date to purchase or issue an interest-bearing asset or liability) and an interest rate swap (or a compound hedging instrument composed of an interest rate swap and a mirror-image call or put option as discussed in paragraph 17.e. 815-20-25-104[e]) provided that, in the case of a firm commitment, the trade date of the asset or liability differs from its settlement date due to generally established conventions in the marketplace in which the transaction is executed. The shortcut method’s application shall be limited to hedging relationships that meet each and every applicable condition. That is, all the conditions applicable to fair value hedges shall be met to apply the shortcut method to a fair value hedge, and all the conditions applicable to cash flow hedges shall be met to apply the shortcut method to a cash flow hedge. A hedging relationship cannot qualify for application of the shortcut method based on an assumption of perfect effectiveness justified by applying other criteria. The verb match is used in the specified conditions in the list to mean exactly the same or correspond exactly. (815-20-25-102)

16. Implicit in the conditions for the shortcut method is the requirement that a basis exist for concluding on an ongoing basis that the hedging relationship is expected to be highly effective in achieving offsetting changes in fair values or cash flows. In applying the shortcut method, an entity shall consider the likelihood of the counterparty’s compliance with the contractual terms of the hedging derivative that require the counterparty to make payments to the entity. (815-20-25-103)

17. All of the following conditions apply to both fair value hedges and cash flow hedges: (815-20-25-104)

a. The notional amount of the interest rate swap matches the principal amount of the interest-bearing asset or liability being hedged.

b. If the hedging instrument is solely an interest rate swap, the fair value of that interest rate swap at the inception of the hedging relationship must be zero, with one exception. The fair value of the swap may be other than zero at the inception of the hedging relationship only if the swap was entered into at the relationship’s inception, the transaction price of the swap was zero in the entity’s principal market (or most advantageous market), and the difference between transaction price and fair value is attributable solely to differing prices within the bid-ask spread between the entry transaction and a hypothetical exit transaction. The guidance in the preceding sentence is applicable only to transactions considered at market (that is, transaction price is zero exclusive of commissions and other transaction costs, as discussed in paragraph 820-10-35-9B). If the hedging instrument is solely an interest rate swap that at the inception of the hedging relationship has a positive or negative
Ref #2017-33

fair value, but does not meet the one exception specified in this paragraph, the shortcut method shall not be used even if all the other conditions are met.

c. If the hedging instrument is a compound derivative composed of an interest rate swap and mirror-image call or put option as discussed in (e), the premium for the mirror-image call or put option shall be paid or received in the same manner as the premium on the call or put option embedded in the hedged item based on the following:

i. If the implicit premium for the call or put option embedded in the hedged item is being paid principally over the life of the hedged item (through an adjustment of the interest rate), the fair value of the hedging instrument at the inception of the hedging relationship shall be zero (except as discussed previously in (b) regarding differing prices due to the existence of a bid-ask spread).

ii. If the implicit premium for the call or put option embedded in the hedged item was principally paid at inception-acquisition (through an original issue discount or premium), the fair value of the hedging instrument at the inception of the hedging relationship shall be equal to the fair value of the mirror-image call or put option.

d. The formula for computing net settlements under the interest rate swap is the same for each net settlement. That is, both of the following conditions are met:

i. The fixed rate is the same throughout the term.

ii. The variable rate is based on the same index and includes the same constant adjustment or no adjustment. The existence of a stub period and stub rate is not a violation of the criterion in (d) that would preclude application of the shortcut method if the stub rate is the variable rate that corresponds to the length of the stub period.

e. The interest-bearing asset or liability is not prepayable, that is, able to be settled by either party before its scheduled maturity, or the assumed maturity date if the hedged item is measured as a partial-term hedge of interest rate risk in which the assumed maturity of the hedged items occur on the date in which the last hedged cash flow is due and payable, in accordance with paragraph 815-25-35-13B, with the following qualifications:

i. This criterion does not apply to an interest-bearing asset or liability that is prepayable solely due to an embedded call option (put option) if the hedging instrument is a compound derivative composed of an interest rate swap and a mirror-image call option (put option).

ii. The call option embedded in the interest rate swap is considered a mirror image of the call option embedded in the hedged item if all of the following conditions are met:

(a) The terms of the two call options match exactly, including all of the following:

(1) Maturities
Ref #2017-33

(2) Strike price (that is, the actual amount for which the debt instrument could be called) and there is no termination payment equal to the deferred debt issuance costs that remain unamortized on the date the debt is called.

(3) Related notional amounts

(4) Timing and frequency of payments

(5) Dates on which the instruments may be called.

(b) The entity is the writer of one call option and the holder (purchaser) of the other call option.

f. Any other terms in the interest-bearing financial instruments or interest rate swaps meet both of the following conditions:

i. The terms are typical of those instruments.

ii. The terms do not invalidate the assumption of perfect effectiveness.

18. All of the following incremental conditions apply to fair value hedges only: (815-20-25-105)

a. The expiration date of the interest rate swap matches the maturity date of the interest-bearing asset or liability or the assumed maturity date if the hedged item is measured as a partial-term hedge of interest rate risk in which the assumed maturity of the hedged items occur on the date in which the last hedged cash flow is due and payable in accordance with paragraph 815-25-35-13B.

b. There is no floor or cap on the variable interest rate of the interest rate swap.

c. The interval between repricings of the variable interest rate in the interest rate swap is frequent enough to justify an assumption that the variable payment or receipt is at a market rate (generally three to six months or less).

d. For fair value hedges of a proportion of the principal amount of the interest-bearing asset or liability, the notional amount of the interest rate swap designated as the hedging instrument (see (a) in paragraph 815-20-25-104) matches the portion of the asset or liability being hedged.

e. For fair value hedges of portfolios (or proportions thereof) of similar interest-bearing assets or liabilities, both of the following criteria are met:

i. The notional amount of the interest rate swap designated as the hedging instrument matches the aggregate notional amount of the hedged item (whether it is all or a proportion of the total portfolio).
ii. The remaining criteria for the shortcut method are met with respect to the interest rate swap and the individual assets or liabilities in the portfolio.

f. The index on which the variable leg of the interest rate swap is based matches the benchmark interest rate designated as the interest rate risk being hedged for that hedging relationship.

19. All of the following incremental conditions apply to cash flow hedges only: (815-20-25-106)
   
a. All interest receipts or payments on the variable-rate asset or liability during the term of the interest rate swap are designated as hedged.

b. No interest payments beyond the term of the interest rate swap are designated as hedged.

c. Either of the following conditions is met:
   
i. There is no floor or cap on the variable interest rate of the interest rate swap.
   
ii. The variable-rate asset or liability has a floor or cap and the interest rate swap has a floor or cap on the variable interest rate that is comparable to the floor or cap on the variable-rate asset or liability. For purposes of this paragraph, comparable does not necessarily mean equal. For example, if an interest rate swap's variable rate is based on LIBOR and an asset's variable rate is LIBOR plus 2 percent, a 10 percent cap on the interest rate swap would be comparable to a 12 percent cap on the asset.

d. The repricing dates of the variable-rate asset or liability and the hedging instrument must occur on the same dates and be calculated the same way (that is, both shall be either prospective or retrospective). If the repricing dates of the hedged item occur on the same dates as the repricing dates of the hedging instrument but the repricing calculation for the hedged item is prospective whereas the repricing calculation for the hedging instrument is retrospective, those repricing dates do not match.

e. For cash flow hedges of the interest payments on only a portion of the principal amount of the interest-bearing asset or liability, the notional amount of the interest rate swap designated as the hedging instrument (see paragraph 815-20-25-104(a)) matches the principal amount of the portion of the asset or liability on which the hedged interest payments are based.

f. For a cash flow hedge in which the hedged forecasted transaction is a group of individual transactions (as permitted by paragraph 28.a. of the SSAP guidance paragraph 815-20-25-15(a)), if both of the following criteria are met:
   
i. The notional amount of the interest rate swap designated as the hedging instrument (see paragraph (a)) matches the notional amount of the aggregate group of hedged transactions.
   
ii. The remaining criteria for the shortcut method are met with respect to the interest rate swap and the individual transactions that make up the group. For example, the interest rate repricing dates for the variable-rate assets or liabilities whose interest
payments are included in the group of forecasted transactions shall match (that is, be exactly the same as) the reset dates for the interest rate swap.

g. The index on which the variable leg of the interest rate swap is based matches the contractually specified interest rate designated as the interest rate being hedged for that hedging relationship.

20. The shortcut method may be applied to a hedging relationship that involves the use of an interest rate swap-in-arrears provided all of the applicable conditions are met. (815-20-25-107)

21. Any discount or premium in the hedged debt's carrying amount (including any related deferred issuance costs) is irrelevant to and has no direct impact on the determination of whether an interest rate swap contains a mirror-image call option under paragraph 17.e.i.(e). Typically, the call price is greater than the par or face amount of the debt instrument. The carrying amount of the debt is economically unrelated to the amount the issuer would be required to pay to exercise the call embedded in the debt. (815-20-25-108)

22. The fixed interest rate on a hedged item need not exactly match the fixed interest rate on an interest rate swap designated as a fair value hedge. Nor does the variable interest rate on an interest-bearing asset or liability need to be the same as the variable interest rate on an interest rate swap designated as a cash flow hedge. An interest rate swap’s fair value comes from its net settlements. The fixed and variable interest rates on an interest rate swap can be changed without affecting the net settlement if both are changed by the same amount. That is, an interest rate swap with a payment based on LIBOR and a receipt based on a fixed rate of 5 percent has the same net settlements and fair value as an interest rate swap with a payment based on LIBOR plus 1 percent and a receipt based on a fixed rate of 6 percent. (815-20-25-109)

23. Comparable credit risk at inception is not a condition for assuming perfect effectiveness even though actually achieving perfect offset would require that the same discount rate be used to determine the fair value of the swap and of the hedged item or hedged transaction. To justify using the same discount rate, the credit risk related to both parties to the swap as well as to the debtor on the hedged interest-bearing asset (in a fair value hedge) or the variable-rate asset on which the interest payments are hedged (in a cash flow hedge) would have to be the same. However, because that complication is caused by the interaction of interest rate risk and credit risk, which are not easily separable, comparable creditworthiness is not considered a necessary condition for assuming perfect effectiveness in a hedge of interest rate risk. (815-20-25-111)

(ASC paragraphs 815-20-25-112 through 815-20-25-143 not included in Exhibit A.)

Hedge Effectiveness – After Designation

24. If a fair value hedge or cash flow hedge initially qualifies for hedge accounting, the entity would continue to assess whether the hedge meets the effectiveness test on either a quantitative basis (using either a dollar-offset test or a statistical method such as regression analysis) or a qualitative basis. See paragraphs 815-20-35-2A through 35-2E for additional guidance on qualitative assessments of effectiveness. If the hedge fails the effectiveness test at any time (that is, if the entity does not expect the hedge to be highly effective at achieving offsetting changes in fair values or cash flows), the hedge ceases to qualify for hedge accounting. At least quarterly, the hedging entity shall determine whether the hedging relationship has been highly effective in having achieved offsetting changes in fair value or cash flows through the date of the periodic assessment.) (815-20-35-2)
Effectiveness Assessment on a Qualitative Basis

25. An entity may qualitatively assess hedge effectiveness if both of the following criteria are met: (815-20-35-2A)
   
   a. An entity performs an initial quantitative test of hedge effectiveness on a prospective basis (that is, it is not assuming that the hedging relationship is perfectly effective at hedge inception as described in paragraph 815-20-25-3(b)(2)(iv)(01)(A) through (H)), and the results of that quantitative test demonstrate highly effective offset.
   
   b. At hedge inception, an entity can reasonably support an expectation of high effectiveness on a qualitative basis in subsequent periods.

26. An entity may elect to qualitatively assess hedge effectiveness in accordance with paragraph 25 815-20-35-2A on a hedge-by-hedge basis. If an entity makes this qualitative assessment election, only the quantitative method specified in an entity’s initial hedge documentation must comply with paragraph 7815- 20-25-81. (815-20-35-2B)

27. When an entity performs qualitative assessments of hedge effectiveness, it shall verify and document whenever financial statements or earnings are reported and at least every three months that the facts and circumstances related to the hedging relationship have not changed such that it can assert qualitatively that the hedging relationship was and continues to be highly effective. While not all-inclusive, the following is a list of indicators that may, individually or in the aggregate, allow an entity to continue to assert qualitatively that the hedging relationship is highly effective: (815-20-35-2C)
   
   a. An assessment of the factors that enabled the entity to reasonably support an expectation of high effectiveness on a qualitative basis has not changed such that the entity can continue to assert qualitatively that the hedging relationship was and continues to be highly effective. This shall include an assessment of the guidance in paragraph 815-20-25- 100 when applicable.
   
   b. There have been no adverse developments regarding the risk of counterparty default.

28. If an entity elects to assess hedge effectiveness on a qualitative basis and then facts and circumstances change such that the entity no longer can assert qualitatively that the hedging relationship was and continues to be highly effective in achieving offsetting changes in fair values or cash flows, the entity shall assess effectiveness of that hedging relationship on a quantitative basis in subsequent periods. In addition, an entity may perform a quantitative assessment of hedge effectiveness in any reporting period to validate whether qualitative assessments of hedge effectiveness remain appropriate. In both cases, the entity shall apply the quantitative method that it identified in its initial hedge documentation in accordance with paragraph (b)(2)(iv)(03). (815-20-35-2D)

29. When an entity determines that facts and circumstances have changed and it no longer can assert qualitatively that the hedging relationship was and continues to be highly effective, the entity shall begin performing subsequent quantitative assessments of hedge effectiveness as of the period that the facts and circumstances changed. If there is no identifiable event that led to the change in the facts and circumstances of the hedging relationship, the entity may begin performing quantitative assessments of effectiveness in the current period. (815-20-35-2E)
30. After performing a quantitative assessment of hedge effectiveness for one or more reporting periods as discussed in paragraphs 28-29815-20-35-2D through 35-2E, an entity may revert to qualitative assessments of hedge effectiveness if it can reasonably support an expectation of high effectiveness on a qualitative basis for subsequent periods. See paragraphs 815-20-55-79G through 55-79N for implementation guidance on factors to consider when determining whether qualitative assessments of effectiveness can be performed after hedge inception. (815-20-35-2F)

Quantitative Hedge Effectiveness Assessments After Hedge Designation

31. Quantitative assessments can be based on regression or other statistical analysis of past changes in fair values or cash flows as well as on other relevant information. (815-20-35-2G)

32. If an entity elects at the inception of a hedging relationship to use the same regression analysis approach for both prospective considerations and retrospective evaluations of assessing effectiveness, then during the term of that hedging relationship both of the following conditions shall be met: (815-20-35-3)
   a. Those regression analysis calculations shall generally incorporate the same number of data points.
   b. That entity must periodically update its regression analysis (or other statistical analysis).

33. Electing to use a regression or other statistical analysis approach instead of a dollar-offset approach to perform retrospective evaluations of assessing hedge effectiveness may affect whether an entity can apply hedge accounting for the current assessment period. (815-20-35-4)

34. In periodically (that is, at least quarterly) assessing retrospectively the effectiveness of a fair value hedge (or a cash flow hedge) in having achieved offsetting changes in fair values (or cash flows) under a dollar-offset approach, an entity shall use either a period-by-period approach or a cumulative approach on individual fair value hedges (or cash flow hedges): (815-20-35-5)
   a. Period-by-period approach. The period-by-period approach involves comparing the changes in the hedging instrument’s fair values (or cash flows) that have occurred during the period being assessed to the changes in the hedged item’s fair value (or hedged transaction’s cash flows) attributable to the risk hedged that have occurred during the same period. If an entity elects to base its comparison of changes in fair value (or cash flows) on a period-by-period approach, the period cannot exceed three months. Fair value (or cash flow) patterns of the hedging instrument or the hedged item (or hedged transaction) in periods before the period being assessed are not relevant.
   b. Cumulative approach. The cumulative approach involves comparing the cumulative changes (to date from inception of the hedge) in the hedging instrument’s fair values (or cash flows) to the cumulative changes in the hedged item’s fair value (or hedged transaction’s cash flows) attributable to the risk hedged.

35. If an entity elects at inception of a hedging relationship to base its comparison of changes in fair value (or cash flows) on a cumulative approach, then that entity must abide by the results of that methodology as long as that hedging relationship remains designated. Electing to utilize a period-by-period approach instead of a cumulative approach (or vice versa) to perform retrospective evaluations of assessing
hedge effectiveness under the dollar-offset method may affect whether an entity can apply hedge accounting for the current assessment period. (815-20-35-6)

Assessing Effectiveness Based on Whether the Critical Terms of the Hedging Instrument and the Hedged Items Match

36. If, at inception, the critical terms of the hedging instrument and the hedged forecasted transaction are the same (see paragraphs 10-11 815-20-25-84 through 25-84A), the entity can conclude that changes in cash flows attributable to the risk being hedged are expected to be completely offset by the hedging derivative. Therefore, subsequent assessments can be performed by verifying and documenting whether the critical terms of the hedging instrument and the forecasted transaction have changed during the period in review. (815-20-35-9)

37. Because the assessment of hedge effectiveness in a cash flow hedge involves assessing the likelihood of the counterparty’s compliance with the contractual terms of the derivative instrument designated as the hedging instrument, the entity must also assess whether there have been adverse developments regarding the risk of counterparty default, particularly if the entity planned to obtain its cash flows by liquidating the derivative instrument at its fair value. (815-20-35-10)

38. If there are no such changes in the critical terms or adverse developments regarding counterparty default, the entity may conclude that the hedging relationship is perfectly effective. In that case, the change in fair value of the derivative instrument can be viewed as a proxy for the present value of the change in cash flows attributable to the risk being hedged. (815-20-35-11)

39. However, the entity must assess whether the hedging relationship is expected to continue to be highly effective using a quantitative assessment method (either a dollar-offset test or a statistical method such as regression analysis) if any of the following conditions exist: (815-20-35-12)

a. The critical terms of the hedging instrument or the hedged forecasted transaction have changed.

b. There have been adverse developments regarding the risk of counterparty default.

Possibility of Default by the Counterparty to Hedging Derivative

40. For an entity to conclude on an ongoing basis that the hedging relationship is expected to be highly effective in achieving offsetting changes in cash flows, the entity shall not ignore whether it will collect the payments it would be owed under the contractual provisions of the derivative instrument. In complying with the requirements of paragraph 2.b. 815-20-25-75(b), the entity shall assess the possibility of whether the counterparty to the derivative instrument will default by failing to make any contractually required payments to the entity as scheduled in the derivative instrument. In making that assessment, the entity shall also consider the effect of any related collateralization or financial guarantees. The entity shall be aware of the counterparty’s creditworthiness (and changes therein) in determining the fair value of the derivative instrument. Although a change in the counterparty’s creditworthiness would not necessarily indicate that the counterparty would default on its obligations, such a change shall warrant further evaluation. (815-20-35-14)

41. If the likelihood that the counterparty will not default ceases to be probable, an entity would be unable to conclude that the hedging relationship in a cash flow hedge is expected to be highly effective in achieving offsetting cash flows. (815-20-35-15)
42. In contrast, a change in the creditworthiness of the derivative instrument's counterparty in a fair value hedge would have an immediate effect because that change in creditworthiness would affect the change in the derivative instrument's fair value, which would immediately affect both of the following:

a. The assessment of whether the relationship qualifies for hedge accounting
b. The amount of mismatch between the change in the fair value of the hedging instrument and the hedged item attributable to the hedged risk recognized in earnings under fair value hedge accounting.

43. Paragraph 16815-20-25-103 states that, in applying the shortcut method, an entity shall consider the likelihood of the counterparty’s compliance with the contractual terms of the hedging derivative that require the counterparty to make payments to the entity. That paragraph explains that implicit in the criteria for the shortcut method is the requirement that a basis exist for concluding on an ongoing basis that the hedging relationship is expected to be highly effective in achieving offsetting changes in fair values or cash flows. (815-20-35-18)

Change in Hedge Effectiveness Method When Hedge Effectiveness if Assessed on a Quantitative Basis

44. If the entity identifies an improved method of assessing hedge effectiveness in accordance with the guidance in paragraph 6815-20-25-80 and wants to apply that method prospectively, it shall do both of the following: (815-20-35-19)

a. Discontinue the existing hedging relationship
b. Designate the relationship anew using the improved method.

45. The new method of assessing hedge effectiveness shall be applied prospectively and shall also be applied to similar hedges unless the use of a different method for similar hedges is justified. A change in the method of assessing hedge effectiveness by an entity shall not be considered a change in accounting principle as defined in Topic 250 SSAP No. 3—Accounting Changes and Corrections of Errors. (815-20-35-20)
U.S. GAAP ASC Excerpts Excluded from Exhibit A

This information is included to illustrate the guidance within the adopted ASC references that are not captured in Exhibit A. The guidance within these paragraphs is considered part of the statutory adoption unless they include specific accounting and reporting guidance.

815-20-25-79A See paragraphs 815-20-25-139 through 25-142 about the timing of hedge effectiveness assessments required by paragraph 815-20-25-79 for a private company that is not a financial institution or a not-for-profit entity (except for a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market).

815-20-25-86 The remainder of this guidance on hedge effectiveness criteria applicable to both fair value hedges and cash flow hedges is organized as follows:

a. Hedge effectiveness when the hedging instrument is an option or combination of options
b. Hedge effectiveness when hedged exposure is more limited than hedging instrument
c. Hedge effectiveness during designated hedge period
d. Assuming perfect effectiveness in a hedge with an interest rate swap (the shortcut method).

Hedge Effectiveness When the Hedging Instrument Is an Option or Combination of Options

815-20-25-87 The hedge effectiveness criteria applicable to options and combinations of options are organized as follows:

a. Determining whether a combination of options is net written
b. Hedge effectiveness of written options
c. Hedge effectiveness of options in general.

Determining Whether a Combination of Options Is Net Written

815-20-25-88 This guidance addresses how an entity shall determine whether a combination of options is considered a net written option subject to the requirements of paragraph 815-20-25-94. A combination of options (for example, an interest rate collar) entered into contemporaneously shall be considered a written option if either at inception or over the life of the contracts a net premium is received in cash or as a favorable rate or other term. Furthermore, a derivative instrument that results from combining a written option and any other non-option derivative instrument shall be considered a written option. The determination of whether a combination of options is considered a net written option depends in part on whether strike prices and notional amounts of the options remain constant.

Strike Prices and Notional Amounts Remain Constant

815-20-25-89 For a combination of options in which the strike price and the notional amount in both the written option component and the purchased option component remain constant over the life of the respective component, that combination of options would be considered a net purchased option or a zero
cost collar (that is, the combination shall not be considered a net written option subject to the requirements of paragraph 815-20-25-94) provided all of the following conditions are met:

a. No net premium is received.
b. The components of the combination of options are based on the same underlying.
c. The components of the combination of options have the same maturity date.
d. The notional amount of the written option component is not greater than the notional amount of the purchased option component.

815-20-25-90 If the combination of options does not meet all of those conditions, it shall be subject to the test in paragraph 815-20-25-94. For example, a combination of options having different underlying indexes, such as a collar containing a written floor based on three-month U.S. Treasury rates and a purchased cap based on three-month London Interbank Offered Rate (LIBOR), shall not be considered a net purchased option or a zero cost collar even though those rates may be highly correlated.

Strike Prices and Notional Amounts Do Not Remain Constant

815-20-25-91 If either the written option component or the purchased option component for a combination of options has either strike prices or notional amounts that do not remain constant over the life of the respective component, the assessment to determine whether that combination of options can be considered not to be a written option under paragraph 815-20-25-88 shall be evaluated with respect to each date that either the strike prices or the notional amounts change within the contractual term from inception to maturity.

815-20-25-92 Even though that assessment is made on the date that a combination of options is designated as a hedging instrument (to determine the applicability of paragraph 815-20-25-94), it shall consider the receipt of a net premium (in cash or as a favorable rate or other term) from that combination of options at each point in time that either the strike prices or the notional amounts change, such as either of the following circumstances:

a. If strike prices fluctuate over the life of a combination of options and no net premium is received at inception, a net premium will typically be received as a favorable term in one or more reporting periods within the contractual term from inception to maturity.
b. If notional amounts fluctuate over the life of a combination of options and no net premium is received at inception, a net premium or a favorable term will typically be received in one or more periods within the contractual term from inception to maturity.

815-20-25-93 In addition, a combination of options in which either the written option component or the purchased option component has either strike prices or notional amounts that do not remain constant over the life of the respective component shall satisfy all of the conditions in paragraph 815-20-25-89 to be considered not to be a written option (that is, to be considered to be a net purchased option or zero cost collar) under paragraph 815-20-25-88. For example, if the notional amount of the written option component is greater than the notional amount of the purchased option component at any date that the notional amount changes within the contractual term from inception to maturity, the combination of options shall be considered to be a written option under paragraph 815-20-25-88 and, thus, subject to the criteria in the following paragraph.
Hedge Effectiveness of Written Options

815-20-25-94 If a written option is designated as hedging a recognized asset or liability or an unrecognized firm commitment (if a fair value hedge) or the variability in cash flows for a recognized asset or liability or an unrecognized firm commitment (if a cash flow hedge), the combination of the hedged item and the written option provides either of the following:

   a. At least as much potential for gains as a result of a favorable change in the fair value of the combined instruments (that is, the written option and the hedged item, such as an embedded purchased option) as exposure to losses from an unfavorable change in their combined fair value (if a fair value hedge)

   b. At least as much potential for favorable cash flows as exposure to unfavorable cash flows (if a cash flow hedge).

815-20-25-95 The written-option test in the preceding paragraph shall be applied only at inception of the hedging relationship and is met if all possible percentage favorable changes in the underlying (from zero percent to 100 percent) would provide either of the following:

   a. At least as much gain as the loss that would be incurred from an unfavorable change in the underlying of the same percentage (if a fair value hedge)

   b. At least as much favorable cash flows as the unfavorable cash flows that would be incurred from an unfavorable change in the underlying of the same percentage (if a cash flow hedge).

815-20-25-96 The time value of a written option (or net written option) may be excluded from the written-option test if, in defining how hedge effectiveness will be assessed, the entity specifies that it will base that assessment on only changes in the option’s intrinsic value. In that circumstance, the change in the time value of the options would be excluded from the assessment of hedge effectiveness in accordance with paragraph 815-20-25-82(a).

815-20-25-97 When applying the written-option test to determine whether there is symmetry of the gain and loss potential of the combined hedged position for all possible percentage changes in the underlying, an entity is permitted to measure the change in the intrinsic value of the written option (or net written option) combined with the change in fair value of the hedged item.

Hedge Effectiveness When Hedged Exposure Is More Limited Than Hedging Instrument

815-20-25-100 An entity may designate as the hedging instrument in a fair value hedge or cash flow hedge a derivative instrument that does not have a limited exposure comparable to the limited exposure of the hedged item to the risk being hedged. However, to make that designation, in accordance with paragraph 815-20-25-75, the entity shall establish that the hedging relationship is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period that the hedge is designated. See paragraph 815-20-25-79(a) for additional guidance on prospective considerations of hedge effectiveness in this circumstance.
Hedge Effectiveness during Designated Hedge Period

**815-20-25-101** It is inappropriate under this Subtopic for an entity to designate a derivative instrument as the hedging instrument if the entity expects that the derivative instrument will not be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period that the hedge is designated, unless the entity has documented undertaking a dynamic hedging strategy in which it has committed itself to an ongoing repositioning strategy for its hedging relationship.

>>> Application of Prepayable Criterion

**815-20-25-112** An interest-bearing asset or liability shall be considered prepayable under the provisions of paragraph 815-20-25-104(e) if one party to the contract has the right to cause the payment of principal before the scheduled payment dates unless either of the following conditions is met:

a. The debtor has the right to cause settlement of the entire contract before its stated maturity at an amount that is always greater than the then fair value of the contract absent that right.

b. The creditor has the right to cause settlement of the entire contract before its stated maturity at an amount that is always less than the then fair value of the contract absent that right.

**815-20-25-113** However, none of the following shall be considered a prepayment provision:

a. Any term, clause, or other provision in a debt instrument that gives the debtor or creditor the right to cause prepayment of the debt contingent upon the occurrence of a specific event related to the debtor’s credit deterioration or other change in the debtor’s credit risk, such as any of the following:
   1. The debtor’s failure to make timely payment, thus making it delinquent
   2. The debtor's failure to meet specific covenant ratios
   3. The debtor's disposition of specific significant assets (such as a factory)
   4. A declaration of cross-default
   5. A restructuring by the debtor.

b. Any term, clause, or other provision in a debt instrument that gives the debtor or creditor the right to cause prepayment of the debt contingent upon the occurrence of a specific event that meets all of the following conditions:
   1. It is not probable at the time of debt issuance.
   2. It is unrelated to changes in benchmark interest rates, contractually specified interest rates, or any other market variable.
   3. It is related either to the debtor’s or creditor’s death or to regulatory actions, legislative actions, or other similar events that are beyond the control of the debtor or creditor.
c. Contingent acceleration clauses that permit the debtor to accelerate the maturity of an outstanding note only upon the occurrence of a specified event that meets all of the following conditions:

1. It is not probable at the time of debt issuance.
2. It is unrelated to changes in benchmark interest rates, contractually specified interest rates, or any other market variable.
3. It is related to regulatory actions, legislative actions, or other similar events that are beyond the control of the debtor or creditor.

815-20-25-114 Furthermore, a right to cause a contract to be prepaid at its then fair value would not cause the interest-bearing asset or liability to be considered prepayable because that right would have a fair value of zero at all times and essentially would provide only liquidity to the holder.

815-20-25-115 Application of this guidance to specific debt instruments is illustrated in paragraph 815-20-55-75.

Application of the Shortcut Method to a Portfolio of Hedged Items

815-20-25-116 Portfolio hedging cannot be used to circumvent the application of the shortcut method criteria beginning in paragraph 815-20-25-102 to a fair value hedge of an individual interest-bearing asset or liability. A portfolio of interest-bearing assets or interest-bearing liabilities cannot qualify for the shortcut method if it contains an interest-bearing asset or liability that individually cannot qualify for the shortcut method.

815-20-25-117 The fair value hedge requirements of paragraph 815-20-25-12(b)(1) ensure that the individual items in a portfolio share the same risk exposure and have fair value changes attributable to the hedged risk that are expected to respond in a generally proportionate manner to the overall fair value changes of the entire portfolio. That requirement restricts the types of portfolios that can qualify for portfolio hedging; however, it also permits the existence of a mismatch between the change in the fair value of the individual hedged items and the change in the fair value of the hedged portfolio attributable to the hedged risk in portfolios that do qualify. As a result, the assumption of perfect effectiveness required for the shortcut method generally is inappropriate for portfolio hedges of similar assets or liabilities that are not also nearly identical (except for their notional amounts). Application of the shortcut method to portfolios that meet the requirements of paragraph 815-20-25-12(b)(1) is appropriate only if the assets or liabilities in the portfolio meet the same stringent criteria in paragraphs 815-20-25-104(e), 815-20-25-104(g), and 815-20-25-105(a) as required for hedges of individual assets and liabilities.

Application of Whether the Shortcut Method Was Not or No Longer Is Appropriate

815-20-25-117A In the period in which an entity determines that use of the shortcut method was not or no longer is appropriate, the entity may use a quantitative method to assess hedge effectiveness and measure hedge results without redesignating the hedging relationship if both of the following criteria are met:

a. The entity documented at hedge inception in accordance with paragraph 815-20-25-3(b)(2)(iv)(04) which quantitative method it would use to assess hedge effectiveness and
measure hedge results if the shortcut method was not or no longer is appropriate during the life of the hedging relationship.

b. The hedging relationship was highly effective on a prospective and retrospective basis in achieving offsetting changes in fair value or cash flows attributable to the hedged risk for the periods in which the shortcut method criteria were not met.

815-20-25-117B If the criterion in paragraph 815-20-25-117A(a) is not met, the hedging relationship shall be considered invalid in the period in which the criteria for the shortcut method were not met and in all subsequent periods. If the criterion in paragraph 815-20-25-117A(a) is met, the hedging relationship shall be considered invalid in all periods in which the criterion in paragraph 815-20-25-117A(b) is not met.

815-20-25-117C If an entity cannot identify the date on which the shortcut criteria ceased to be met, the entity shall perform the quantitative assessment of effectiveness documented at hedge inception for all periods since hedge inception.

815-20-25-117D The terms of the hedged item and hedging instrument used to assess effectiveness, in accordance with paragraph 815-20-25-117A(b), shall be those existing as of the date that the shortcut criteria ceased to be met. For cash flow hedges, if the hypothetical derivative method is used as a proxy for the hedged item, the value of the hypothetical derivative shall be set to zero as of hedge inception.

Hedge Effectiveness Criterion Applicable to Fair Value Hedges Only—Effectiveness Horizon

815-20-25-118 In documenting its risk management strategy for a fair value hedge, an entity may specify an intent to consider the possible changes (that is, not limited to the likely or expected changes) in value of the hedging derivative instrument and the hedged item only over a shorter period than the derivative instrument's remaining life in formulating its expectation that the hedging relationship will be highly effective in achieving offsetting changes in fair value for the risk being hedged. The entity does not need to contemplate the offsetting effect for the entire term of the hedging instrument.

Consideration of Prepayment Risk Using the Last-of-Layer Method

815-20-25-118A In a fair value hedge of interest rate risk designated under the last-of-layer method in accordance with paragraph 815-20-25-12A, an entity may exclude prepayment risk when measuring the change in fair value of the hedged item attributable to interest rate risk.

Hedge Effectiveness Criteria Applicable to Cash Flow Hedges Only

815-20-25-119 The hedge effectiveness criteria applicable to cash flow hedges only are organized as follows:

a. Consideration of the time value of money

b. Consideration of counterparty credit risk

c. Additional considerations for options in cash flow hedges

d. Assuming perfect hedge effectiveness in a cash flow hedge of a variable-rate borrowing with a receive-variable, pay-fixed interest rate swap recorded under the simplified hedge accounting approach.
Consideration of the Time Value of Money

815-20-25-120 In assessing the effectiveness of a cash flow hedge, an entity generally shall consider the time value of money, especially if the hedging instrument involves periodic cash settlements.

815-20-25-121 An example of a situation in which an entity likely would reflect the time value of money is a tailing strategy with futures contracts. When using a tailing strategy, an entity adjusts the size or contract amount of futures contracts used in a hedge so that earnings (or expense) from reinvestment (or funding) of daily settlement gains (or losses) on the futures do not distort the results of the hedge. To assess offset of expected cash flows when a tailing strategy has been used, an entity could reflect the time value of money, perhaps by comparing the present value of the hedged forecasted cash flow with the results of the hedging instrument.

Consideration of Counterparty Credit Risk

815-20-25-122 For a cash flow hedge, an entity shall consider the likelihood of the counterparty’s compliance with the contractual terms of the hedging derivative instrument that require the counterparty to make payments to the entity. Paragraph 815-20-35-14 states that, for an entity to conclude on an ongoing basis that a cash flow hedging relationship is expected to be highly effective in achieving offsetting changes in cash flows, the entity shall not ignore whether it will collect the payments it would be owed under the contractual provisions of the derivative instrument. See paragraphs 815-20-35-14 through 35-18 for further guidance.

Additional Considerations for Options in Cash Flow Hedges

815-20-25-123 When an entity has documented that the effectiveness of a cash flow hedge will be assessed based on changes in the hedging option’s intrinsic value pursuant to paragraph 815-20-25-82(a), that assessment (and the related cash flow hedge accounting) shall be performed for all changes in intrinsic value—that is, for all periods of time when the option has an intrinsic value, such as when the underlying is above the strike price of the call option.

815-20-25-124 When a purchased option is designated as a hedging instrument in a cash flow hedge, an entity shall not define only limited parameters for the risk exposure designated as being hedged that would include the time value component of that option. An entity cannot arbitrarily exclude some portion of an option’s intrinsic value from the hedge effectiveness assessment simply through an articulation of the risk exposure definition. It is inappropriate to assert that only limited risk exposures are being hedged (for example, exposures related only to currency-exchange-rate changes above $1.65 per pound sterling as illustrated in Example 26 [see paragraph 815-20-55-205]).

815-20-25-125 If an option is designated as the hedging instrument in a cash flow hedge, an entity may assess hedge effectiveness based on a measure of the difference, as of the end of the period used for assessing hedge effectiveness, between the strike price and forward price of the underlying, undiscounted. Although assessment of cash flow hedge effectiveness with respect to an option designated as the hedging instrument in a cash flow hedge shall be performed by comparing the changes in present value of the expected future cash flows of the forecasted transaction to the change in fair value of the derivative instrument (aside from any excluded component under paragraph 815-20-25-82), that measure of changes in the expected future cash flows of the forecasted transaction based on forward rates, undiscounted, is not prohibited. With respect to an option designated as the hedging instrument in a cash flow hedge, assessing hedge effectiveness based on a similar measure with respect to the hedging instrument eliminates any difference that the effect of discounting may have on the hedging instrument and the hedged transaction.
Pursuant to paragraph 815-20-25-3(b)(2)(iv), entities shall document the measure of intrinsic value that will be used in the assessment of hedge effectiveness. As discussed in paragraph 815-20-25-80, that measure must be used consistently for each period following designation of the hedging relationship.

Assessing Hedge Effectiveness Based on an Option's Terminal Value

815-20-25-126 The guidance in paragraph 815-20-25-129 addresses a cash flow hedge that meets all of the following conditions:

a. The hedging instrument is a purchased option or a combination of only options that comprise either a net purchased option or a zero-cost collar.

b. The exposure being hedged is the variability in expected future cash flows attributed to a particular rate or price beyond (or within) a specified level (or levels).

c. The assessment of effectiveness is documented as being based on total changes in the option’s cash flows (that is, the assessment will include the hedging instrument’s entire change in fair value, not just changes in intrinsic value).

815-20-25-127 This guidance has no effect on the accounting for fair value hedging relationships. In addition, in determining the accounting for seemingly similar cash flow hedging relationships, it would be inappropriate to analogize to this guidance.

815-20-25-128 For a hedging relationship that meets all of the conditions in paragraph 815-20-25-126, an entity may focus on the hedging instrument’s terminal value (that is, its expected future pay-off amount at its maturity date) in determining whether the hedging relationship is expected to be highly effective in achieving offsetting cash flows attributable to the hedged risk during the term of the hedge. An entity’s focus on the hedging instrument’s terminal value is not an impediment to the entity’s subsequently deciding to redesignate that cash flow hedge before the occurrence of the hedged transaction. If the hedging instrument is a purchased cap consisting of a series of purchased caplets that are each hedging an individual hedged transaction in a series of hedged transactions (such as caplets hedging a series of hedged interest payments at different monthly or quarterly dates), the entity may focus on the terminal value of each caplet (that is, the expected future pay-off amount at the maturity date of each caplet) in determining whether each of those hedging relationships is expected to be highly effective in achieving offsetting cash flows. The guidance in this paragraph applies to a purchased option regardless of whether at the inception of the cash flow hedging relationship it is at the money, in the money, or out of the money.

815-20-25-129 A hedging relationship that meets all of the conditions in paragraph 815-20-25-126 may be considered to be perfectly effective if all of the following conditions are met:

a. The critical terms of the hedging instrument (such as its notional amount, underlying, maturity date, and so forth) completely match the related terms of the hedged forecasted transaction (such as the notional amount, the variable that determines the variability in cash flows, the expected date of the hedged transaction, and so forth).

b. The strike price (or prices) of the hedging option (or combination of options) matches the specified level (or levels) beyond (or within) which the entity’s exposure is being hedged.

c. The hedging instrument’s inflows (outflows) at its maturity date completely offset the change in the hedged transaction’s cash flows for the risk being hedged.
d. The hedging instrument can be exercised only on a single date—its contractual maturity date.

The condition in (d) is consistent with the entity’s focus on the hedging instrument’s terminal value. If the holder of the option chooses to pay for the ability to exercise the option at dates before the maturity date (for example, by acquiring an American-style option), the hedging relationship would not be perfectly effective.

815-20-25-129A In a hedge of a group of forecasted transactions in accordance with paragraph 815-20-25-15(a)(2), an entity may assume that the timing in which the hedged transactions are expected to occur and the maturity date of the hedging instrument match in accordance with paragraph 815-20-25-129(a) if those forecasted transactions occur and the derivative matures within the same 31-day period or fiscal month.

Hedge Effectiveness of a Net-Purchased Combination of Options

815-20-25-130 The guidance in the following paragraph addresses a cash flow hedging relationship that meets both of the following conditions:

a. A combination of options (deemed to be a net purchased option) is designated as the hedging instrument.

b. The effectiveness of the hedge is assessed based only on changes in intrinsic value of the hedging instrument (the combination of options).

815-20-25-131 The assessment of effectiveness of a cash flow hedging relationship meeting the conditions in the preceding paragraph may be based only on changes in the underlying that cause a change in the intrinsic value of the hedging instrument (the combination of options). Thus, the assessment can exclude ranges of changes in the underlying for which there is no change in the hedging instrument’s intrinsic value.

Hedge Accounting Provisions Applicable to Certain Private Companies

Assuming Perfect Hedge Effectiveness in a Cash Flow Hedge of a Variable-Rate Borrowing with a Receive-Variable, Pay-Fixed Interest Rate Swap Recorded under the Simplified Hedge Accounting Approach


815-20-25-134 The conditions for the simplified hedge accounting approach determine which cash flow hedging relationships qualify for a simplified version of hedge accounting. If all of the conditions in paragraphs 815-20-25-135 and 815-20-25-137 are met, an entity may assume perfect effectiveness in a cash flow hedging relationship involving a variable-rate borrowing and a receive-variable, pay-fixed interest rate swap.

815-20-25-135 Provided all of the conditions in paragraph 815-20-25-137 are met, the simplified hedge accounting approach may be applied by a private company except for a financial institution as described in paragraph 942-320-50-1. An entity may elect the simplified hedge accounting approach for any receive-variable, pay-fixed interest rate swap, provided that all of the conditions for applying the simplified hedge
accounting approach specified in paragraph 815-20-25-137 are met. Implementation guidance on the conditions set forth in paragraph 815-20-25-137 is provided in paragraphs 815-20-55-79A through 55-79B.

815-20-25-136 In applying the simplified hedge accounting approach, the documentation required by paragraph 815-20-25-3 to qualify for hedge accounting must be completed by the date on which the first annual financial statements are available to be issued after hedge inception rather than concurrently at hedge inception.

815-20-25-137 An eligible entity under paragraph 815-20-25-135 must meet all of the following conditions to apply the simplified hedge accounting approach to a cash flow hedge of a variable-rate borrowing with a receive-variable, pay-fixed interest rate swap:

a. Both the variable rate on the swap and the borrowing are based on the same index and reset period (for example, both the swap and borrowing are based on one-month London Interbank Offered Rate [LIBOR] or both the swap and borrowing are based on three-month LIBOR).

b. The terms of the swap are typical (in other words, the swap is what is generally considered to be a “plain-vanilla” swap), and there is no floor or cap on the variable interest rate of the swap unless the borrowing has a comparable floor or cap.

c. The repricing and settlement dates for the swap and the borrowing match or differ by no more than a few days.

d. The swap’s fair value at inception (that is, at the time the derivative was executed to hedge the interest rate risk of the borrowing) is at or near zero.

e. The notional amount of the swap matches the principal amount of the borrowing being hedged. In complying with this condition, the amount of the borrowing being hedged may be less than the total principal amount of the borrowing.

f. All interest payments occurring on the borrowing during the term of the swap (or the effective term of the swap underlying the forward starting swap) are designated as hedged whether in total or in proportion to the principal amount of the borrowing being hedged.

815-20-25-138 A cash flow hedge established through the use of a forward starting receive-variable, pay-fixed interest rate swap may be permitted in applying the simplified hedge accounting approach only if the occurrence of forecasted interest payments to be swapped is probable. When forecasted interest payments are no longer probable of occurring, a cash flow hedging relationship will no longer qualify for the simplified hedge accounting approach and the General Subsections of this Topic shall apply at the date of change and on a prospective basis.

Timing of Hedge Documentation for Certain Private Companies If Simplified Hedge Accounting Approach Is Not Applied

Concurrent Hedge Documentation

815-20-25-139 Concurrent with hedge inception, a private company that is not a financial institution as described in paragraph 942-320-50-1 shall document the following:
The hedging relationship in accordance with paragraph 815-20-25-3(b)(1)

The hedging instrument in accordance with paragraph 815-20-25-3(b)(2)(i)

The hedged item in accordance with paragraph 815-20-25-3(b)(2)(ii), including (if applicable) firm commitments or the analysis supporting a last-of-layer designation in paragraph 815-20-25-3(c), or forecasted transactions in paragraph 815-20-25-3(d)

The nature of the risk being hedged in accordance with paragraph 815-20-25-3(b)(2)(iii).

A private company that is not a financial institution is not required to perform or document the following items concurrent with hedge inception but rather is required to perform or document them within the time periods discussed in paragraph 815-20-25-142:

The method of assessing hedge effectiveness at inception and on an ongoing basis in accordance with paragraph 815-20-25-3(b)(2)(iv) and (vi)

Initial hedge effectiveness assessments in accordance with paragraph 815-20-25-3(b)(2)(iv)(01) through (04).

Example 1A beginning in paragraph 815-20-55-80A illustrates hedge documentation when the critical terms of the hedging instrument and hedged forecasted transaction match. Although that Example illustrates the documentation of the method of assessing hedge effectiveness, private companies that are not financial institutions may complete hedge documentation requirements in accordance with paragraphs 815-20-25-139 through 25-140.

Hedge Effectiveness Assessments

For a private company that is not a financial institution, the performance and documentation of the items listed in paragraph 815-20-25-140, as well as required subsequent quarterly hedge effectiveness assessments, may be completed before the date on which the next interim (if applicable) or annual financial statements are available to be issued. Even though the completion of the initial and ongoing assessments of effectiveness may be deferred to the date on which financial statements are available to be issued the assessments shall be completed using information applicable as of hedge inception and each subsequent quarterly assessment date when completing this documentation on a deferred basis. Therefore, the assessment should be performed to determine whether the hedge was highly effective at achieving offsetting changes in fair values or cash flows at inception and in each subsequent quarterly assessment period up to the reporting date.

Hedge Accounting Provisions Applicable to Certain Not-for-Profit Entities

Not-for-profit entities (except for not-for-profit entities that have issued, or are a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market) may apply the guidance on the timing of hedge documentation and hedge effectiveness assessments in paragraphs 815-20-25-139 through 25-142. Specifically, those entities shall document the items listed in paragraph 815-20-25-139 concurrent with hedge inception, but they may perform and document the items listed in paragraph 815-20-25-140 and perform the required subsequent quarterly hedge effectiveness assessments in accordance with paragraph 815-20-25-142 within the time periods discussed in paragraph 815-20-25-142.
Exhibit 3 – Revisions adopted to SSAP No. 86 on December 12, 2022 (Agenda Item 2022-09)

Fair Value Hedges (Note – Paragraphs 26.a. through 26.c. are not affected and are omitted for brevity.)

26. Fair value hedges qualify for hedge accounting if all of the following criteria are met:

d. The hedged item is specifically identified as either all, or a specific portion, or the partial term of a recognized asset, or all or a specific portion of or a recognized liability or of an unrecognized firm commitment. The hedged item is a single asset or liability (or a specific portion or partial term thereof) or is a portfolio of similar assets or a portfolio of similar liabilities (or a specific portion thereof) or a closed portfolio of assets (pursuant to paragraph 26.f. and Exhibit A, paragraph 46) where assumed layer or layers is anticipated to be outstanding (or a specific portion thereof). For a partial term hedge of one or more consecutive selected contractual cash flows where the hedged item begins when the first hedge cash flow begins to accrue and ends at the end of the designation hedge period, the assumed maturity of the hedged item occurs at the end of the designated hedge period; (ASC 815-25-35-13B Partial Term Hedging.)

e. If similar assets or similar liabilities are aggregated and hedged as a portfolio, the individual assets or individual liabilities must share the risk exposure for which they are designated as being hedged. The change in fair value attributable to the hedged risk for each individual item in a hedged portfolio must be expected to respond in a generally proportionate manner to the overall change in fair value of the aggregate portfolio attributable to the hedged risk; and

f. For a closed portfolio of financial assets or one or more beneficial interests secured by a portfolio of financial instruments, an entity may designate as the hedged item or items a hedged layer or layers (this designation is referred to throughout as the “portfolio layer method” (detailed in Exhibit A). (ASC 815-20-25-12A Portfolio Layer Method)

g. If the hedged item is a financial asset or liability, a recognized loan servicing right, or a nonfinancial firm commitment with financial components, the designated risk being hedged is:

i. The risk of changes in the overall fair value of the entire hedged item;

ii. The risk of changes in its fair value attributable to changes in benchmark interest rate;

iii. The risk of changes in its fair value attributable to changes in the related foreign currency exchange rates; or

iv. The risk of changes in its fair value attributable to both changes in the obligor’s creditworthiness and changes in the spread over the benchmark interest rate with respect to the related financial asset’s or liability’s credit sector at inception of the hedge (referred to as credit risk).

For clarity, partial-term hedges and portfolio hedges addressed in paragraph 26.f. are limited to the situations in which the hedged item(s) is a recognized asset or a closed portfolio of financial assets. These hedging accounting methods are not permitted to hedge liabilities.
If the risk designated as being hedged is not the risk in paragraph 26.f.i., two or more of the other risks (benchmark interest rate risk, foreign currency exchange risk, and credit risk) may simultaneously be designated as being hedged.

The benchmark interest rate being hedged in a hedge of interest rate risk must be specifically identified as part of the designation and documentation at the inception of the hedging relationship. In calculating the change in the hedged item’s fair value attributable to changes in the benchmark interest rate, the estimated coupon cash flows used in calculating fair value must be based on either all of the full contractual cash flows of the entire hedged item or the benchmark rate component of the contractual coupon cash flows of the hedged item determined at hedge inception. An entity may designate a fair value hedge of interest rate risk in which the hedged item is a prepayment instrument. The entity may consider only how changes in the benchmark interest rate affect the decision to settle the hedged item before its scheduled maturity (for example, an entity may consider only how change in the benchmark interest rate affect an obligor’s decision to call a debt instrument when it has the right to do so.) The entity need not consider other factors that would affect this decision (for example, credit risk) when assessing hedge effectiveness. (ASU 815-25-35-13 & 815-20-25-6B)

Excluding some of the hedged item’s contractual cash flows (for example, the portion of the interest coupon in excess of the benchmark interest rate) from the calculation is not permitted.4 An entity may not simply designate prepayment risk as the risk being hedged for a financial asset. However, it can designate the option component of a prepayable instrument as the hedged item in a fair value hedge of the entity’s exposure to changes in the fair value of that “prepayment” option, perhaps thereby achieving the objective of its desire to hedge prepayment risk. The effect of an embedded derivative of the same risk class must be considered in designating a hedge of an individual risk. For example, the effect of an embedded prepayment option must be considered in designating a hedge of benchmark interest rate risk.

Disclosure Requirements

62. Reporting entities shall disclose the following for all derivative contracts used:

a. General disclosures:

vii. The net gain or loss recognized in unrealized gains or losses during the period resulting from derivatives that no longer qualify for hedge accounting. For portfolio layer method hedges, disclose circumstances that led to the breach. (ASC 815-10-50-5C.)

Relevant Literature

64. This statement adopts the framework established by FAS 133, FASB Statement No. 137, Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133, An amendment of FASB Statement No. 133 (FAS 137) and FASB Statement No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, An amendment of FASB Statement No. 133 (FAS 138), for fair value and cash flow hedges, including its technical guidance to the extent such guidance is consistent with the statutory accounting approach to derivatives utilized in this statement. This statement adopts the provisions of FAS 133 and 138 related to foreign currency hedges.

4 The first sentence of paragraph 26.d. that specifically permits the hedged item to be identified as either all or a specific portion of a recognized asset or liability or of an unrecognized firm commitment is not affected by the provisions in this subparagraph.
With the exception of guidance specific to foreign currency hedges and amendments specific to refining the hedging of interest rate risk (under FAS 138, the risk of changes in the benchmark interest rate would be a hedged risk), this statement rejects FAS No. 137 and 138 as well as the various related Emerging Issues Task Force interpretations. This statement adopts paragraphs 4 and 25 of FASB Statement No. 149: Amendment of Statement 133 on Derivative Instruments and Hedging Activities (FAS 149) regarding the definition of an underlying and guidance for assessing hedge effectiveness. (The adoption from FAS 149 on the assessment of hedge effectiveness is impacted by the adoption with modification of guidance from ASU 2017-12 as detailed in paragraph 65.b., with the guidance from ASU 2017-12 superseding the prior adoption to the extent applicable.) All other paragraphs in FAS 149 are rejected as not applicable for statutory accounting. This statement adopts FSP FAS 133-1 and FIN 45-5: Disclosures about Credit Derivatives and Certain Guarantees, An Amendment of FASB Statement No. 133 and FASB Interpretation No.45 and Clarification of the Effective Date of FASB Statement No. 161 (FSP FAS 133-1 and FIN 45-4) and requires disclosures by sellers of credit derivatives. This statement rejects FSP FIN 39-1, Amendments of FASB Interpretation No. 39, and ASU 2014-03, Derivatives and Hedging – Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps – Simplified Hedge Accounting Approach.

65. This statement adopts, with modification, certain revisions to ASC 815-20 included in ASU 2017-12. Remaining provisions of ASU 2017-12 will be subsequently assessed for statutory accounting and shall not be considered adopted for statutory accounting until that assessment is complete.

a. Revisions effective January 1, 2019 with early adoption permitted, are limited to specific provisions, and related transition guidance, pertaining to the documentation and assessment of hedge effectiveness and only includes: 1) provisions allowing more time to perform the initial quantitative hedge effectiveness assessment; 2) provisions allowing subsequent assessments of hedge effectiveness to be performed qualitatively if certain conditions are met; and 3) revisions regarding use of the critical terms and short-cut methods for assessing hedge effectiveness.

b. Revisions effective January 1, 2023, with early adoption permitted, are limited to the criteria for initial and subsequent hedge effectiveness detailed in the FASB Accounting Standards Codification (ASC) paragraphs 815-20-25-72 through 815-20-35-20, as modified through the issuance of ASU 2017-12. This adoption reflects statutory modifications to specify that the accounting and reporting of hedging instruments, including excluded components of the instruments, shall follow statutory specific guidance detailed in the statement. The intent of this guidance is to clarify that the determination of whether a hedging instrument qualifies as an effective hedge shall converge with U.S. GAAP, but that the measurement method shall continue to follow statutory specific provisions. The adoption of the referenced ASC paragraphs only extends to revisions incorporated through ASU 2017-12; therefore, any subsequent U.S. GAAP edits would require statutory accounting consideration before considered adopted.

c. Revisions effective January 1, 2022, with early adoption permitted, are limited to the criteria for the portfolio layer method detailed in ASU 2022-01, criteria to only consider how changes in the benchmark interest rate affect the decision to settle the hedged item before its scheduled maturity date in 815-20-25-6B, adding option in calculating the change in the hedged item’s fair value attributed to changes in the benchmark interest rate based on the benchmark rate components of the contractual cash flows detailed in FASB ASC 815-25-35-13, and the partial-term hedging method detailed in FASB ASC 815-25-35-13B. The adoption of the partial term hedging method reflects statutory modifications that limits its use only when the hedged item is a recognized asset. This is different than U.S.
GAAP, which permits the partial term method for hedged liabilities. The statutory limitation is established to prevent interim basis adjustments to hedged liabilities that could present a reduction of reported liabilities on the financial statements when the actual liability has not been reduced. Reconsideration of this statutory limitation may occur after a broader project to consider how derivative basis adjustments to hedged liabilities shall be reflected in the financial statements.

Effective Date and Transition

This statement is effective for derivative transactions entered into or modified on or after January 1, 2003. A modification is any revision or change in contractual terms of the derivative. SSAP No. 31 applies to derivative transactions prior to January 1, 2003. Alternatively, an insurer may choose to apply this statement to all derivatives to which the insurer is a party as of January 1, 2003. In either case, the insurer is to disclose the transition approach that is being used.

a. Revisions adopted to paragraph 64 to reject FSP FIN 39-1 is effective January 1, 2013, for companies that have previously reported a position in the balance sheet that was net of counterparty agreements. (Companies that have previously reported derivative instruments and/or related collateral gross shall not be impacted by these revisions.)

b. Revisions adopted in paragraph 16 clarify the reporting for amounts received/paid to adjust variation margin until the derivative contract has ended and are effective January 1, 2018, on a prospective basis, for reporting entities that have previously considered these amounts to reflect settlement or realized gains/losses. (Companies that have previously reported variation margin changes in line with the revisions shall not be impacted by these revisions.)

c. Revisions to incorporate limited provisions from ASU 2017-12 pertaining to the documentation of hedge effectiveness (detailed in paragraph 65) are effective January 1, 2019, with early adoption permitted for year-end 2018. However, if the reporting entity is a U.S. GAAP filer, the reporting entity may only elect early adoption if the entity has also elected early adoption of ASU 2017-12 for year-end 2018.

d. Revisions adopted April 2019 to explicitly include structured notes in scope of this statement are effective December 31, 2019. Revisions adopted July 2020 to define “derivative premium,” require gross reporting of derivatives without the impact of financing premiums and require separate recognition of premiums payable and premiums receivable, are effective January 1, 2021.

e. Revisions adopted August 2022 that adopt with modification the criteria for initial and subsequent hedge effectiveness detailed in the FASB ASC paragraphs 815-20-25-72 through 815-20-35-20, as modified through the issuance of ASU 2017-12 and that incorporate statutory accounting revisions for the accounting and reporting of excluded components are effective January 1, 2023, with early adoption permitted. These revisions shall be applied prospectively for all new and existing hedges. Entities shall detail the adoption of this guidance as a change in accounting principle pursuant to SSAP No. 3—Accounting Changes and Corrections of Errors.

f. Revisions adopted December 12, 2022 that adopt U.S. GAAP guidance for the portfolio layer method, U.S. GAAP guidance to only consider how changes in the benchmark
interest rate affect the decision to settle the hedged item before its scheduled maturity. U.S. GAAP guidance adding option in calculating the change in the hedged item’s fair value attributed to changes in the benchmark interest rate based on the benchmark rate component of the contractual coupon cash flows, that and adopt with modification U.S. GAAP guidance for partial term hedging are effective January 1, 2023, with early adoption permitted. These revisions shall be applied prospectively to qualifying new hedges.

Edits to New Exhibit A – Discussion of Hedge Effectiveness

17. All of the following conditions apply to both fair value hedges and cash flow hedges: (815-20-25-104)

   e. The interest-bearing asset or liability is not prepayable, that is, able to be settled by either party before its scheduled maturity, or the assumed maturity date if the hedged item is measured as a partial-term hedge of interest rate risk in which the assumed maturity of the hedged items occur on the date in which the last hedged cash flow is due and payable ends at the end of the designated hedge period, in accordance with paragraph 815-25-35-13B, with the following qualifications:

      i. This criterion does not apply to an interest-bearing asset or liability that is prepayable solely due to an embedded call option (put option) if the hedging instrument is a compound derivative composed of an interest rate swap and a mirror-image call option (put option).

      ii. The call option embedded in the interest rate swap is considered a mirror image of the call option embedded in the hedged item if all of the following conditions are met:

18. All of the following incremental conditions apply to fair value hedges only: (815-20-25-105 & 815-25-35-13B)

   a. The expiration date of the interest rate swap matches the maturity date of the interest-bearing asset or liability or the assumed maturity date if the hedged item is measured as a partial-term hedge of interest rate risk in which the assumed maturity of the hedged items ends at the end of the designated hedge period occur on the date in which the last hedged cash flow is due and payable in accordance with paragraph 815-25-35-13B.

Portfolio Layer Method (New paragraphs at the end of Exhibit A.)

46. For a closed portfolio of financial assets or one or more beneficial interests secured by a portfolio of financial instruments, an entity may designate as the hedged item or items a hedged layer or layers (this designation is referred to throughout as the “portfolio layer method.”) (ASU 815-20-25-12A)

   a. As part of the initial hedge documentation, an analysis is completed and documented to support the entity’s expectation that the hedged item or items (that is, the hedged layer or layers in aggregate) is anticipated to be outstanding for the designated hedge period. That analysis shall incorporate the entity’s current expectations of prepayments, defaults, and other factors affecting the timing and amount of cash flows associated with the closed portfolio.
b. For purposes of its analysis in paragraph 46.a., the entity assumes that as prepayments, defaults, and other factors affecting the timing and amount of cash flows occur, they first will be applied to the portion of the closed portfolio that is not hedged; and

e. The entity applies the partial-term hedging guidance to the assets or beneficial interest used to support the entity’s expectation in paragraph 46.a. An asset that matures on a hedged layer’s assumed maturity date meets this requirement.

47. After a closed portfolio is established in accordance with paragraph 46, an entity may designate new hedging relationships associated with the closed portfolio without deesignating any existing hedging relationships associated with the closed portfolio if the criteria of paragraph 46 are met for those newly designated hedging relationships. (ASU 815-20-25-12B)

48. For the portfolio layer method if both of the following conditions exist, the quantitative test described for similar assets (shared risk exposure) may be performed qualitatively on a hedge-by-hedge basis and only at hedge inception:

a. The hedged item is a hedged layer in a portfolio layer hedge and designated in accordance with paragraph 26.f. of SSAP No. 86.

b. An entity measures the change in fair value of the hedged item based on the benchmark rate component of the contractual coupon cash flows.

Using the benchmark rate component of the contractual coupon cash flows when all assets have the same assumed maturity date and prepayment risk does not affect the measurement of the hedged item results in all hedged items having the same benchmark rate component coupon cash flows. (ASU 815-20-55-14A)

49. For one or more hedging relationships designated under the portfolio layer method, an entity shall discontinue (or partially discontinue) hedge accounting in the following circumstances: (ASU 815-25-40-8)

a. If the entity cannot support on a subsequent testing date that the hedged layer or layers are anticipated to be outstanding for the designated hedge (that is, a breach is anticipated), it shall discontinue (or partially discontinue) hedge accounting for one or more hedging relationships for the portion of the hedged item that is no longer anticipated to be outstanding for the designated hedge period.

b. If on a subsequent testing date the outstanding amount of the closed portfolio of financial assets or one or more beneficial interests is less than the hedged layer or layers (that is, a breach has occurred), the entity shall discontinue (or partially discontinue) hedge accounting for one or more hedging relationships for the portion of the hedged item that is no longer outstanding.

50. In the event of either an anticipated breach (as described in paragraph 49.a.) or a breach that has occurred (as described in paragraph 49.b.) for portfolio layer method, if multiple hedged layers are associated with a closed portfolio, an entity shall determine which hedge or hedges to discontinue (or partially discontinue) in accordance with an accounting policy election. That accounting policy election shall specify a systematic and rational approach to determining which hedge or hedges to discontinue (or partially discontinue). An entity shall establish its accounting policy no later than when it first anticipates
a breach or when a breach has occurred (whichever comes first). After an entity establishes its accounting policy, it shall consistently apply its accounting policy to all portfolio layer method breaches (anticipated and occurred). (ASU 815-25-40-8A)

U.S. GAAP references not pulled into Exhibit will also be updated as follows:

**Consideration of Prepayment Risk Using the Last-of-Layer Portfolio Layer Method**

815-20-25-118A In a fair value hedge of interest rate risk designated under the portfolio layer last-of-layer method in accordance with paragraph 815-20-25-12A, an entity may exclude prepayment risk when measuring the change in fair value of the hedged item attributable to interest rate risk.

**Edits to Exhibit C-B – Specific Hedge Accounting Procedures for Derivatives**

2. Swaps, Collars, and Forwards (see also discussion in Introduction above):

   d. Gain/Loss on Termination of a swap, collar or forward accounted for under hedge accounting (includes closing, exercise, maturity, and expiry):

      i. Exercise—The remaining book value of the derivative shall become an adjustment to the cost or proceeds of the hedged item(s) received or disposed of individually or in aggregate;

      ii. Sale, maturity, expiry, or other closing transaction of a derivative which is an effective hedge—Any gain or loss on the transaction, except for excluded components, will adjust the basis (or proceeds) of the hedged item(s) individually or in aggregate. If a portfolio layer method hedging relationship is discontinued (or partially discontinued) in a voluntary dedesignation or in anticipation of a breach, the basis adjustment associated with the dedesignated amount as of the discontinuation date shall be allocated to the remaining individual assets in the closed portfolio that supported the dedesignated hedged layer using a systematic and rational method. Alternatively, if the item being hedged is subject to IMR, the gain or loss on the terminated hedging derivative may be realized and shall be subject to IMR upon termination. (ASU 815-25-40-9)

      iii. Gain/loss on termination of derivatives will be recognized currently in net income (realized gain/loss) to the extent they ceased to be effective hedges.

      iv. Upon the redesignation of a derivative from a currently effective hedging relationship,

         (a) with an item(s) carried at amortized cost to another effective hedging relationship with an item(s) carried at amortized cost, the derivative shall continue to be recorded at amortized cost and no gain or loss on the derivative shall be recognized.

         (b) with an item(s) carried at amortized cost or fair value to an effective relationship with an item(s) carried at fair value, the accounting for the derivative shall be consistent with (ii) above.
(c) with an item(s) carried at fair value to an effective relationship with an item(s) carried at amortized cost, the accounting for the derivative shall be consistent with (ii.) above.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2023-1 Spring/Summary and Minutes/SAPWG/B_17-33 - IP167 Derivatives - 2022.docx
Issue: SSAP No. 25 – Affiliate Reporting Clarification

Check (applicable entity):  
Modification of Existing SSAP  
New Issue or SSAP  
Interpretation

Description of Issue:
At its May 24, 2022, meeting, the Statutory Accounting Principles (E) Working Group adopted agenda item 2021-21: Related Party Reporting, which included revisions to clarify application of the existing affiliate definition as well as to incorporate new disclosure requirements for investments acquired through, or in, related parties, regardless of if they meet the affiliate definition. During the meeting discussion, it was suggested that there needs to be a clarification of when an investment is considered to be and affiliated investment and reported on the affiliated line in the investment schedules. When agenda item 2021-21 was adopted, it included a recommendation that NAIC staff look to further clarify when investments should be classified as affiliated in the reporting schedules. This agenda item intends to clarify that an investment held from an affiliate is considered an affiliated investment.

Existing Authoritative Literature:
The Insurance Holding Company System Regulatory Act (Model #440) establishes the laws for holding company structures. The Act also establishes the concept of an affiliate in Section 1A, and this definition is used for statutory accounting purposes.

A. “Affiliate.” An “affiliate” of, or person “affiliated” with, a specific person, is a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.

SSAP No. 25—Affiliates and Other Related Parties establishes statutory accounting principles for affiliates and related parties. This definition is the language that is used to help define when an investment is affiliated or nonaffiliated for reporting in the various investment schedules.

5. An affiliate is defined as an entity that is within the holding company system or a party that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with the reporting entity. An affiliate includes a parent or subsidiary and may also include partnerships, joint ventures, and limited liability companies as defined in SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies. Those entities are accounted for under the guidance provided in SSAP No. 48, which requires an equity method for all such investments. An affiliate is any person that is directly or indirectly, owned or controlled by the same person or by the same group of persons, that, directly or indirectly, own or control the reporting entity.

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 2021, the Statutory Accounting Principles (E) Working Group adopted revisions to SSAP No. 25 pursuant to agenda item 2019-34: Related Parties, Disclaimers of Affiliation and Variable Interest Entities. Additionally, a new reporting Schedule Y, Part 3 was adopted by the Blanks (E) Working Group in proposal 2020-37BWG, with
an initial effective date of Dec. 31, 2021, to capture information on all entities with ownership greater than 10%, the ultimate controlling parties of those owners and other entities that the ultimate controlling party controls.

On May 24, 2022, the Working Group adopted revisions to SSAP No. 25 and SSAP No. 43R—Loan-Backed and Structured Securities, to clarify application of the existing affiliate definition as well as to incorporate new disclosure requirements for investments acquired through, or in, related parties, regardless of if they meet the affiliate definition, and included a new disclosure that was adopted by the Blanks (E) Working Group in proposal 2021-22BWG, which adds a new electronic-only column for the investment schedules and the related instructions which describes the nature of any related party relationship that exists related to the investment.

**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, categorized as a SAP clarification, and expose revisions to SSAP No. 25 to clarify that any invested asset held by a reporting entity which is issued by an affiliated entity, or which includes the obligations of an affiliated entity is an affiliated investment. Staff also recommend that Working Group direct the Blanks (E) Working Group to modify the Annual Statement Instructions as illustrated below.

**Proposed edits to SSAP No. 25:**

5. An affiliate is defined as an entity that is within the holding company system or a party that, directly or indirectly, through one or more intermediaries, controls by, or is under common control with the reporting entity. An affiliate includes a parent or subsidiary and may also include partnerships, joint ventures, and limited liability companies as defined in SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies. Those entities are accounted for under the guidance provided in SSAP No. 48, which requires an equity method for all such investments. An affiliate is any person that is directly or indirectly, owned or controlled by the same person or by the same group of persons, that, directly or indirectly, own or control the reporting entity. Any invested asset held by a reporting entity which is issued by an affiliated entity, or which includes the obligations of an affiliated entity is an affiliated investment.

**Proposed Annual Statement Reporting Changes: (These will be captured in a blanks proposal.)**

This will be included in the Investment Schedules General Instructions in several places covering several different types of investment, and this revision is proposed to be included in each place under the header “Parent, Subsidiaries and Affiliates.”

Parent, Subsidiaries and Affiliates:

Defined by SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities. Any invested asset held by a reporting entity which is issued by an affiliated entity, or which includes the obligations of an affiliated entity is an affiliated investment.

**Staff Review Completed by:** Jake Stultz—NAIC Staff, November 2022

**Status:**
On December 13, 2022, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to SSAP No. 25 to clarify that any invested asset held by a reporting entity which is issued by an affiliated entity, or which includes the obligations of an affiliated entity is an affiliated investment.
On March 22, 2023, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions illustrated above to SSAP No. 25 which clarify that any invested asset held by a reporting entity which is issued by an affiliated entity, or which includes the obligations of an affiliated entity is an affiliated investment.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2023-1 Spring/Summary and Minutes/SAPWG/C_22-15 - Affiliate Reporting.docx
Issue: ASU 2022-03, Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions

Check (applicable entity):

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Description of Issue:
In June 2022, the Financial Accounting Standards Board (FASB) issued ASU 2022-03, Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions to 1) clarify the guidance in Topic 820, Fair Value Measurement, when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security, 2) amend a related illustrative example, and 3) add a new disclosure of the fair value of equity securities subject to contractual sale restrictions, nature and remaining duration of the restrictions, and circumstances that could cause a lapse in the restrictions, in accordance with Topic 820.

These amendments do not change the principles of fair value measurement. They provide clarity in situations involving equity securities that have restrictions related to the sale of the asset. This ASU provides updated guidance for two specific scenarios, one where the restriction is based on the entity holding the equity security and one where the restriction is a characteristic of the equity security.

- First, it clarifies situations where an equity security cannot be sold on the measurement date because of a contractual sale restriction where the entity is not allowed to sell an asset. An example of this would be lock-up periods, where the assets cannot be sold for a set period but can be readily priced based on a public security exchange.

- Second, it provides guidance for situations where the restriction is based on characteristics of the asset that limits if it can be sold in regular markets. An example would be an equity security issued through a private placement and not SEC registered and are legally restricted from being sold on a national securities exchange or an over-the-counter market. These assets would be available to be sold on an existing market (not on the public exchange) but would have a fair value based on the market price of the similar unrestricted equity security adjusted to reflect the effect of the restriction.

Guidance for restricted assets is in SSAP No. 4—Assets and Nonadmitted Assets, and additional guidance specific to securities in ASU 2022-03 are included in SSAP No. 30R—Unaffiliated Common Stock, SSAP No. 32R—Preferred Stock, and SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies. Under these SSAPs, restricted securities are generally considered to be admitted assets to the extent that they can be used to cover policyholder obligations.

Existing Authoritative Literature:
The primary guidance for fair value is in SSAP No. 100R—Fair Value. SSAP No. 30R—Unaffiliated Common Stock and SSAP No. 32R—Preferred Stock, include some guidance on restricted investments involving common and preferred stock, but neither goes into detail on the specific guidance discussed in ASU 2022-03. Additionally, SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures and SSAP No. 4—Assets and Nonadmitted Assets include references to restricted assets, primarily related to disclosures.
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 recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to SSAP No. 100R—Fair Value to adopt ASU 2022-03, Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions with modification to be consistent with statutory language in the respective statutory accounting statements. Proposed revisions are illustrated below.

Proposed edits to SSAP No. 100R:

**Equity Securities Subject to Contractual Sale Restrictions**

15. An equity security that an entity cannot sell on the measurement date because of a contractual sale restriction shall be measured at fair value on the basis of the price in the principal (or most advantageous) marketFN. A contractual sale restriction does not change the market in which that equity security would be sold. A discount applied to the price of an equity security because of a contractual sale restriction is not a characteristic of the equity security. A contractual sale restriction is a characteristic of the reporting entity holding the equity security rather than a characteristic of the asset and, therefore, is not considered in measuring the fair value of an equity security. A contractual sale restriction prohibiting the sale of an equity security is a characteristic of the reporting entity holding the equity security and shall not be separately recognized as its own unit of account.

16. The effect on a fair value measurement arising from a restriction on the sale or use of an asset by a reporting entity will differ depending on whether the restriction would be taken into account by market participants when pricing the asset. When the restriction is a characteristic of the asset, the restriction is a characteristic of the asset and should be considered in measuring the fair value of the asset. For example, an equity security issued through a private placement is not registered and is legally restricted from being sold on a national securities exchange or an over-the-counter market until the shares are registered or the conditions necessary for an exemption from registration have been satisfied. A market participant would sell the private placement equity securities in a different market than the market used for registered equity securities on the measurement date. Because that restriction would be a characteristic of the equity security, a market participant would consider the inability to resell the security on a national securities exchange or an over-the-counter market when pricing the equity security; therefore, the reporting entity that holds the Class A shares acquired through a private placement transaction would consider that restriction a characteristic of the asset, and the reporting entity should measure the fair value of the equity security on the basis of the market price of the similar unrestricted equity security adjusted to reflect the effect of the restrictionFN.

FN—Refer to SSAP No. 4—Assets and Nonadmitted Assets for admissibility guidance for restricted equity securities.

60. For equity securities that are subject to contractual sales, disclose the fair value of equity securities subject to contractual sale restrictions.
65. This standard adopts ASU 2022-03, *Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*, with modification to be consistent with statutory language in the respective statutory accounting statements.

**Staff Review Completed by:** Jake Stultz – NAIC Staff, November 2022

**Status:**
On December 13, 2022, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to SSAP No. 100R to adopt ASU 2022-03, *Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions* with modification to be consistent with statutory language in the respective statutory accounting statements, as illustrated above. Note that this agenda item does not recommend incorporating the new proposed GAAP disclosures on sales restrictions, but identifies that items restricted as to sale would be captured as restricted assets per SSAP No. 1 and subject to admittance considerations under SSAP No. 4.

On March 22, 2023, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions, as illustrated above, to SSAP No. 100R to adopt ASU 2022-03 with modification to be consistent with statutory language in the respective statutory accounting statements. The adoption does not incorporate the new GAAP disclosures on sales restrictions, as items restricted as to sale would be captured as restricted assets per SSAP No. 1 and subject to admittance considerations under SSAP No. 4.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2023-1 Spring/Summary and Minutes/SAPWG/D_22-16 - ASU 2022-03 - FV.docx
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: ASU 2022-04, Disclosure of Supplier Finance Program Obligations

Check (applicable entity):

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

Description of Issue:
In September 2022, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2022-04, Liabilities—Supplier Finance Programs (Subtopic 405-50) Disclosure of Supplier Finance Program Obligations. The Board issued ASU 2022-04 to enhance the transparency of supplier finance programs. ASU 2022-04 is effective for fiscal years beginning after December 15, 2022.

The amendments in ASU 2022-04 apply to all entities that use supplier finance programs in connection with the purchase of goods and services (described as buyer parties). Supplier finance programs, which also may be referred to as reverse factoring, payables finance, or structured payables arrangements, allow a buyer to offer its suppliers the option to access payment in advance of an invoice due date through a third-party finance provider or intermediary on the basis of invoices that the buyer has confirmed as valid.

Typically, a buyer in a program 1) enters into an agreement with a finance provider or an intermediary to establish the program, 2) purchases goods and services from suppliers with a promise to pay at a later date, and 3) notifies the finance provider or intermediary of the supplier invoices that it has confirmed as valid. Suppliers may then request early payment from the finance provider or intermediary for those confirmed invoices. Suppliers generally agree to accept an amount less than owed to receive payment from the intermediary timelier than the invoice due date. The full amount owed by the buyer is then paid to the intermediary, resulting in a spread income to the financing intermediary.

The ASU amendments require that a buyer in a supplier finance program disclose sufficient information about the program to allow a user of financial statements to understand the program’s nature, activity during the period, changes from period to period, and potential magnitude. These disclosures were supported as buyers who utilize these programs are getting a form of financing, but the amounts owed to the financial intermediaries have been reported differently, with some entities reporting as trade payables and others reporting as debt. As such, users of the financial statements do not have clear information on the use of these financing structures. ASU 2202-04 requires the buyer to make the following annual disclosures of qualitative and quantitative information about its supplier finance programs:

1. The key terms of the program, including a description of the payment terms (including payment timing and basis for its determination) and assets pledged as security or other forms of guarantees provided for the committed payment to the finance provider or intermediary

2. For the obligations that the buyer has confirmed as valid to the finance provider or intermediary:
   a. The amount outstanding that remains unpaid by the buyer as of the end of the annual period (the outstanding confirmed amount)
b. A description of where those obligations are presented in the balance sheet

c. A rollforward of those obligations during the annual period, including the amount of obligations confirmed and the amount of obligations subsequently paid.

In each interim reporting period, the buyer should disclose the amount of obligations outstanding that the buyer has confirmed as valid to the finance provider or intermediary as of the end of the interim period.

SSAP No. 105R—Working Capital Finance Investments addresses programs similar to some of the ones described in ASU 2022-04, however it addresses such programs from the perspective of evaluating investments in such programs for admissibility for the investor in such programs. That is, the insurers tend to act as a finance provider or an investor in the supplier chain finance program, not the “buyer.” Insurers are not typically “buyers” in such programs as they are described in ASU 2022-04. The guidance in SSAP No. 105R would describe the “buyer” in the ASU 2022-04 as an obligor of the working capital finance program. Therefore, since the disclosures in ASU 2022-04 are for buyers/obligors of supplier finance programs, not for providers of liquidity – the investors, the disclosures do not seem relevant to require of the investors in such programs for statutory accounting.

Note that if an insurer were to sell its premium receivables, existing guidance in SSAP No. 42—Sale of Premium Receivables and SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishment of Liabilities provide guidance which distinguishes sales from financing transactions. Therefore, the new GAAP disclosures in ASU 2022-04 are not recommended for incorporation into statutory accounting.

Existing Authoritative Literature:
SSAP No. 105R—Working Capital Finance Investments

1. This statement establishes statutory accounting principles for working capital finance investments held by reporting entities. This statement amends SSAP No. 20—Nonadmitted Assets (SSAP No. 20) to allow working capital finance investments as admitted assets to the extent they conform to the requirements of this statement.

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):
The Working Group most recently updated SSAP No. 105R with substantive revisions which were effective June 30, 2020. Revisions to SSAP No. 105R were from agenda item 2019-25: Working Capital Finance Notes which also resulted in Issue Paper No. 163—Working Capital Finance Investment Updates. In agenda item 2019-25 the Working Group reviewed ten industry requests and incorporated 7 out of 10 revisions to SSAP No. 105R.

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, categorized as a SAP clarification, and expose revisions to SSAP No. 105R to reject ASU 2022-04 as illustrated below. As insurance reporting entities are not the buyers (obligors) of supplier chain finance programs, the disclosures in ASU 2022-04 are not relevant. Reporting entities that invest in working capital finance programs are the providers of capital (investors) not the buyers (obligors) of such programs. Revisions to SSAP No. 105R:
33. **ASU 2022-04, Disclosure of Supplier Finance Program Obligations is rejected.**

**Staff Review Completed by:** Robin Marcotte– NAIC Staff, November 2022

**Status:**
On December 13, 2022, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to SSAP No. 105R to reject ASU 2022-04 for statutory accounting as the disclosures are not relevant for insurance entity preparers.

On March 22, 2023, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to SSAP No. 105R, as illustrated above, to reject ASU 2022-04 for statutory accounting.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2023-1 Spring/Summary and Minutes/SAPWG/E_22-18 ASU 2022-04 supply chain .docx
Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Interest Income Disclosure Update

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Description of Issue:
This agenda item is the result of comments received from interested parties from the Principles-Based Bond Project. In the Oct. 7, 2022, comment letter, which provided comments on the Aug. 10 exposure by the Working Group, interested parties suggested some revisions to further enhance reporting of interest income on Schedule D-1-1 Bonds, and recommended that NAIC staff look further at if this should be added to any of the other reporting schedules where interest income is reported in accordance with SSAP No. 34—Investment Income Due and Accrued.

There were two distinct items noted in the interested parties’ comments that are addressed by this agenda item. First, they suggested data capturing the gross, nonadmitted and admitted amounts for interest income due and accrued. Second, they suggested that a data element that is included in the bond proposal project be changed to reflect the cumulative amount of paid-in-kind (PIK) interest included in the current principal balance.

With this agenda item, the Working Group will sponsor a proposal at the Blanks (E) Working Group to expand disclosures, with data capturing, to include gross, nonadmitted and admitted amounts for interest income due and accrued. The blanks proposal will also include cumulative amounts of paid-in-kind (PIK) interest included in the current principal balances.

Existing Authoritative Literature:
The guidance for disclosure of interest income is included in SSAP No. 34—Investment Income Due and Accrued.

Disclosures

7. The following disclosures shall be made for investment income due and accrued in the financial statements. (SSAP No. 37 captures disclosures for mortgage loans on nonaccrual status pursuant to paragraph 6.)
   a. The bases by category of investment income for excluding (nonadmitting) any investment income due and accrued;
   b. Disclose total amount excluded.

8. Refer to the Preamble for further discussion regarding disclosure requirements.

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):
As noted above, this agenda item comes from a suggestion from interested parties, which was included in their Oct. 7, 2022, comment letter.
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, categorized as a SAP clarification, and expose revisions to SSAP No. 34—Investment Income Due and Accrued to add additional disclosures to data capture the gross, nonadmitted and admitted amounts for interest income due and to add disclosure of the cumulative amount of paid-in-kind (PIK) interest included in the current principal balance. Adoption of this agenda item will also signify support for a corresponding Blanks (E) Working Group proposal to add these disclosures to Note 7 of the annual statement blanks.

Proposed edits to SSAP No. 34:

Disclosures

7. The following disclosures shall be made for investment income due and accrued in the financial statements. (SSAP No. 37 captures disclosures for mortgage loans on nonaccrual status pursuant to paragraph 6.)

   a. The bases by category of investment income for excluding (nonadmitting) any investment income due and accrued;

   b. Disclose total amount excluded;

   c. Disclose the gross, nonadmitted and admitted amounts for interest income due and accrued.

   d. Disclose aggregate deferred interest and cumulative amounts of paid-in-kind (PIK) interest included in the current principal balance.

8. Refer to the Preamble for further discussion regarding disclosure requirements.

Staff Review Completed by: Jake Stultz—NAIC Staff, November 2022

Status:
On December 13, 2022, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed revisions to SSAP No. 34, to add additional disclosures, as illustrated above, and to data-capture the disclosures.

On March 22, 2023, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions, with minor edits as illustrated below, to SSAP No. 34 to add additional disclosures to data capture the gross, nonadmitted and admitted amounts for interest income due and to add disclosure of the cumulative amount of paid-in-kind (PIK) interest included in the current principal balance. These disclosures are effective for year-end 2023 reporting.

Disclosures
7. The following disclosures shall be made for investment income due and accrued in the financial statements. (SSAP No. 37 captures disclosures for mortgage loans on nonaccrual status pursuant to paragraph 6.)

   a. The bases by category of investment income for excluding (nonadmitting) any investment income due and accrued;

   b. Disclose total amount excluded;

   c. Disclose the gross, nonadmitted and admitted amounts for interest income due and accrued;

   d. Disclose aggregate deferred interest;

   e. Disclose cumulative amounts of paid-in-kind (PIK) interest included in the current principal balance.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2023-1 Spring/Summary and Minutes/SAPWG/F_22-17 - Interest Income.docx
TO: Elizabeth Kelleher Dwyer, Chair, Financial Conditions (E) Committee
Marlene Caride, Chair, Financial Stability (E) Task Force
Bob Kasinow, Chair, Macroprudential (E) Working Group
Thomas Botsko, Chair, Capital Adequacy (E) Task Force
Phillip Barlow, Chair, Risk-Based Capital Investment Risk and Evaluation (E) Working Group
Cassie Brown, Chair, Life Actuarial (A) Task Force
Judy Weaver, Chair, Financial Analysis (E) Working Group
Dale Bruggeman, Chair, Statutory Accounting Principles (E) Working Group
Phillip Barlow, Chair, Risk-Based Capital Investment Risk and Evaluation (E) Working Group
Cassie Brown, Chair, Life Actuarial (A) Task Force
Judy Weaver, Chair, Financial Analysis (E) Working Group
Dale Bruggeman, Chair, Statutory Accounting Principles (E) Working Group
Fred Andersen, Chair, Valuation Analysis (E) Working Group

FROM: Carrie Mears, Chair, Valuation of Securities (E) Task Force

CC: Charles A. Therriault, Director, NAIC Securities Valuation Office (SVO)
Eric Kolchinsky, Director, NAIC Structured Securities Group (SSG) and Capital Markets Bureau
Dan Daveline, Director, NAIC Financial Regulatory Services
Todd Sells, Director, NAIC Financial Regulatory Policy & Data
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office (SVO)
Julie Gann, Assistant Director, NAIC Solvency Policy
Bruce Jenson, Assistant Director, NAIC Solvency Monitoring
Pat Allison, Managing Life Actuary, NAIC Financial Regulatory Affairs
Jane Koenigsman, Sr. Manager II, NAIC L/H Financial Analysis
Andy Daleo, Sr. Manager I, NAIC P/C Domestic and International Analysis
Dave Fleming, Sr. Life RBC Analyst, NAIC Financial Regulatory Affairs
Jennifer Frasier, Life Examination Actuary, NAIC Financial Regulatory Affairs
Scott O’Neal, Life Actuary, NAIC Financial Regulatory Affair
Eva Yeung, Sr. P/C RBC Analyst/Technical Lead, NAIC Financial Regulatory Affairs

RE: Referral on Additional Market and Analytical Information for Bond Investments

DATE: February 13, 2023

Summary – The Investment Analysis Office (IAO) staff recommended in its Feb. 25, 2022, memorandum to the Valuation of Securities (E) Task Force (VOSTF) (attached hereto, Blanks Market Data Disclosure v2.pdf) that it would like additional market-data fields added to the annual statement instructions for bond investments. This was, in part, based upon the NAIC’s adoption in 2010 of the recommendations of
the Rating Agency (E) Working Group (RAWG), which was formed following the Great Financial Crisis of 2007-2008 to study the NAIC’s reliance on rating agencies, and the IAO staff’s recent findings in its Nov. 2021 memo regarding disparities between rating agencies. RAWG recommended that: 1) regulators explore how reliance on rating agencies can be reduced when evaluating new, structured, or alternative asset classes, particularly by introducing additional or alternative ways to measure risk; and 2) consider alternatives for regulators’ assessment of insurers’ investment risk, including expanding the role of the NAIC Securities Valuation Office (“SVO”); and 3) VOSTF should continue to develop independent analytical processes to assess investment risks. These mechanisms can be tailored to address unique regulatory concerns and should be developed for use either as supplements or alternatives to ratings, depending on the specific regulatory process under consideration.

The NAIC’s need for alternative measures of investment risk has only increased since RAWG made its recommendations, as privately issued and rated complex structured finance transactions have become commonplace without adequate ways of identifying them. The SVO recommended the following market data fields to be added to the annual statement instructions: Market Yield, Market Price, Purchase Yield, Weighted Average Life, Spread to Average Life UST, Option Adjusted Spread, Effective Duration, Convexity and VISION Issue ID. Please refer to the attached memo for more detail on each data field.

In comments received from industry there were questions as to how the SVO, VOSTF and/or other regulators who would receive the analytic data included in the proposal would utilize that information and why it is of value to them. The SVO was also asked to consider industry’s recommendation that the NAIC be responsible for calculating this analytical information by utilizing commercially available data sources and investment models instead of having each individual insurance company incur the costs to implement system changes. The SVO shared their thoughts on the alternatives in the Jul. 14, 2022, memorandum to the VOSTF (attached, Blanks_Market_Data_Options_v3.pdf).

Capabilities like this within the SVO would permit it to calculate for regulators all the analytic values previously mentioned for any Schedule D investment along with additional measures such as key rate duration (a measure of interest rate sensitivity to maturity points along the yield curve), sensitivity to interest rate volatility, principal and interest cash flow projections for any security or portfolio for any given interest rate projection, loss estimates for any security for any given scenario and many others measures.

**Referral** – VOSTF refers this matter to the above referenced Committees, Task Forces and Working Groups for consideration and requests a response from you by May 15th outlining:

1. Indicate if your group is supportive of creating this capability within the SVO.
2. List the investment analytical measures and projections that would be most helpful to support the work performed by your respective group.
3. Describe how your group would utilize the data and why it would be of value.
4. Are there other investment data or projection capabilities that would be useful to your group that could be provided by commercially available data sources or investment models? And if so, please list them.
5. Any other thoughts you may have on this initiative.

Please contact Charles Therriault or Marc Perlman with any questions.

VOSTF_Referral_Bond_Risk_Measures_2023-02-13.docx
January 9, 2023

Michael F. Consedine, Chief Executive Officer
Andrew Beal, Chief Operating Officer and Chief Legal Officer
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Request for Accounting Practices and Procedures Manual PDF

Dear Messrs. Consedine and Beal:

We would like to like to raise an issue that has become an impediment for industry and others that need access to the guidance in the *NAIC Accounting Practices and Procedures Manual* (the “AP&P Manual”). The current product offered by the NAIC, i.e., the BookShelf® Online Subscription AP&P Manual, does not provide an effective search capability or print function, the two most important functionalities needed by users of the product.

For the reasons discussed below, we respectfully request that the NAIC make available for purchase by industry a licensed PDF version of the AP&P Manual that is both searchable and printable. There is great frustration with our current online product as evidenced by a survey of companies that we conducted during 2022. The dissatisfaction with the online system was exacerbated when in 2022 the hard copy manual was no longer available and the online Bookshelf became the sole source for authoritative guidance. This has resulted in the overwhelming support from insurance companies for a PDF version of the AP&P Manual.

What would be the usage of the PDF by companies?

1. The desire for a searchable PDF (outside of bookshelf) rather than hardcopy printing as the feedback reflected difficulty printing from bookshelf as well as limited search capability.
2. If a license for a PDF was provided, we expect the majority will print by SSAP, some will print out the full AP&P Manual and require multiple copies.
3. Insurers are looking at this on a group basis (providing access to insurers within an insurance group in one license) as insurers have centralized accounting functions.
4. If acquiring a PDF with searchable and printing capability, some insurers may still want bookshelf licenses. It will depend on the functionality of PDF (searchable and printable PDF) and the ability to access updates. The lack of functionality in the online bookshelf product is driving the need for a searchable and printable PDF

As mentioned above, we sent out a request to industry as to provide feedback to the NAIC on industry’s interest in an alternative to the online version of the AP&P Manual asking, *if* the NAIC would be willing to sell a licensed PDF version of the AP&P Manual that is printable, would you be interested? We
received a very strong response from 52 companies who supported a printable and searchable PDF version of the accounting manual. We have included the comments provided by member companies below, unedited. Note that several comments, notably a request to publish newly adopted revisions in PDF format, have been addressed already by NAIC Staff. However, the responses highlight the difficulties that companies have experienced using the Bookshelf software overall and suggest that a PDF version of the AP&P Manual would provide substantial benefit to industry.

<table>
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<th>Response</th>
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<td><strong>Bookshelf is a product for individuals who read materials by flipping pages as if they are holding a hardcopy; however, the functionality is slow and unreliable. Sometimes pages of text take a long time to load or fail to load. As a result “flipping” back and forth between the electronic pages in cumbersome. Finance professionals are looking for an accounting and reporting research tool that requires functionality to search for terms and viewing pertinent sections in streaming form, allowing readers to quickly scroll through multiple pages of text. A softcopy solution, like a PDF file, that enables searching all standards with ability to scroll through each standard would greatly improve our efficiency and effectiveness in researching accounting and reporting matters.”</strong></td>
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<tr>
<td>I’d be willing to buy anything more convenient than the current Bookshelf version. And that goes for all NAIC manuals, including the Annual Statement Instructions.</td>
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<tr>
<td>Using the APPM has been a pain point for us ever since the introduction of the Bookshelf product.</td>
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<td>We would also suggest that SAPWG make PDF copies of newly adopted changes available on the website (similar to how Blanks operates), as this practice appears to have been discontinued along with hard copy manuals. Implementation of new guidance routinely involves distribution of new guidance to different areas of our company that do not have reason to access the APPM in the normal course. Carving out these changes and printing from the Bookshelf product is unnecessarily difficult and time-consuming.</td>
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<td>Yes, I feel very strongly that they need an alternative online version and prefer they provide an option for a manual copy. The current Bookshelf program is not user friendly, too slow, and stalls out frequently. For example, if you know you need something in SSAP No. 54, but don’t know what specific page it is on, the program is very inefficient if you are trying to flip the pages quickly to find the section needed. We would buy a licensed, printable version of the Manual. We had actually budgeted for two copies this year because of the remote environment and the hindrances of the program.</td>
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<td>When we say printable – are we talking about that bookshelf version (which only lets you download 10 pages at a time) or something else. We like the printed version too so that we can share in our office but if it was a PDF version that wasn’t on that bookshelf system that would interest us. We will say that the bookshelf system is horrible and incredible hard to read with the watermark on it and to download the entire more than 10 pages is VERY time consuming.</td>
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<td>I would love to be able to access a PDF version of the NAIC Accounting P&amp;P manual. The online tool that we were accessing the manual through is an impediment, my team has generally reverted to using old paper copies of the manual. Having it in PDF would be ideal, given so many folks in Accounting are now working remotely. This would make citations of the manual as easy as snipping and pasting.</td>
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To the best of my knowledge, XXX has one subscription to the on-line manual for which I am the (lucky?) user. I question how lucky I am, because I find it a huge pain in the rear to use, print, share somehow (no matter how infrequent even with others at XXX who are paying for the service). And the subscription process itself is a disaster. So, yes, I would be interested in a sane alternative.

The Vital Source web-based tool is not good and our IT department wouldn’t approve the desktop version.

Would be very much interested in more manageable, printable and searchable document.

Would be very supportive of getting a licensed PDF version back. We have a ton of technical difficulties in accessing the online manual. Further, it seems like their licenses expire before they are supposed to so it feels like we’ve had to buy extra licenses to make sure we can access the content. In short, it’s not a user-friendly tool.

Yes, I would be interested. It needs to be “searchable”. At a minimum, encourage them to move away from Bookshelf.

Would be 100% interested. A PDF version would be very useful for us. Perhaps there could be an all-company license paid per year. We have a handful of active users, but we have countless requests where a single person may request to read a single SSAP on an ad-hoc basis. So making the guidance widely available, even at a cost, would be beneficial for us, and I would think it would good for the NAIC as well.

I would be very interested in a *.pdf version of the APP Manual. The current online version al is terrible with seemingly intentionally poor functionality.

Yes, we would be interested as it may be a more usable version than what we have today.

I would definitely be interested. I have a number of years of experience with the online version and it is very slow and clunky. The hardcopy version is no longer relevant in today's day and age. Not to mention, the individuals who utilize the manual for reference across a Company is continuing to grow and is not confined to only a couple individuals like it used to be a number of years ago.

This has been extremely challenging to manage the cost/availability of the AP&P since it moved to online.

Any way to make the APPM more accessible would be appreciated! Bookshelf is so cumbersome and limiting.

The NAIC should have a system where it could easily be maintained via loose-leaf (as a compromise between bound/on-line). We’d keep it in a couple 3-ring binders, the NAIC could issue updates via new pages properly sequenced, and we’d just hole punch/ replace and move on.

We would definitely be interested in a licensed .pdf version or another way to print/source the Manual. As of right now, it is cumbersome to only be able to print 20 pages at a time and at times, the watermark used (to not distribute) makes parts difficult to read depending upon the printer.
We would be interested in a printable pdf version of the manual if the cost makes sense. I like the online version, but I have been disappointed that access is only provided on a per person basis. We have a large number of people that may have a need to look at the AP&P manual, but many of those people may only need it for a short period of time, making it cost prohibitive for everyone that may have a need for it. In addition, as people rotate through our different Finance areas for development purposes, the people that need access to the AP&P manual can change frequently throughout the year. For these reasons, a site license for a set number of concurrent users or a printable pdf version that can be shared would work better than the current arrangement.

It would also be good if the NAIC would not put the watermark across every page when printing from the online version to a pdf. It just makes it hard to read and seems overkill.

We appreciate your consideration of this matter. This is very important to our companies in complying with the statutory accounting requirements and in supporting the NAIC in their initiatives to keep the guidance current.

Thank you for considering our request. If you have any questions, please do not hesitate to contact us.

Sincerely,

D. Keith Bell                 Rose Albrizio

cc: Mr. Dale Bruggeman, Chairman, Statutory Accounting Principles Working Group
     NAIC staff
     Interested parties

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/ecmte/apptf/2023-1 spring/summary and minutes/sapwg/h_comment letter - app manual.docx
Date: February 6, 2023

To: D. Keith Bell (The Travelers Companies, Inc.), Rose Albrizio (Equitable), and interested parties of the Statutory Accounting Principles (E) Working Group

From: Michael Consedine, NAIC Chief Executive Officer
      Andy Beal, NAIC Chief Operating Officer and Chief Legal Officer

Re: Accounting Practices and Procedures Manual PDF

On Jan. 9, the NAIC received a comment letter from D. Keith Bell and Rose Albrizio, representing interested parties of the Statutory Accounting Principles (E) Working Group (SAPWG), requesting a product enhancement, specifically a PDF, to the NAIC Accounting Practices and Procedures Manual (AP&P Manual). As further detailed herein, due to system limitations of our third-party distributor, many purchasers are not able to effectively research or quickly reference certain key aspects of the manual – specifically users could not efficiently search for references or key phrases. This difficulty, along with the inability to quickly reference differing sections of the manual, sections in which reference complementary statutory guidance, made use of the manual overly burdensome. This memorandum summarizes the NAIC's action plan to promptly resolve the issue presented.

Brief Background
Organized under the Financial Condition (E) Committee, SAPWG is responsible for developing and adopting revisions and interpretations to the AP&P Manual, the manual which details and provides the accounting basis for insures to prepare financial statements for financial regulation purposes. Updates to the manual take place quite often, generally occurring several times a year and are made to address new statutory issues or generally accepted accounting principles (GAAP) pronouncements. Accordingly, the SAPWG and its support staff take pride in the manual being complete and relevant to today's overall accounting issues and to address specific, unique circumstances that are of concern to regulators.

In addition to completeness, transparency and usability are essential characteristics supported by the Financial Condition (E) Committee and SAPWG. Every proposed accounting revision undergoes a rigorous and methodical exposure process, providing an opportunity for regulators and interested parties to comment on any proposed revision. In many cases, regulators and interested parties (along with NAIC support staff) work in conjunction to ensure drafted language is understandable and operationally functional all while addressing the needs of regulators. In the same vein, transparency must go beyond the amendment process and must remain in place so that users have an efficient and effective method in which to access the manual. Compliance with the guidance is not only mandatory, but vitally important to ensure regulators have access to accurate, representative financial information so ease of use is critical.
Access to the AP&P Manual

Subscribers to the AP&P Manual have two avenues to access the publication. (One brief note, the printing and distribution of a hardcopy manual ended in 2021 as demand for such a product greatly declined.)

1. **Avenue 1:** The first is to download a desktop application. When this avenue is utilized, the manual is nearly as searchable and usable as an unrestricted PDF. However, we have found that many organizations, through their information technology security controls, do not allow for the installation of this type of software, so this preferred avenue is likely not often utilized.

2. **Avenue 2:** The second option is to access the manual through our vendor’s web portal. While the initial impression is that the desktop versus the web portal should act in identical manners, unfortunately the two methods operate differently. As a simple example, a search of a particular phrase will produce different results between the two methods. The NAIC has reached out to the vendor on numerous occasions to correct this issue, but it is unlikely this issue will be addressed quickly due to system limitations.

The NAIC understands that as most industry users are likely utilizing the second avenue to access the manual, that the ability to search for specific phraseology, quickly reference or cross reference various guidance is less than optimal. The AP&P Manual, by its very design, is a highly technical document and the ability to search for guidance quickly and efficiently – guidance that is sometimes reflected in multiple locations, is recognized by the NAIC as an important use characteristic.

**Recent Steps Taken and Action Plan**

Recognizing the need for users to have ready and immediate access to newly adopted accounting guidance, starting in 2022, the NAIC began posting adoptions on the SAPWG website as a free PDF publication. These documents will be available for one year and include a summary of the revisions as well as the maintenance agenda submission form (Form A), which includes a description of the accounting issue, interim exposure drafts as well as the final adopted guidance. Posting of these documents was a welcome change as it provided further transparency for interested parties as well as quick and easy access to recent accounting developments. The comment letter also noted that this process change did address several of industry’s prior concerns.

However, moving beyond recent adoptions, the AP&P Manual is a complex and frequently referenced publication thus the ability to efficiently search and reference its contents is critical. Accordingly for the 2023 manual, the NAIC is proud to announce that a copyrighted PDF will be made available, at no additional charge, to those who purchase a subscription to the manual. Similar to the current subscription process, access will be restricted to the individual level, however the PDF will be as searchable and printable as any other PDF document. We trust that this offering will be well received.

Moving forward to the 2024 manual, the NAIC is dedicated to finding an amicable, long-term solution that will result in ease of access for industry users.

If you have any questions in the interim, please feel free to reach out to Jim Pinegar, Assistant Director of Strategic Business Initiatives at jpinegar@naic.org.

cc: Superintendent Dwyer, Chair of the Financial Condition (E) Committee
    Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group
    Jeff Johnston, Managing Director, Financial Regulatory Affairs
    Jim Woody, Chief Financial Officer

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February 23, 2023

Paul Lombardo, Co-Chair
Fred Andersen, Co-Chair
Long-Term Care Actuarial (B) Working Group
National Association of Insurance Commissioners (NAIC)

Re: Accounting Interpretation Request: Interaction Between Actuarial Guideline LI (AG 51) and Appendix A-010

Dear Mr. Lombardo and Mr. Andersen,

On behalf of the Financial Reporting and Solvency Committee (“the committee”) of the Health Practice Council of the American Academy of Actuaries, we are reaching out to you to ascertain whether the Long-Term Care Actuarial (B) Working Group might issue an accounting interpretation for the interaction between Actuarial Guideline LI (AG 51) and Appendix A-010.

In 2017, the National Association of Insurance Commissioners (NAIC) adopted AG 51, “The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves.” Subsequent to the adoption of AG 51, the committee has observed some diversity in practice across issuers of long-term care insurance with regard to how the new guidance in AG 51, and specifically Section 4.C thereof, interacts with existing guidance on accident & health insurance reserve adequacy, as found in paragraph 24 of the Statement of Statutory Accounting Principles (SSAP) No. 54R, “Individual and Group Accident and Health Contracts,” and paragraph 26 of Appendix A-010, “Minimum Reserve Standards for Individual and Group Accident and Health Insurance Contracts.”

To our knowledge, the Long-Term Care Actuarial (B) Working Group has not previously been made aware that a diversity of practice has developed, subsequent to the adoption of AG 51, regarding how AG 51 interacts with Appendix A-010.

It would be helpful for Long-Term Care Actuarial (B) Working Group to review the attached Form A, and issue an interpretation to clarify the intended interaction between AG 51 and Appendix A-010, along the lines of one of the suggested interpretation statement wording options contained in the form. Note that we are not advocating for one of these options over the other; instead, our interest is in having the NAIC provide greater clarity to actuaries to understand its underlying intent.

1 The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.
We appreciate the opportunity to reach out to you on an accounting interpretation request for the interaction between Actuarial Guideline LI and Appendix A-010. We would welcome the opportunity to speak with you to provide more detail regarding these comments or on other issues. If you have any questions or would like to discuss further, please contact Matthew Williams, the American Academy of Actuaries senior health policy analyst, at williams@actuary.org.

Sincerely,

David Hutchins, MAAA, FSA
Chairperson, Financial Reporting and Solvency Committee
American Academy of Actuaries

CC: Dale Bruggeman, Chair, Statutory Accounting Principles (E) Working Group (SAPWG), Accounting Practices and Procedures (E) Task Force; Fred Andersen, Chair, Valuation Analysis (E) Working Group, Financial Condition (E) Committee. NAIC Support Staff: Eric King/Julie Gann/Patricia Allison

Attachment: Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form—Form A
Spring National Meeting - Review of GAAP Exposures for Statutory Accounting:

Pursuant to a 2014 direction from the SAPWG chair, there is a desire for the Statutory Accounting Principles (E) Working Group to be more proactive in considering FASB exposures that may be significant to statutory accounting and reporting. Historically, the SAPWG has commented on limited, key FASB exposures – mostly pertaining to insurance contracts and financial instruments. To ensure consideration of all FASB exposures, staff has prepared this memorandum to highlight the current exposures, comment deadlines, and to provide a high-level summary of the exposed item’s potential impact to statutory accounting. It is anticipated that this information would assist the Working Group in determining whether a comment letter should be submitted to the FASB on the issues. Regardless of the Working Group’s election to submit comments to the FASB on proposed accounting standards, under the NAIC Policy Statement on Statutory Accounting Principles Maintenance Agenda Process, issued US GAAP guidance noted in the hierarchy within Section V of the Preamble to the Accounting Practices and Procedures Manual must be considered by the Statutory Accounting Principles (E) Working Group.

FASB Exposures: [Exposure Documents and Public Comment Documents (fasb.org)]

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<tr>
<th>Exposed FASB Guidance</th>
<th>Comment Deadline &amp; Initial Staff Comments</th>
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The Financial Accounting Standards Board (FASB or Board) issued its first Concepts Statement in 1978 and issued six more by 2000. In 2004, the International Accounting Standards Board (IASB) and the FASB (the Boards) began a joint project to revise and converge their conceptual frameworks. The result of that joint project was FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 1, The Objective of General Purpose Financial Reporting, and Chapter 3, Qualitative Characteristics of Useful Financial Information. In late 2010, the Boards decided to postpone further action on their respective conceptual frameworks until after the completion of several joint projects and ultimately agreed to discontinue the effort to work on their frameworks on a joint basis.

In January 2014, the FASB reactivated its Conceptual Framework project. This proposed Concepts Statement, which would become Chapter 2 of Concepts Statement 8, describes a reporting entity.

This chapter of Concepts Statement 8 would be similar to the rest of the framework in that it establishes concepts that the Board would use in developing standards of financial accounting and reporting. In particular, this chapter would provide the Board with a framework for matters relating to the identification of a reporting entity. This chapter would provide the Board with a framework for developing standards that meet the objective of financial reporting and enhance the understandability of information for existing and potential investors, lenders, donors, and other resource providers of a reporting entity.
**Staff Review and Commentary:**

Comment deadline was January 16, 2023

NAIC staff recommend that ASU be reviewed under the SAP Maintenance Process as detail in *Appendix F—Policy Statements.*


The Financial Accounting Standards Board (FASB or Board) issued its first Concepts Statement in 1978 and issued six more by 2000. In 2004, the International Accounting Standards Board (IASB) and the FASB (the Boards) began a joint project to revise and converge their conceptual frameworks. The result of that joint project was FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 1, The Objective of General Purpose Financial Reporting, and Chapter 3, Qualitative Characteristics of Useful Financial Information. In late 2010, the Boards decided to postpone further action on their respective conceptual frameworks until after the completion of several joint projects and ultimately agreed to discontinue the effort to work jointly on their frameworks.

In January 2014, the FASB reactivated its conceptual framework project. This Exposure Draft, which would become Chapter 5 of Concepts Statement 8, addresses matters relating to the recognition and derecognition of an item in financial statements.

Paragraph 105-10-05-3 of the FASB Accounting Standards Codification® states that FASB Concepts Statements are not authoritative. Some standards are inconsistent with the Concepts Statements. This Concepts Statement or other Concepts Statements do not override authoritative standards. If accounting for a transaction or event is not specified in authoritative generally accepted accounting principles (GAAP), an entity first must consider accounting principles for similar transactions or events within authoritative GAAP and then consider nonauthoritative guidance from other sources (including Concepts Statements).

This chapter of Concepts Statement 8 would be similar to the rest of the framework in that it establishes concepts that the Board would use in developing standards of financial accounting and reporting. In particular, this chapter would provide the Board with a framework for conceptual matters relating to the recognition and derecognition of an item in financial statements. This chapter would provide the Board with a framework for developing standards in meeting the 2 objective of financial reporting that enhances the understandability of information to existing and potential investors, lenders, donors, and other resource providers of a reporting entity.

**Staff Review and Commentary:**

Comment deadline was February 21, 2023

NAIC staff recommend that ASU be reviewed under the SAP Maintenance Process as detail in *Appendix F—Policy Statements.*

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2023-1 Spring/Summary and Minutes/SAPWG/S - Review of GAAP Exposures.docx
Blanks (E) Working Group
Virtual Meeting
March 7, 2023

The Blanks (E) Working Group of the Accounting Practices and Procedures (E) Task Force met March 7, 2023. The following Working Group members participated: Pat Gosselin, Chair (NH); Kim Hudson, Vice Chair (CA); David Phifer (AK); Michael Shanahan (CT); N. Kevin Brown (DC); Tom Hudson (DE); Carolyn Morgan (FL); Carrie Mears (IA); Roy Eft (IN); Kristin Hynes (MI); Debbie Doggett (MO); Lindsay Crawford (NE); John Sirovetz (NJ); Dale Bruggeman and Tracy Snow (OH); Diane Carter (OK); Diana Sherman (PA); Shawn Frederick (TX); Jake Garn (UT); Steve Drutz (WA); Adrian Jaramillo (WI); and Mary Jo Lewis (WV).

1. Adopted its Nov. 17, 2022, Minutes

Gosselin referenced the Blanks (E) Working Group’s Nov. 17, 2022, minutes. During that meeting, the Working Group took the following action: 1) adopted the following proposals: a) 2022-12BWG – Combine the Health Analysis of Operations by Lines of Business Supplement page and the Health Care Receivable Supplement pages (Exhibits 3 and 3A) into one supplement filing set for health blank pages filed as a supplement by life/fraternal companies; b) 2022-19BWG Modified – modify the Life Insurance (State Page) to include the line of business detail reported on the Analysis of Operations by Lines of Business pages. Adds definitions for life and annuity products to the lines of business definitions in the health appendix; 2) adopted its editorial listing; 3) exposed six new proposals; 4) approved language added to the blanks proposal form to address duplication of reporting; 5) reviewed its 2023 proposed charges; 6) received a memorandum from the Statutory Accounting Principles (E) Working Group regarding disclosures required as part of Interpretation (INT) 22-02: Third Quarter 2022 Reporting of the Inflation Reduction Act – Corporate Alternate Minimum Tax; and 8) reviewed State Filing Checklists.

Crawford made a motion, seconded by Doggett, to adopt the Working Group’s Nov. 17, 2022, minutes (see NAIC Proceedings – Fall 2022, Accounting Practices and Procedures (E) Task Force, Attachment Two). The motion passed unanimously.

2. Adopted Items Previously Exposed

a. Agenda Item 2022-14BWG – Effective 12/31/2023

Hudson stated that this proposal modifies Exhibit 1, Parts 1 and 2, and Exhibit 8, Parts 1 and 2, in the life, accident and health/fraternal blank to include the lines of business detail reported on the Analysis of Operations by Lines of Business pages for consistency. There was a modification made to update crosscheck references on Summary of Operations, Analysis of Operations, Five-Year Historical, and Schedule S. This comment was received during the comment period and is highlighted in gray in the proposal. After discussions with interested parties, they agreed to support the annual 2023 effective date.

Hudson made a motion, seconded by Drutz, to adopt the modifications to the proposal. The motion passed unanimously. Hudson made a motion, seconded by Drutz, to adopt the modified proposal (Attachment Two-A). The motion passed unanimously.
b. **Agenda Item 2022-15BWG**

Doggett stated that this proposal impacts the life, accident and health/fraternal, and property/casualty (P/C) blanks. It revises the language of Schedule H, Part 5, to remove the 5% of premiums filing exemption. Before Schedule H was updated for Annual 2022 to bring uniformity in the accident and health lines of business, the P/C instructions for Schedule H, Part 5 had the “less than 5% filing exemption,” and the life/fraternal instructions did not have the 5% filing exemption. The removal of the 5% exemption would require both P/C and life/fraternal filers to file Schedule H, Part 5. There were no comments received.

Doggett made a motion, seconded by Garn, to adopt the proposal (Attachment Two-B). The motion passed unanimously.

c. **Agenda Item 2022-16BWG**

Drutz stated that this proposal removes Supplemental Health Care Exhibit Part 3 and Supplemental Health Care Exhibit’s Expense Allocation Report from the life, accident and health/fraternal, health and P&C blanks as they are no longer used regularly by regulators. Interested parties asked that the health care quality expenses definitions be added to the Appendix. These definitions pertain specifically to the Supplemental Health Care Exhibit as part of the federal Affordable Care Act (ACA) adoption, which has an April 1 filing deadline. Therefore, the most appropriate location for these definitions is with the supplemental exhibit.

Demetria Tittle (Blue Cross Blue Shield Association—BCBSA) stated that interested parties appreciate the nature of this proposal to remove information that regulators no longer frequently use, stating further that interested parties further support the new working group charge to consider proposals that address duplication in the financial reporting. She indicated that interested parties have begun to discuss and analyze the annual statement and other supplemental filings for similar additional opportunities to support this important project. She stated that examples would be shared in the near future, proposing recommendations for the Working Group to consider after the interested parties’ full vetting process. She stated that they share the goal of providing regulators with pertinent information in a form that creates mutual efficiencies while reducing redundancy where possible.

Tom Finnell (America’s Health Insurance Plans—AHIP) stated that AHIP members support the initiative of reducing redundancies within the reporting blank.

Gosselin stated that the Blanks (E) Working Group members would continue to appropriately assess redundancies and information that regulators no longer need through any proposals that are presented to the Working Group. This is with the understanding that before any such proposals are presented to the Working Group for consideration, the related policymaking task forces and working groups are made aware of the proposal. The discussions regarding any change and possible impact should be addressed with the policymaking groups. The process is consistent with the Working Group’s 2023 adopted charges.

Drutz made a motion, seconded by Shanahan, to adopt the proposal (Attachment Two-C). The motion passed unanimously.

d. **Agenda Item 2022-18BWG**

Gosselin stated that this proposal impacts the life, accident and health/fraternal blank, addressing instructional corrections on the handling of exchange-traded funds (ETFs) and/or Securities Valuation Office (SVO) identified funds within the interest maintenance reserve (IMR) and the asset valuation reserve (AVR). This relates to the classification of bond mutual funds being no longer used in statement reporting within the *Accounting Practices*

Interested parties suggested changes to line 2, for unaffiliated common stocks-private to exclude money market mutual funds appropriately reported on Schedule E, Part 2. However, NAIC staff supporting the Statutory Accounting Principles (E) Working Group indicated that paragraph 8 in the Statement of Actuary Accounting Principles (SSAP) No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments references this issue. In order for money market mutual funds (MMMFs) to be reported as cash equivalents, they must be registered with the U.S. Securities and Exchange Commission (SEC) as an MMMF and regulated under the 1940 Act. It is not permissible to apply the cash equivalent guidance to non-registered funds that may resemble an MMMF. As such, they should all be public.

Gosselin made a motion, seconded by Garn, to adopt the proposal (Attachment Two-D). The motion passed unanimously.

e. Agenda Item 2022-20BWG

Mary Caswell (NAIC) stated that this proposal modifies the instructions and blanks for various health exhibits to change the order of the vision and dental lines of business to be consistent with all other statement types. To address interested parties’ comments, a “life (health supplement)” check box option has been added to the proposal form to identify changes that impact the health supplements in the life blank.

Hudson made a motion, seconded by Shanahan, to adopt the proposal (Attachment Two-E). The motion passed unanimously.

3. Re-Exposed Items

a. Agenda Item 2022-17BWG

Bruggeman stated that this proposal adds a new disclosure paragraph for Note 8 – Derivative Instruments and an illustration of new disclosure to be data captured. It adds electronic-only columns related to derivatives with excluded components to Schedule DB, Part A and Part B for both Section 1 and Section 2. It adds new code column instructions for Schedule DB, Part A and Part B. The purpose of the proposal is to reflect changes and disclosures adopted by the Statutory Accounting Principles (E) Working Group to SSAP No. 86—Derivatives in agenda item 2021-20. Interested parties have provided comments proposing to clarify certain aspects of the disclosure. The statutory accounting principles (SAP) guidance was permitted for early adoption at year-end 2022, so the proposed disclosure has had the benefit of being reviewed by companies as they initially applied the SAP guidance. NAIC staff supporting the Statutory Accounting Principles (E) Working Group have discussed the comments with interested parties’ representatives and have come to an agreement on the current proposed clarifications. Although it is anticipated that the clarifications will address the interested parties’ concerns, it is recommended that the blanks proposal be exposed with the revisions to allow for an additional public comment period. It is requested that the exposure timeframe continue to allow for adoption consideration during the Blanks (E) Working Group meeting in May for an annual 2023 effective date.

Bruggeman made a motion, seconded by Eft, to adopt the modifications to the proposal. The motion passed unanimously. Bruggeman made a motion, seconded by Eft, to re-expose the proposal for a public comment period ending April 28.
4. **Exposed New Items**

   a. **Agenda Item 2023-01BWG**

   Doggett stated that this proposal removes pet insurance from the inland marine line of business and adds a new line of business to Appendix – Property and Casualty (P/C) Lines of Business definitions. It adds a pet insurance line within the existing P/C blank for the Underwriting and Investment Exhibits, Exhibit of Premiums and Losses (State Page), and Insurance Expense Exhibit. It adds new Schedule P, Parts 1 through 4, specific to pet insurance.

   The primary reason for this proposal is that there is currently no public or regulatory visibility into the vast amount of pet insurance industry financial reporting other than one monoline insurer that writes pet insurance. The rest of the industry’s business is buried within the inland marine line of business. The pet insurance industry has grown rapidly, and this high growth rate continues. The industry’s self-reported data shows growth in annual gross written premiums from $836.5 million in 2016 to $2.59 billion in 2021, including more than 30% annual growth from 2020 to 2021. This growth rate makes the absence of visibility into each participating company’s financial information more of an acute challenge with each passing year.

   Doggett stated that getting information related to pet insurance currently relies on data calls, which is a very time-consuming process for all involved parties. The NAIC’s Market Regulation and Consumer Affairs (D) Committee is proceeding to identify pet insurance on the Market Conduct Annual Statement (MCAS). Doing so on the financial statement appears to be appropriate at this time.

   Hearing no objection, Gosselin stated that the proposal will be considered exposed for a 52-day public comment period ending April 28.

   b. **Agenda Item 2023-02BWG**

   Teresa Cooper (NAIC) stated that this proposal adds an exhibit to identify premiums that are reportable for MCAS purposes. The addition of MCAS premium reporting will allow accurate identification of required MCAS filing submissions. The request is to require the data by state. This would be in the life, accident and health/fraternal, health and property statements. This will eliminate industry and regulator work to submit and review annual waiver requests.

   Hearing no objection, Gosselin stated that the proposal will be considered exposed for a 52-day public comment period ending April 28.

   c. **Agenda Item 2023-03BWG**

   Caswell stated that this proposal removes life, accident and health/fraternal blank crosschecks for Columns 2, 6, and 10 on the Accident & Health Policy Experience Exhibit. The life, accident and health/fraternal blank crosschecks are not working correctly because Columns 2, 6, and 10 on the Accident & Health Policy Experience Exhibit are on a direct basis, and Exhibit 6 is on an assumed basis.

   Hearing no objection, Gosselin stated that the proposal will be considered exposed for a 52-day public comment period ending April 28.
d. Agenda Item 2023-04BWG

Angela McNabb (NAIC) stated that this proposal adds instructions for the appointed actuary and qualified actuary contacts to the jurat electronic-only section. In working with the principles-based reserving and the mortality experience data collection, staff has had instances where they needed to communicate directly with either the appointed actuary or qualified actuary. Currently, these are not identified in the blank. The additional contact information will help regulators in locating the appropriate actuaries to address any actuarial questions.

Hearing no objection, Gosselin stated that the proposal will be considered exposed for a 52-day public comment period ending April 28.

e. Agenda Item 2023-05BWG

Sara Robben (NAIC) stated that the cybersecurity supplement has been in effect since 2016. Staff have reviewed the information that has been collected on identity theft and concluded that the information was not beneficial. This is because there are a lot of non-insurance companies that write identity theft coverage. This proposal is requesting to discontinue collecting the identity theft information which would require removing the introductory questions along with additional changes.

Robben stated that the proposal removes the Identity Theft Insurance column from Parts 2 and 3. It removes the claims-made and occurrence breakdown, as well as first-party and third-party breakdown, from data collection. A cybersecurity insurance policy generally is written on a claims-made basis for the liability sections of the policy; therefore, the breakdown is unnecessary. It removes the question in the interrogatories regarding tail policies. This has provided no meaningful information due to the way cybersecurity insurance policies are written. Therefore, it is considered no longer needed.

Hearing no objection, Gosselin stated that the proposal will be considered exposed for a 52-day public comment period ending April 28.

f. Agenda Item 2023-06WG

Bruggeman stated that this proposal is in line with the Statutory Accounting Principles (E) Working Group bond project. Pursuant to that project, enhanced granularity and transparency of the bond investments held are proposed. To achieve that goal, the Statutory Accounting Principles (E) Working Group is proposing to split Schedule D, Part 1, into two sections: one for Issuer Credit Obligations and the other for Asset-Backed Securities. Additionally, the proposal removes the broad investment categories and incorporates new reporting lines for both schedules as well as instructions as to what should be captured in each reporting line. The proposal is very detailed, as the expansion of the schedule and the changes to the reporting lines impact a number of other schedules. The proposed concepts have previously been exposed by the Statutory Accounting Principles (E) Working Group with comments considered prior to sponsoring the blanks proposal. The anticipated effective date of the bond changes is Jan. 1, 2025. Therefore, the Blanks (E) Working Group is working to ensure that the blanks and accounting changes can be fully considered and adopted to allow reporting entities time to make any necessary system changes and assess the impact on their investment holdings.

Hearing no objection, Gosselin stated that the proposal will be considered exposed for a 115-day public comment period ending June 30.
g. Agenda Item 2023-07BWG

Bruggeman stated that this proposal has also been drafted in response to discussions that have occurred under the bond project to make the investment schedules consistent with the changes to Schedule D, Part 1, within proposal 2023-06BWG. Ultimately, this proposal recommends revisions to investment schedules to improve and streamline overall reporting. Specifically, this proposal updates the code column and deletes the Legal Entity Identifier (LEI) column for the following investment schedules: A, B, BA, D, Part 2, D, Part 6, and E, Part 1.

Hearing no objection, Gosselin stated that the proposal will be considered exposed for a 52-day public comment period ending April 28.

h. Agenda Item 2023-08BWG

Bruggeman stated that this proposal has been drafted to add language to clarify that mutual companies are to be included in Schedule Y, Part 3. This has been a consistent question that NAIC staff have received since Schedule Y, Part 3 was added, and this revision should clear that up for the companies.

Hearing no objection, Gosselin stated that the proposal will be considered exposed for a 52-day public comment period ending April 28.

i. Agenda Item 2023-09BWG

Bruggeman stated that this proposal has been drafted because the American Academy of Actuaries (Academy) and the Life Risk-Based Capital (E) Working Group developed and recommended an annual statement note to be used when updating the Life C-2 mortality changes. The new financial statement note will develop the net amounts at risk in the categories needed for the Life C-2 worksheet to create a direct link to a financial statement source. Because this impacts the annual statement notes, a corresponding proposal is planned for exposure at the Spring National Meeting to allow for 2023 year-end adoption.

Hearing no objection, Gosselin stated that the proposal will be considered exposed for a 52-day public comment period ending April 28.

5. Adopted the Editorial Listing

Hudson made a motion, seconded by Snow, to adopt the editorial listing (Attachment Two-F). The motion passed unanimously.

Having no further business, the Blanks (E) Working Group adjourned.
NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: 08/17/2022

CONTACT PERSON: ________________________________

TELEPHONE: ________________________________

EMAIL ADDRESS: ________________________________

ON BEHALF OF: ________________________________

NAME: Kim Hudson

TITLE: ________________________________

AFFILIATION: California Department of Insurance

ADDRESS: 300 South Spring St.
Los Angeles, CA 90013

FOR NAIC USE ONLY

Agenda Item # 2022-14BWG Mod
Year 2023

Changes to Existing Reporting [ X ]
New Reporting Requirement [ ]

REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

No Impact [ X ]
Modifies Required Disclosure [ ]

DISPOSITION

[ ] Rejected For Public Comment
[ ] Referred To Another NAIC Group
[ ] Received For Public Comment
[ X ] Adopted Date 03/07/2023
[ ] Rejected Date
[ ] Deferred Date
[ ] Other (Specify) ________________

BLANK(S) TO WHICH PROPOSAL APPLIES

[ X ] ANNUAL STATEMENT
[ X ] QUARTERLY STATEMENT
[ X ] Life, Accident & Health/Fraternal
[ ] Property/Casualty
[ ] Health
[ ] Separate Accounts
[ ] Protected Cell
[ ] Health (Life Supplement)

BLANK(s) TO WHICH PROPOSAL APPLIES

[ X ] ANNUAL STATEMENT
[ X ] INSTRUCTIONS
[ X ] CROSSCHECKS

ANTICIPATED EFFECTIVE DATE: Annual 2023

IDENTIFICATION OF ITEM(S) TO CHANGE

Modify Exhibit 1, Part 1 and 2, and Exhibit 8, Part 1 and 2, in the life and accident and health (A&H)/fraternal blank, to include the line of business detail reported on the Analysis of Operations by Lines of Business pages. Update crosscheck references on Summary of Operations, Analysis of Operations, 5-Year Historical and Schedule S.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to make the lines of business reported on Exhibit 1 and Exhibit 8 consistent with the lines of business being reported on the Analysis of Operations by Lines of Business pages.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: ________________

Other Comments: ________________

** This section must be completed on all forms.

© 2023 National Association of Insurance Commissioners 1
ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL

EXHIBIT 1 – PART 1 – PREMIUMS AND ANNUITY CONSIDERATIONS FOR LIFE AND ACCIDENT AND HEALTH CONTRACTS

Amounts reported should be reflected in U.S. dollars based on the foreign currency exchange rate. Refer to SSAP No. 23—Foreign Currency Transactions and Translations for accounting guidance. Any foreign currency exchange gain or loss is reported as a realized capital gain or loss.

The separation into first-year, single and renewal is required only for Columns 32 and 4.

Include:  
- Contract, membership and other fees whether or not retained by agents.
- Experience rating refunds and accrued return retrospective premiums. Refer to SSAP No. 66—Retrospectively Rated Contracts for accounting guidance.

Exclude:  
- Amounts attributable to uninsured plans and the uninsured portions of partially insured plans.

Deduct:  
- Refunds to policyholders for direct payment of industrial premiums.
- Premiums and annuity considerations returned.

Do not deduct:  
- Commissions and allowances on reinsurance premiums assumed and ceded.

The reporting entity shall not omit the columns for any lines of business in which it is not engaged. All figures for the ordinary variable life insurance business of the reporting entity, excluding separate accounts items, shall be included in Column 32.

Include premiums and annuity considerations that are transferred to the Separate Accounts Statement. They are also to be reported as premiums and annuity considerations in the Separate Accounts Statement.

Column 9 — Credit Accident and Health (Group and Individual)

Include: Business not exceeding 120 months.

Column 10 — Other Accident and Health

Include: All Medicare Part D Prescription Drug Coverage, whether sold on a stand-alone basis or through a Medicare Advantage product and whether sold directly to an individual or through a group.

Column 12 — Fraternal

Transactions related to the fraternal mission.

Line 1 — Uncollected Premiums and Considerations First Year (Other Than Single) and
Line 11 — Uncollected Premiums and Considerations Renewal

These are premiums and considerations on contracts in force which were due before the end of the year and unpaid on the valuation date or have not been recorded in the premium or consideration account.

The sum of Column 8, 9 and 106 should be included on Page 2, Line 15.1, Column 1.
Line 2 – Deferred and Accrued Premiums and Considerations First Year (Other Than Single) and Renewal

Include: Change in experience rating refund liability and accrued return retrospective premiums.

These are premiums and considerations on policies in force that were due on policies in force extending from (and including) the modal (monthly, quarterly, semiannual) premium due date or dates following the valuation date to the next policy anniversary date when annualized premium was assumed to be collected in the reserve valuation.

Line 4 – Advance Premiums and Considerations First Year (Other Than Single) and Renewal

Include: Premiums and considerations on certificates in force received by the reporting entity prior to the valuation date but that are due on or after the next certificate anniversary date.

Reporting entities may include here unearned premiums on accident and health business.

The total of these lines, excluding A&H unearned premium reserve, must balance to Page 3, Line 8, or to this item prior to deduction of discount depending upon the basis used for crediting advance premiums to the premium account.

The sum of Columns 68 through 10 should equal Schedule H, Part 2, Line A2, Column 1.

Line 6 – Collected During Year – First Year (Other Than Single)

Include: All premiums and considerations (other than single premiums) pertaining to the first contract year.

Experience rating refunds and return retrospective premiums received.

Deduct: Experience rating refunds and return retrospective premiums paid.

Line 10 – Single Premiums and Considerations – Single

Include: All single premiums and considerations and dividends/refunds, coupons, guaranteed annual pure endowments and similar benefits applied to provide paid-up additions and annuities.

Line 16 – Collected During Year - Renewal

Include: All other premiums and considerations, including dividends/refunds, coupons, guaranteed annual pure endowments and similar benefits applied to pay renewal premiums and to shorten the endowment or premium-paying period.

Experience rating refunds and return retrospective premiums received.

Deduct: Experience rating refunds and return retrospective premiums paid.

Line 20.4 – Net Total Premiums and Annuity Considerations – Total

Column 1 less Column 811 should agree with Summary of Operations, Line 1, and all appropriate columns should agree with Line 1 of Analysis of Operations by Lines of Business – Summary. (Column 9 – YRT Mortality Risk Only on the Analysis of Operations by Lines of Business - Summary is not included in Exhibit 1, Part 1).
EXHIBIT 1 – PART 2 – POLICYHOLDERS’ DIVIDENDS, REFUNDS TO MEMBERS AND COUPONS APPLIED, REINSURANCE COMMISSIONS AND EXPENSE ALLOWANCES AND COMMISSIONS INCURRED

The separation into first-year, single and renewal is required only for Columns 2 and 4.

Column 9 – Credit Accident and Health (Group and Individual)

Include: Business not exceeding 120 months.

Column 10 – Other Accident and Health

Include: All Medicare Part D Prescription Drug Coverage, whether sold on a stand-alone basis or through a Medicare Advantage product and whether sold directly to an individual or through a group.

Column 12 – Fraternal

Transactions related to the fraternal mission.

Line 22 – Dividends and Coupons Applied All Other

Include: Coupons, guaranteed annual pure endowments and similar benefits.

Line 26.1 – Reinsurance Ceded

The sum of Columns 8 through 10 should equal Schedule H, Part 4, Line B4, Column 1.

Line 26.2 – Reinsurance Assumed

The sum of Columns 8 through 10 should equal Schedule H, Part 4, Line A4, Column 1.
EXHIBIT 8 – CLAIMS FOR LIFE AND ACCIDENT AND HEALTH CONTRACTS

Amounts relating to uninsured accident and health plans and the uninsured portion of partially insured accident and health plans should be excluded from this exhibit.

Do not include amounts for loss/claims adjusting expenses.

PART 1 – LIABILITY END OF CURRENT YEAR

This part of the exhibit provides an analysis of the contract liability reported in the balance sheet.

A reporting entity shall not omit the columns for any lines of business in which it is not engaged. All figures for the ordinary variable life insurance business of the reporting entity, excluding separate accounts items, shall be included in Column 32. Fraternal benefit societies do not need to complete Columns 2, 6, 7, 8, 9 and 10 since the columns reflect lines of business not written by fraternals.

Exclude liabilities reported in the Separate Accounts Statement.

For each item:

Net = Direct + Reinsurance Assumed – Reinsurance Ceded

Column 6 ——— Credit Life (Group and Individual) and Column 10 ——— Accident and Health Credit (Group and Individual)

Include: Business not exceeding 120 months duration.

These columns are not applicable to Fraternal Benefit Societies.

Column 11 ——— Other Accident and Health

Include: All Medicare Part D Prescription Drug Coverage, whether sold on a stand-alone basis or through a Medicare Advantage product and whether sold directly to an individual or through a group.

Line 1 – Due and Unpaid

Include: Only claims which are complete except for the payment of the amount due, or the recording of the amount paid in the appropriate claims accounts.

Line 2 – In Course of Settlement

Include: Other contract claims that have been reported and are pending at the end of the year. They represent cases that are at different stages of completion of claim processing; ranging from the time of initial receipt of claims or notification of claims to the time where the cases are nearly complete, but not complete enough to be shown in Line 1. Claims in course of settlement are segregated between Resisted, Line 2.1 and Other, Line 2.2.

Line 2.1 – Resisted

Include: Resisted claims on life and annuity contracts. A claim is considered resisted when it is in dispute and not resolved on the statement date.

Line 2.2 – Other

Include: Claims in course of settlement, not shown in Line 2.1, including resisted accident and health claims.
Line 3 – Incurred but Unreported

Report all contract claims incurred on or prior to December 31 of the statement year but not reported to the company until after that date. Only the portion of disability benefits which pertain to disability periods prior to January 1 of the year following the statement year should be reported; for example, the amount which would be payable for the elapsed period if disability were approved. The liability for unaccrued benefits is included in the Certificate and Contract Reserves liability (Page 3, Lines 1 and 2 and Exhibits 5 and 6).

Line 4 – Totals

- Line 4.1 = Line 1.1 + Line 2.11 + Line 2.21 + Line 3.1
- Line 4.2 = Line 1.2 + Line 2.12 + Line 2.22 + Line 3.2
- Line 4.3 = Line 1.3 + Line 2.13 + Line 2.23 + Line 3.3
- Line 4.4 = Line 1.4 + Line 2.14 + Line 2.24 + Line 3.4

Line 4.4, Column 1 should agree with Page 3, the sum of Lines 4.1 and 4.2
EXHIBIT 8 – CLAIMS FOR LIFE AND ACCIDENT AND HEALTH CONTRACTS
PART 2 – INCURRED DURING THE YEAR

A reporting entity shall not omit the columns for any lines of business in which it is not engaged. Fraternal benefit societies do
not need to complete Columns 2, 6, 7, 8, 9 and 10 since these columns reflect lines of business not written by fraternals.

Include benefits and withdrawals that are transferred from the Separate Accounts Statement. They are also to be reported as
benefits and withdrawals in the Separate Accounts Statement.

Column 6 – _______ Credit Life (Group and Individual) and
Column 10 – _______ Accident and Health Credit (Group and Individual)

Include: __________ Business not exceeding 120 months duration.

Column 11 – _______ Other Accident and Health

Include: __________ All Medicare Part D Prescription Drug Coverage, whether sold on a stand-alone basis or through a Medicare Advantage product and whether sold directly to an individual or through a group.

For Lines 1, 2, 4, and 6: \( \text{Net} = \text{Direct} + \text{Reinsurance Assumed} - \text{Reinsurance Ceded} \)

Line 1 – Settlements During the Year
Include: Contract claim amounts retained under supplementary contracts.

Line 3 – Amounts Recoverable from Reinsurers December 31, Current Year and
Line 5 – Amounts Recoverable from Reinsurers December 31, Prior Year

Include Reinsurance recoveries billed on paid losses but not received.

These amounts should agree to the amounts reported in Schedule S, Part 2, Column 6.

Line 6 – Incurred Benefits

Line 6.1 = Line 1.1 + Line 2.1 – Line 4.1
Line 6.2 = Line 1.2 + Line 2.2 – Line 4.2
Line 6.3 = Line 1.3 + Line 2.3 + Line 3 – Line 4.3 – Line 5
Line 6.4 = Line 1.4 + Line 2.4 – Line 3 – Line 4.4 + Line 5
ANALYSIS OF OPERATIONS BY LINES OF BUSINESS – SUMMARY

Detail Eliminated to Conserve Space

Column 8 – Other Lines of Business

A company that is engaged in one or more insurance businesses (other than life business e.g., workers’ compensation, aviation reinsurance) that cannot be reported in the columns on pages for Individual Life Insurance, Group Life Insurance, Individual Annuities, Group Annuities and Accident and Health shall add the amounts for each additional line of business and shall enter the total in Column 8.

Include Any Business that is not reported in Columns 2 through 7 or Column 9.

Column 8, Line 21 should agree with Exhibit 1 Part 2, Line 31, Column 48.

ANALYSIS OF OPERATIONS BY LINES OF BUSINESS – INDIVIDUAL LIFE INSURANCE

Detail Eliminated to Conserve Space

Line 21 – Commissions on Premiums (Direct Business Only)

Columns 2 through 11 should agree with Exhibit 1 Part 2, Line 31, Column 2.

Columns 3, 4, 5, 6, 7, 8, 9 and 11 should agree with Exhibit 1 Part 2, Line 31, Column 3.

Column 10 plus Analysis of Operations – Group Life Insurance, column 7, line 21 should agree with Exhibit 1 Part 2, Line 31, Column 5.
ANALYSIS OF OPERATIONS BY LINES OF BUSINESS – GROUP LIFE INSURANCE

Detail Eliminated to Conserve Space

Line 21 — Commissions on Premiums (Direct Business Only)

Columns 2, 3, 4, 5, 6 and 8 through 8 should agree with Exhibit 1 Part 2, Line 31, Column 63.

Note: Column 7 is included in Exhibit 1 Part 2, Line 31, column 5 with individual credit life business.

ANALYSIS OF OPERATIONS BY LINES OF BUSINESS – GROUP ANNUITIES

Detail Eliminated to Conserve Space

Line 21 — Commissions on Annuity Considerations and Deposit-Type Contracts (Direct Business Only)

Columns 2, 3, 4, 5 and 7 should agree with Exhibit 1 Part 2, Line 31, Column 75.

ANALYSIS OF OPERATIONS BY LINES OF BUSINESS – ACCIDENT AND HEALTH

Detail Eliminated to Conserve Space

Line 21 — Commissions on Premiums (Direct Business Only)

Column 1 should agree with Exhibit 1 Part 2, Line 31, Columns 8, 9 and 106.
FIVE-YEAR HISTORICAL DATA

Detail Eliminated to Conserve Space

Premium Income - Lines of Business
(Exhibit 1 – Part 1)

*** 2023 Reporting Note*** - Complete all columns with the new Lines of Business data.

Line 14 – Industrial Individual Life

All years ...................................... Exhibit 1, Part 1, Line 20.4, Column 2

Line 15.1 – Ordinary Life Insurance Group Life

All years ...................................... Exhibit 1, Part 1, Line 20.4, Column 3

Line 15.2 – Ordinary Individual Annuities

All years ...................................... Exhibit 1, Part 1, Line 20.4, Column 4

Line 16 – Credit Life (Group and Individual) Individual Annuities

All years ...................................... Exhibit 1, Part 1, Line 20.4, Column 5

Line 17.1 – Group Life Insurance Group Annuities

All years ...................................... Exhibit 1, Part 1, Line 20.4, Column 6

Line 17.2 – Group Annuities

All years ...................................... Exhibit 1, Part 1, Line 20.4, Column 7

Line 18.1 – A&H – Group Accident & Health

All years ...................................... Exhibit 1, Part 1, Line 20.4, Column 8

Line 18.2 – A&H – Credit

All years ...................................... Exhibit 1, Part 1, Line 20.4, Column 9

Line 18.3 – A&H – Other

All years ...................................... Exhibit 1, Part 1, Line 20.4, Column 10

Line 19 – Aggregate of All-Other Lines of Business

All years ...................................... Exhibit 1, Part 1, Line 20.4, Column 11
## SCHEDULE S – PART 1 – SECTION 1

**REINSURANCE ASSUMED LIFE INSURANCE, ANNUITIES, DEPOSIT FUNDS AND OTHER LIABILITIES WITHOUT LIFE OR DISABILITY CONTINGENCIES, AND RELATED BENEFITS LISTED BY REINSURED COMPANY AS OF DECEMBER 31, CURRENT YEAR**

<table>
<thead>
<tr>
<th>Column 10 – Premiums</th>
<th>Detail Eliminated to Conserve Space</th>
</tr>
</thead>
</table>

To agree with Exhibit 1, Part 1, Line 20.2, Columns 2 through 75. For deposit funds and other liabilities without life or disability contingencies leave this column blank.

<table>
<thead>
<tr>
<th>Column 11 – Reinsurance Payable on Paid and Unpaid Losses</th>
<th>Detail Eliminated to Conserve Space</th>
</tr>
</thead>
</table>

To agree with Exhibit 8, Part 1, Line 4.2, Columns 2 through 85. For deposit funds and other liabilities without life or disability contingencies, leave this column blank.

## SCHEDULE S – PART 1 – SECTION 2

**REINSURANCE ASSUMED ACCIDENT AND HEALTH INSURANCE LISTED BY REINSURED COMPANY AS OF DECEMBER 31, CURRENT YEAR**

<table>
<thead>
<tr>
<th>Column 8 – Premiums</th>
<th>Detail Eliminated to Conserve Space</th>
</tr>
</thead>
</table>

To agree with Exhibit 1, Part 1, Line 20.2, Columns 8 through 106.

<table>
<thead>
<tr>
<th>Column 11 – Reinsurance Payable on Paid and Unpaid Losses</th>
<th>Detail Eliminated to Conserve Space</th>
</tr>
</thead>
</table>

To agree with Exhibit 8, Part 1, Line 4.2, Columns 9 through 116.
SCHEDULE S – PART 3 – SECTION 1

REINSURANCE CEDED LIFE INSURANCE, ANNUITIES, DEPOSIT FUNDS AND OTHER LIABILITIES WITHOUT LIFE OR DISABILITY CONTINGENCIES, AND RELATED BENEFITS LISTED BY REINSURING COMPANY AS OF DECEMBER 31, CURRENT YEAR

Detail Eliminated to Conserve Space

Column 11 – Premiums

Amounts included in this column should represent reinsurance ceded premiums on an incurred basis, to agree with Line 20.3 of Exhibit 1, Part 1, Column 1 less Columns 8, 9 and 106. For deposit funds and other liabilities without life or disability contingencies, leave this column blank.

SCHEDULE S – PART 3 – SECTION 2

REINSURANCE CEDED ACCIDENT AND HEALTH INSURANCE LISTED BY REINSURING COMPANY AS OF DECEMBER 31, CURRENT YEAR

Detail Eliminated to Conserve Space

Column 8 – Premiums

Amounts included in this column should represent reinsurance ceded premiums on an incurred basis and agree with Exhibit 1, Part 1, Line 20.3, Columns 8, 9 and 106.
DIRECT PREMIUMS AND DEPOSIT-TYPE CONTRACTS

Report the Total Direct Life and Accident and Health Premiums, Annuity Considerations and Deposit-Type Contracts on a gross basis.

Include: Contract, membership and other fees, whether or not retained by agents.

Exclude: Amounts attributable to uninsured plans and the uninsured portions of partially insured plans.

Deduct: Refunds to policyholders for direct payment of industrial premiums. Premiums and annuity considerations returned.

Column 2 – Prior Year to Date

Amounts in Lines 1 through 13 should agree with the prior year’s corresponding quarterly statement Exhibit 1, Column 1.

Column 3 – Prior Year Ended December 31

Line 1 – Amount should agree with the prior year’s annual statement Exhibit 1, Part 1, Line 20.1 (Direct), Column 2.

This line is not applicable to Fraternal Benefit Societies.

Line 2 – Amount should agree with the prior year’s annual statement Exhibit 1, Part 1, Line 20.1 (Direct), Column 3.

Line 3 – Amount should agree with the prior year’s annual statement Exhibit 1, Part 1, Line 20.1 (Direct), Column 4.

Line 4 – Amount should agree with the prior year’s annual statement Exhibit 1, Part 1, Line 20.1 (Direct), Column 5.

This line is not applicable to Fraternal Benefit Societies.

Line 5 – Amount should agree with the prior year’s annual statement Exhibit 1, Part 1, Line 20.1 (Direct), Column 6.

This line is not applicable to Fraternal Benefit Societies.

Line 6 – Amount should agree with the prior year’s annual statement Exhibit 1, Part 1, Line 20.1 (Direct), Column 7.

This line is not applicable to Fraternal Benefit Societies.

Line 7 – Amount should agree with the prior year’s annual statement Exhibit 1, Part 1, Line 20.1 (Direct), Column 8.

This line is not applicable to Fraternal Benefit Societies.
Line 8 – Amount should agree with the prior year’s annual statement Exhibit 1, Part 1, Line 20.1 (Direct), **Column 9 Sum of Columns 2 through 8.**

**This line is not applicable to Fraternal Benefit Societies.**

Line 9 – Amount should agree with the prior year’s annual statement Exhibit 1, Part 1, Line 20.1 (Direct), Column 10.

Line 10 – Amount should agree with the prior year’s annual statement Exhibit 1, Part 1, Line 20.1 (Direct), Column 11.

Line 11 – Amount should agree with the prior year’s annual statement Exhibit 1, Part 1, Line 20.1 (Direct), Sum of Columns 2 through 11.

Line 12 – Amount should agree with the prior year’s annual statement Exhibit 1, Part 1, Line 20.1 (Direct), Column 12.

**This line is not applicable to Life Accident and Health Companies.**

Line 149 – Amount should agree with the prior year’s annual statement Schedule T, Line 95 Column 7, Totals (Direct Business).
### EXHIBIT 1 – PART 1 – PREMIUMS AND ANNUITY CONSIDERATIONS FOR LIFE AND ACCIDENT AND HEALTH CONTRACTS

| FIRST YEAR (other than single) | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1. Uncollected | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2. Deferred and accrued | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3. Deferred, accrued and uncollected | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3.1 Direct | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3.2 Reinsurance assumed | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3.3 Reinsurance ceded | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3.4 Net (Line 1 + Line 2) | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4. Advance | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5. Line 3.4 - Line 4. | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 6. Collected during year | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 6.1 Direct | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 6.2 Reinsurance assumed | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 6.3 Reinsurance ceded | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 6.4 Net | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 7. Line 5 - Line 6.4 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 8. Prior year (uncollected + deferred and accrued - advance) | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 9. First year premiums and considerations | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 9.1 Direct | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 9.2 Reinsurance assumed | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 9.3 Reinsurance ceded | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 9.4 Net (Line 7 - Line 8) | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| SINGLE | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 10. Single premiums and considerations | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 10.1 Direct | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 10.2 Reinsurance assumed | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 10.3 Reinsurance ceded | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 10.4 Net | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| RENEWAL | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 11. Uncollected | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 12. Deferred and accrued | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 13. Deferred, accrued and uncollected | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 13.1 Direct | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 13.2 Reinsurance assumed | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 13.3 Reinsurance ceded | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 13.4 Net (Line 11 + Line 12) | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 14. Advance | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 15. Line 13.4 - Line 14 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 16. Collected during year | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 16.1 Direct | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 16.2 Reinsurance assumed | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 16.3 Reinsurance ceded | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 16.4 Net | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 17. Line 15 + Line 16.4 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 18. Prior year (uncollected + deferred and accrued - advance) | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 19. Renewal premiums and considerations | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 19.1 Direct | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 19.2 Reinsurance assumed | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 19.3 Reinsurance ceded | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 19.4 Net (Line 17 - Line 18) | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| TOTAL | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 20.1 Direct | | | | | | | | | | | | | | | | | | | | | | | | | | | |
**EXHIBIT 1 – PART 2 – POLICYHOLDERS’ DIVIDENDS, REFUNDS TO MEMBERS AND COUPONS APPLIED, REINSURANCE COMMISSIONS AND EXPENSE ALLOWANCES AND COMMISSIONS INCURRED (Direct Business Only)**

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## Exhibit 8 – Claims for Life and Accident and Health Contracts
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(a) Including matured endowments (but not guaranteed annual pure endowments) unpaid amounting to $_________________________ in Column 2 and $_________________________ in Column 3 and $_________________________ in Column 7

(b) Include only portion of disability and accident and health claim liabilities applicable to assumed "accrued" benefits. Reserves (including reinsurance assumed and net of reinsurance ceded) for unaccrued benefits for

- Ordinary Life Insurance $_________________________
- Individual Annuities $_________________________
- Credit Life (Group and Individual) $_________________________
- Group Life $_________________________
- Individual Annuities $_________________________

are included in Page 3, Line 1, (See Exhibit 5, Section on Disability Disabled Lives); and for Group Accident and Health $_________________________ and
- Credit (Group and Individual) Accident and Health $_________________________
- Other Accident and Health $_________________________

are included in Page 3, Line 2, (See Exhibit 6, Claim Reserve).

(b) Include only portion of disability and accident and health claim liabilities applicable to assumed "accrued" benefits. Reserves (including reinsurance assumed and net of reinsurance ceded) for unaccrued benefits for

- Ordinary Life Insurance $_________________________
- Group Life $_________________________
- Individual Annuities $_________________________

are included in Page 3, Line 1, (See Exhibit 5, Section on Disability Disabled Lives); and for Accident and Health $_________________________ are included in Page 3, Line 2, (See Exhibit 6, Claim Reserve).
### EXHIBIT 8 – CLAIMS FOR LIFE AND ACCIDENT AND HEALTH CONTRACTS

#### PART 2 – Incurred During the Year

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<td>Industrial Life (a)</td>
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<td>Individual Annuities</td>
<td>Supplementary Contracts Group and Individual Accident &amp; Health</td>
<td>Credit Life (Group and Individual)</td>
<td>Life Insurance (c) Fraternal</td>
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<td>5. Amounts recoverable from reinsurers December 31, prior year:</td>
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<td>6.4 Net</td>
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<td>(a) Including matured endowments (but not guaranteed annual pure endowments) amounting to $…………… in Line 1.1, $…………… in Line 1.4. $…………… in Line 6.1 and $…………… in Line 6.4.</td>
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<td>(b) Including matured endowments (but not guaranteed annual pure endowments) amounting to $…………… in Line 1.1, $…………… in Line 1.4. $…………… in Line 6.1 and $…………… in Line 6.4.</td>
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<td>(c) Including matured endowments (but not guaranteed annual pure endowments) amounting to $…………… in Line 1.1, $…………… in Line 1.4. $…………… in Line 6.1 and $…………… in Line 6.4.</td>
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<td></td>
<td>(d) Includes $…………… premiums waived under total and permanent disability benefits.</td>
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### SUMMARY OF OPERATIONS

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<th>Current Year</th>
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<tr>
<td>1.</td>
<td>Premiums and annuity considerations for life and accident and health contracts (Exhibit 1, Part 1, Line 20.4, Col. 1, less Col. 118)</td>
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<tr>
<td>2.</td>
<td>Considerations for supplementary contracts with life contingencies</td>
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<td>3.</td>
<td>Net investment income (Exhibit of Net Investment Income, Line 17)</td>
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<tr>
<td>4.</td>
<td>Amortization of Interest Maintenance Reserve (IMR, Line 5)</td>
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<td>5.</td>
<td>Separate Accounts net gain from operations excluding unrealized gains or losses</td>
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<td>6.</td>
<td>Commissions and expense allowances on reinsurance ceded (Exhibit 1, Part 2, Line 26.1, Col. 1)</td>
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<tr>
<td>7.</td>
<td>Reserve adjustments on reinsurance ceded</td>
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<td>8.</td>
<td>Miscellaneous Income:</td>
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<tr>
<td>8.1</td>
<td>Income from fees associated with investment management, administration and contract guarantees from Separate Accounts</td>
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</tr>
<tr>
<td>8.2</td>
<td>Charges and fees for deposit-type contracts</td>
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<td>8.3</td>
<td>Aggregate write-ins for miscellaneous income</td>
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<td>9.</td>
<td>Totals (Lines 1 to 8.3)</td>
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<td>10.</td>
<td>Death benefits</td>
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<td>11.</td>
<td>Matured endowments (excluding guaranteed annual pure endowments)</td>
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<td>12.</td>
<td>Annuity benefits (Exhibit 8, Part 2, Line 6.4, Cols. 4 + 58)</td>
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Detail Eliminated to Conserve Space
### FIVE–YEAR HISTORICAL DATA

Show amounts in whole dollars only, no cents; show percentages to one decimal place, i.e., 17.6
$000 omitted for amounts of life insurance

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<th>Life Insurance in Force</th>
<th>2023</th>
<th>2022</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
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<td>2. Ordinary-term (Line 21, Col. 4, less Line 34, Col. 4).</td>
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<td>3. Credit life (Line 21, Col. 6)</td>
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<td>4. Group, excluding FEGLI/SGLI (Line 21, Col. 9 less Lines 43 &amp; 44, Col. 4).</td>
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<td>5. Industrial (Line 21, Col. 2)</td>
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<td>6. FEGLI/SGLI (Lines 43 &amp; 44, Col. 4)</td>
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<td>7. Total (Line 21, Col. 10)</td>
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<td>7.1 Total in force for which VM-20 deterministic/stochastic reserves are calculated</td>
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<td>10. Credit life (Line 2, Col. 6)</td>
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<td>12. Industrial (Line 2, Col. 2)</td>
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<td>(Exhibit 1 – Part 3)</td>
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Detail Eliminated to Conserve Space
## QUARTERLY STATEMENT BLANKS – LIFE/FRATERNAL

### EXHIBIT 1

**DIRECT PREMIUMS AND DEPOSIT-TYPE CONTRACTS**

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<td>Ordinary individual Individual annuities</td>
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<td>4</td>
<td>Credit life (group and individual) Group annuities</td>
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<td>5</td>
<td>Group life insurance Accident &amp; Health</td>
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<td>Group annuities Fraternal</td>
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<td>7</td>
<td>A &amp; H - group Other Lines of Business</td>
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<td>8</td>
<td>A &amp; H - credit (group and individual)</td>
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<td>9</td>
<td>A &amp; H - other</td>
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<td>Aggregate of all other lines of business</td>
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<td>Subtotal (Lines 1 through 10)</td>
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<td>Fraternal (Fraternal Benefit Societies Only)</td>
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**DETAILS OF WRITE-INS**

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<td>Summary of remaining write-ins for Line 10 from overflow page</td>
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https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2023-1 spring/summary and minutes/bwg/att two-a_2022-14bwg_modified.docx
**NAIC BLANKS (E) WORKING GROUP**

**Blanks Agenda Item Submission Form**

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<td>Changes to Existing Reporting [X]</td>
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**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**

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<td>[ ] Rejected Date</td>
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<td>[ ] Deferred Date</td>
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<td>[ ] Other (Specify)</td>
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**BLANK(S) TO WHICH PROPOSAL APPLIES**

| [X] ANNUAL STATEMENT |
| [ ] QUARTERLY STATEMENT |
| [X] INSTRUCTIONS |
| [ ] CROSSCHECKS |
| [X] Separate Accounts |
| [ ] Protected Cell |
| [ ] Title |
| [ ] Health (Life Supplement) |
| [ ] Other ______________________ |

Anticipated Effective Date: Annual 2023

**IDENTIFICATION OF ITEM(S) TO CHANGE**

Revise the language of the Schedule H, Part 5 to remove the 5% of premiums filing exemption (FE).

**REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of the proposal is to remove the 5% of premium filing exemption on the Schedule H, Part 5. Before Schedule H was updated for Annual 2022 to bring uniformity in the accident and health lines of business, the Property/Casualty instructions for Schedule H, Part 5 had the less than 5% filing exemption and the Life/Fraternal instructions did not have the 5% filing exemption. The removal of the 5% exemption would require both Property/Casualty and Life/Fraternal filers to file the Schedule H, Part 5.

**NAIC STAFF COMMENTS**

Comment on Effective Reporting Date: __________________________

Other Comments:

** This section must be completed on all forms. Revised 7/18/2018
ANNUAL STATEMENT INSTRUCTIONS – LIFE\FRATERNAL AND PROPERTY

SCHEDULE H

ACCIDENT AND HEALTH EXHIBIT

PART 5 – HEALTH CLAIMS

Companies with less than 5% of premiums in Accident and Health business should not complete this schedule.

A. DIRECT

Line 1 – Incurred Claims

Should agree with Line 3 plus Line 4 minus Line 2.

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2023-1 spring/summary and minutes/bwg/att two-b_2022-15bwg.docx
**NAIC BLANKS (E) WORKING GROUP**

**Blanks Agenda Item Submission Form**

| **FOR NAIC USE ONLY** |  
|-----------------------|---|
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| Year | 2023 |
| Changes to Existing Reporting | [ X ] |
| New Reporting Requirement | [ ] |

| **CONTACT PERSON:** |  
|----------------------|---|
| Telephone: |  
| Email Address: |  
| On Behalf Of: |  

| **NAME:** | Steve Drutz |
| **TITLE:** | Chief Financial Analyst |
| **AFFILIATION:** | WA Office of the Insurance Commissioner |

**ADDRESS:**

---

**BLANK(S) TO WHICH PROPOSAL APPLIES**

- [ X ] ANNUAL STATEMENT
- [ X ] INSTRUCTIONS
- [ X ] CROSSCHECKS
- [ ] QUARTERLY STATEMENT
- [ X ] BLANK
- [ X ] Separate Accounts
- [ ] Title
- [ ] Other _______________________
- [ X ] Life, Accident & Health/Fraternal
- [ X ] Property/Casualty
- [ X ] Health (Life Supplement)
- [ ] Protected Cell
- [ ] Other _______________________

Anticipated Effective Date: Annual 2023

**IDENTIFICATION OF ITEM(S) TO CHANGE**

Remove Supplemental Health Care Exhibit Part 3 and Supplemental Health Care Exhibit’s Expense Allocation Report

**REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to remove parts of the Supplemental Health Care Exhibit that are no longer used regularly as part of a review of the Annual Statement for duplication or items not regularly used by regulators.

**NAIC STAFF COMMENTS**

Comment on Effective Reporting Date: _______________________

Other Comments: _______________________

**This section must be completed on all forms.**

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ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, AND PROPERTY

SUPPLEMENTAL HEALTH CARE EXHIBIT – PARTS 1 AND 2-AND-3

The purpose of this supplemental exhibit is to assist state and federal regulators in identifying and defining elements that make up the medical loss ratio as described in Section 2718(b) of the Public Health Service Act (PHSA) and for purposes of submitting a report to the HHS Secretary, as required by Section 2718(a) of the PHSA. The supplemental exhibit is also intended to track and compare financial results of health care business as reported in the annual financial statements. Thus, the numbers included in this supplemental exhibit are not the exact numbers that will be utilized for rebate purposes due to possible revisions for claim reserve run-off subsequent to year-end, statistical credibility concerns and other defined adjustments.

A schedule must be prepared and submitted for each jurisdiction in which the company has written direct comprehensive major medical health business, or has direct amounts paid, incurred or unpaid for provisions of health care services. In addition, a schedule must be prepared and submitted that contains the grand total (GT) for the company. However, insurers that have no business that would be included in Columns 1 through 9 or 12 of Part 1 for ANY of the states are not required to complete this supplement at all. If an insurer is required to file the supplement, then the insurer must complete Parts 1 and 2 for each state in which the insurer has any health business, even if a particular state will show $0 earned premiums reported in Columns 1 through 9 or 12 of Part 1. Also, Part 3 must be completed for any state in which there are non-zero amounts in Columns 1 through 9 of Part 1. Companies should contact their domiciliary regulator to obtain a waiver of the filing if the only reportable business in Columns 1 through 9 are comprised of closed blocks of small group, large group or individual business that, if totaled across all states, does not equal 1,000 lives in total.

Improving Health Care Quality Expenses – General Definition:

Quality Improvement (QI) expenses are expenses, other than those billed or allocated by a provider for care delivery (i.e., clinical or claims costs), for all plan activities that are designed to improve health care quality and increase the likelihood of desired health outcomes in ways that are capable of being objectively measured and of producing verifiable results and achievements.

The expenses must be directed toward individual enrollees or may be incurred for the benefit of specified segments of enrollees, recognizing that such activities may provide health improvements to the population beyond those enrolled in coverage, as long as no additional costs are incurred due to the non-enrollees other than allowable QI expenses associated with self-insured plans.

Qualifying QI expenses should be grounded in evidence-based medicine, widely accepted best clinical practice or criteria issued by recognized professional medical societies, accreditation bodies, government agencies or other nationally recognized health care quality organizations.

They should not be designed primarily to control or contain cost, although they may have cost-reducing or cost-neutral benefits, as long as the primary focus is to improve quality.

Qualifying QI activities are primarily designed to achieve the following goals set out in Section 2717 of the PHSA and Section 1311 of the PPACA:

- Improve health outcomes including increasing the likelihood of desired outcomes compared to a baseline and reducing health disparities among specified populations;
- Prevent hospital readmissions;
- Improve patient safety and reduce medical errors, lower infection and mortality rates;
- Increase wellness and promote health activities; or
- Enhance the use of health care data to improve quality, transparency and outcomes.

NOTE: Expenses that otherwise meet the definitions for QI but were paid for with grant money or other funding separate from premium revenues shall NOT be included in QI expenses.
**SUPPLEMENTAL HEALTH CARE EXHIBIT – PART 1**

(To Be Filed By April 1 – Not for Rebate Purposes – See Cautionary Statement at www.naic.org/cmte_e_app_blanks.htm.)

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Formula and Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Deductible Fraud and Abuse Detection/Recovery Expenses</td>
<td>This amount is the lesser of the expense reported in Part 3, Column 7, Lines 1.11, 2.11, 3.11, 4.11, 5.11, 6.11, 7.11, 8.11 and 9.11, and the fraud and abuse recoveries reported in Part 2, Line 3, Columns 1, 2, 3, 4, 5, 6, 7, 8 and 9, respectively.</td>
</tr>
<tr>
<td>6.1</td>
<td>Improve Health Outcomes</td>
<td>Include expenses meeting the definition of Improve Health Outcomes in Improving Health Care Quality Expenses – General Definition Part 3, Column 1 that are not health information technology expenses.</td>
</tr>
<tr>
<td></td>
<td>Part 1, Column 1, Line 6.1 should tie to Part 3, Column 1, Line 1.10</td>
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<tr>
<td></td>
<td>Part 1, Column 2, Line 6.1 should tie to Part 3, Column 1, Line 2.10</td>
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<td>Part 1, Column 3, Line 6.1 should tie to Part 3, Column 1, Line 3.10</td>
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<td>Part 1, Column 4, Line 6.1 should tie to Part 3, Column 1, Line 4.10</td>
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<td>Part 1, Column 5, Line 6.1 should tie to Part 3, Column 1, Line 5.10</td>
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<td>Part 1, Column 6, Line 6.1 should tie to Part 3, Column 1, Line 6.10</td>
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<td>Part 1, Column 7, Line 6.1 should tie to Part 3, Column 1, Line 7.10</td>
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<td>Part 1, Column 8, Line 6.1 should tie to Part 3, Column 1, Line 8.10</td>
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<tr>
<td></td>
<td>Part 1, Column 9, Line 6.1 should tie to Part 3, Column 1, Line 9.10</td>
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</tr>
<tr>
<td>6.2</td>
<td>Activities to Prevent Hospital Readmissions</td>
<td>Include expenses meeting the definition of Improving Activities to Prevent Hospital Readmissions in Improving Health Care Quality Expenses – General Definition Part 3, Column 2 that are not health information technology expenses.</td>
</tr>
<tr>
<td></td>
<td>Part 1, Column 1, Line 6.2 should tie to Part 3, Column 2, Line 1.10</td>
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<tr>
<td></td>
<td>Part 1, Column 2, Line 6.2 should tie to Part 3, Column 2, Line 2.10</td>
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<td>Part 1, Column 3, Line 6.2 should tie to Part 3, Column 2, Line 3.10</td>
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<td>Part 1, Column 4, Line 6.2 should tie to Part 3, Column 2, Line 4.10</td>
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<td>Part 1, Column 5, Line 6.2 should tie to Part 3, Column 2, Line 5.10</td>
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<td>Part 1, Column 6, Line 6.2 should tie to Part 3, Column 2, Line 6.10</td>
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<td></td>
<td>Part 1, Column 7, Line 6.2 should tie to Part 3, Column 2, Line 7.10</td>
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<td></td>
<td>Part 1, Column 8, Line 6.2 should tie to Part 3, Column 2, Line 8.10</td>
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<tr>
<td></td>
<td>Part 1, Column 9, Line 6.2 should tie to Part 3, Column 2, Line 9.10</td>
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</tbody>
</table>
Line 6.3 – Improve Patient Safety and Reduce Medical Errors

Include expenses meeting the definition of Improve Patient Safety and Reduce Medical Errors in *Improving Health Care Quality Expenses – General Definition* Part 3, Column 3 that are not health information technology expenses.

- Part 1, Column 1, Line 6.3 should tie to Part 3, Column 3, Line 1.10
- Part 1, Column 2, Line 6.3 should tie to Part 3, Column 3, Line 2.10
- Part 1, Column 3, Line 6.3 should tie to Part 3, Column 3, Line 3.10
- Part 1, Column 4, Line 6.3 should tie to Part 3, Column 3, Line 4.10
- Part 1, Column 5, Line 6.3 should tie to Part 3, Column 3, Line 5.10
- Part 1, Column 6, Line 6.3 should tie to Part 3, Column 3, Line 6.10
- Part 1, Column 7, Line 6.3 should tie to Part 3, Column 3, Line 7.10
- Part 1, Column 8, Line 6.3 should tie to Part 3, Column 3, Line 8.10
- Part 1, Column 9, Line 6.3 should tie to Part 3, Column 3, Line 9.10

Line 6.4 – Wellness and Health Promotion Activities

Include expenses meeting the definition of Wellness and Health Promotion Activities in *Improving Health Care Quality Expenses – General Definition* Part 3, Column 4 that are not health information technology expenses.

- Part 1, Column 1, Line 6.4 should tie to Part 3, Column 4, Line 1.10
- Part 1, Column 2, Line 6.4 should tie to Part 3, Column 4, Line 2.10
- Part 1, Column 3, Line 6.4 should tie to Part 3, Column 4, Line 3.10
- Part 1, Column 4, Line 6.4 should tie to Part 3, Column 4, Line 4.10
- Part 1, Column 5, Line 6.4 should tie to Part 3, Column 4, Line 5.10
- Part 1, Column 6, Line 6.4 should tie to Part 3, Column 4, Line 6.10
- Part 1, Column 7, Line 6.4 should tie to Part 3, Column 4, Line 7.10
- Part 1, Column 8, Line 6.4 should tie to Part 3, Column 4, Line 8.10
- Part 1, Column 9, Line 6.4 should tie to Part 3, Column 4, Line 9.10
Line 6.5  – Health Information Technology Expenses related to Health Improvement

Include expenses meeting the definition of HIT Expenses for Health Care Quality Improvements in Improving Health Care Quality Expenses – General Definition Part 3, Column 5—that are health information technology expenses.

   Part 1, Column 1, Line 6.5 should tie to Part 3, Column 5, Line 1.10
   Part 1, Column 2, Line 6.5 should tie to Part 3, Column 5, Line 2.10
   Part 1, Column 3, Line 6.5 should tie to Part 3, Column 5, Line 3.10
   Part 1, Column 4, Line 6.5 should tie to Part 3, Column 5, Line 4.10
   Part 1, Column 5, Line 6.5 should tie to Part 3, Column 5, Line 5.10
   Part 1, Column 6, Line 6.5 should tie to Part 3, Column 5, Line 6.10
   Part 1, Column 7, Line 6.5 should tie to Part 3, Column 5, Line 7.10
   Part 1, Column 8, Line 6.5 should tie to Part 3, Column 5, Line 8.10
   Part 1, Column 9, Line 6.5 should tie to Part 3, Column 5, Line 9.10

Line 8.1  – Cost Containment Expenses not Included in Quality of Care Expenses in Line 6.6

Include: Expenses that actually serve to reduce the number of health services provided or the cost of such services. Exclude cost containment expenses that improve the quality of health care (reported in Line 6.6). The following are examples of items that shall be considered “cost containment expenses” only if they result in reduced levels of costs or services (see the instructions for Improving Health Care Quality Expenses – General Definition Part 3– of this supplement for items that qualify for Quality Improvement instead of “cost containment”):

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Detail Eliminated to Conserve Space

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SUPPLEMENTAL HEALTH CARE EXHIBIT—PART 3

This exhibit is intended to provide disclosure of expenses by major type of activity that improves health care quality, as defined below, as well as the amount of those expenses that is used for other activities and reported separately for the comprehensive health coverage (individual, small group and large group business), mini-med plans (individual, small group and large group business), expatriate plans (small group and large group business) and student health plans.

This exhibit also shows the amount of qualifying HIT expenses, reported separately for the comprehensive health coverage (individual, small group and large group business), mini-med plans (individual, small group and large group business), expatriate plans (small group and large group business) and student health plans, broken down into the four categories of Quality Improvement expenses (see below); similarly, the Other than HIT qualifying Quality Improvement expenses are disclosed for each of the four categories of Quality Improvement expenses.

The definitions of Individual, Small Group and Large Group are found in the instructions for Parts 1 and 2 of this supplement exhibit.

Improving Health Care Quality Expenses—General Definition:

Quality Improvement (QI) expenses are expenses, other than those billed or allocated by a provider for care delivery (i.e., clinical or claims costs), for all plan activities that are designed to improve health care quality and increase the likelihood of desired health outcomes in ways that are capable of being objectively measured and of producing verifiable results and achievements.

The expenses must be directed toward individual enrollees or may be incurred for the benefit of specified segments of enrollees, recognizing that such activities may provide health improvements to the population beyond those enrolled in coverage, as long as no additional costs are incurred due to the non-enrollees other than allowable QI expenses associated with self-insured plans.

Qualifying QI expenses should be grounded in evidence-based medicine, widely accepted best clinical practice or criteria issued by recognized professional medical societies, accreditation bodies, government agencies or other nationally recognized health care quality organizations.

They should not be designed primarily to control or contain cost, although they may have cost-reducing or cost-neutral benefits, as long as the primary focus is to improve quality.

Qualifying QI activities are primarily designed to achieve the following goals set out in Section 2717 of the PHSA and Section 1311 of the PPACA:

- Improve health outcomes including increasing the likelihood of desired outcomes compared to a baseline and reducing health disparities among specified populations;
- Prevent hospital readmissions;
- Improve patient safety and reduce medical errors, lower infection and mortality rates;
- Increase wellness and promote health activities; or
- Enhance the use of health care data to improve quality, transparency and outcomes.

NOTE: Expenses that otherwise meet the definitions for QI but were paid for with grant money or other funding separate from premium revenues shall NOT be included in QI expenses.
Column 1 — Improve Health Outcomes

Expenses for the direct interaction of the insurer (including those services delegated by contract for which the insurer retains ultimate responsibility under the insurance policy), providers and the enrollee or the enrollee’s representatives (e.g., face-to-face, telephonic, Web-based interactions or other means of communication) to improve health outcomes as defined above.

This category can include costs for associated activities such as:

• Effective case management, care coordination and chronic disease management, including:
  o Patient-centered intervention, such as:
    ▪ Making/verifying appointments;
    ▪ Medication and care compliance initiatives;
    ▪ Arranging and managing transitions from one setting to another (such as hospital discharge to home or to a rehabilitation center);
    ▪ Programs to support shared decision-making with patients, their families and the patient’s representatives; and
    ▪ Reminding insured of physician appointment, lab tests or other appropriate contact with specific providers;
  o Incorporating feedback from the insured to effectively monitor compliance;
  o Providing coaching or other support to encourage compliance with evidence-based medicine;
  o Use of the medical homes model as defined for purposes of Section 3602 of PPACA;
  o Activities to prevent avoidable hospital admissions;
  o Education and participation in self-management programs; and
  o Medication and care compliance initiatives, such as checking that the insured is following a medically effective prescribed regimen for dealing with the specific disease/condition and incorporating feedback from the insured in the management program to effectively monitor compliance;

• Accreditation fees by a nationally recognized accrediting entity directly related to quality of care activities included in Columns 1 through 5;

• Expenses associated with identifying and addressing ethnic, cultural or racial disparities in effectiveness of identified best clinical practices and evidence-based medicine;

• Quality reporting and documentation of care in non-electronic format; and

• Health information technology expenses to support these activities (report in Column 5 — see instructions) including:
  o Data extraction, analysis and transmission in support of the activities described above; and
  o Activities designed to promote sharing of medical records to ensure that all clinical providers have access to consistent and accurate records from all participants in a patient’s care.
<table>
<thead>
<tr>
<th>Column 2</th>
<th>Activities to Prevent Hospital Readmission</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses for implementing activities to prevent hospital readmissions as defined above, including:</td>
<td></td>
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<tr>
<td>• Comprehensive discharge planning (e.g., arranging and managing transitions from one setting to another, such as hospital discharge to home or to a rehabilitation center) in order to help ensure appropriate care that will, in all likelihood, avoid readmission to the hospital;</td>
<td></td>
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<tr>
<td>• Personalized post-discharge counseling by an appropriate health care professional;</td>
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<tr>
<td>• Any quality reporting and related documentation in non-electronic form for activities to prevent hospital readmission; and</td>
<td></td>
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<tr>
<td>• Health information technology expenses to support these activities (report in Column 5—see instructions) including:</td>
<td></td>
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<tr>
<td>o Data extraction, analysis and transmission in support of the activities described above; and</td>
<td></td>
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<tr>
<td>o Activities designed to promote sharing of medical records to ensure that all clinical providers have access to consistent and accurate records from all participants in a patient’s care.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Column 3</th>
<th>Improve Patient Safety and Reduce Medical Errors</th>
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</thead>
<tbody>
<tr>
<td>Expenses for implementing activities to improve patient safety and reduce medical errors (as defined above) through:</td>
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<tr>
<td>• The appropriate identification and use of best clinical practices to avoid harm;</td>
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<tr>
<td>• Activities to identify and encourage evidence-based medicine in addressing independently identified and documented clinical errors or safety concerns;</td>
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<tr>
<td>• Activities to lower risk of facility acquired infections;</td>
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<tr>
<td>• Prospective prescription drug utilization review aimed at identifying potential adverse drug interactions;</td>
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<tr>
<td>• Any quality reporting and related documentation in non-electronic form for activities that improve patient safety and reduce medical errors; and</td>
<td></td>
</tr>
<tr>
<td>• Health information technology expenses to support these activities (report in Column 5—see instructions), including:</td>
<td></td>
</tr>
<tr>
<td>o Data extraction, analysis and transmission in support of the activities described above; and</td>
<td></td>
</tr>
<tr>
<td>o Activities designed to promote sharing of medical records to ensure that all clinical providers have access to consistent and accurate records from all participants in a patient’s care.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Column 4</th>
<th>Wellness &amp; Health Promotion Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses for programs that provide wellness and health promotion activity as defined above (e.g., face-to-face, telephonic or Web-based interactions or other forms of communication), including:</td>
<td></td>
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<tr>
<td>• Wellness assessment;</td>
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<tr>
<td>• Wellness/lifestyle coaching programs designed to achieve specific and measurable improvements;</td>
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<tr>
<td>• Coaching programs designed to educate individuals on clinically effective methods for dealing with a specific chronic disease or condition; and</td>
<td></td>
</tr>
<tr>
<td>• Public health education campaigns that are performed in conjunction with state or local health departments.</td>
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</tbody>
</table>
Actual rewards/incentives/bonuses/reductions in co-pays, etc. (not administration of these programs) that are not already reflected in premiums or claims should be allowed as QI with the following restrictions:

- Only allowed for small and large employer groups, not individual business; and the expense amount is limited to the same percentage as the HIPAA incentive amount limit;
- Any quality reporting and related documentation in non-electronic form for wellness and health promotion activities;
- Coaching or education programs and health promotion activities designed to change member behavior (e.g., smoking, obesity); and
- Health information technology expenses to support these activities (Report in Column 5 – See instructions).

Column 5 — HIT Expenses for Health Care Quality Improvements

The PPACA also contemplates “Health Information Technology” as a function that may in whole or in part improve quality of care or provide the technological infrastructure to enhance current QI or make new QI initiatives possible. Include HIT expenses required to accomplish the activities reported in Columns 1 through 4 that are designed for use by health plans, health care providers or enrollees for the electronic creation, maintenance, access or exchange of health information, consistent with Medicare/Medicaid meaningful use requirements, in the following ways:

1. Monitoring, measuring or reporting clinical effectiveness, including reporting and analysis costs related to maintaining accreditation by nationally recognized accrediting organizations, such as NCQA or URAC; or costs for public reporting of quality of care, including costs specifically required to make accurate determinations of defined measures (e.g., CAHPS surveys or chart review of HEDIS measures) and costs for public reporting mandated or encouraged by law;
2. Advancing the ability of enrollees, providers, insurers or other systems to communicate patient-centered clinical or medical information rapidly, accurately and efficiently to determine patient status, avoid harmful drug interactions or direct appropriate care – this may include electronic health records accessible by enrollees and appropriate providers to monitor and document an individual patient’s medical history;
3. Tracking whether a specific class of medical interventions or a bundle of related services leads to better patient outcomes;
4. Reformatting, transmitting or reporting data to national or international government based health organizations for the purposes of identifying or treating specific conditions or controlling the spread of disease; or

Exclude: Costs associated with establishing or maintaining a claims adjudication system, including costs directly related to upgrades in HIT that are designed primarily or solely to improve claims payment capabilities or to meet regulatory requirements for processing claims (e.g., costs of implementing new administrative simplification standards and code sets adopted pursuant to the Health Insurance Portability and Accountability Act (HIPAA), 42 U.S.C. 1320d-2, as amended.
NOTE: a. Health Care Professional Hotlines: Expenses for health care professional hotlines should be included in Claims Adjustment Expenses to the extent they do not meet the criteria for the above defined columns of Improve Health Outcomes, Activities to Prevent Hospital Readmissions, Improve Patient Safety and Reduce Medical Errors, and Wellness & Health Promotion Activities.

b. Prospective Utilization Review: Expenses for prospective utilization review should be included in Claims Adjustment Expenses to the extent they do not meet the criteria for the above defined columns of Improve Health Outcomes, Activities to Prevent Hospital Readmissions, Improve Patient Safety and Reduce Medical Errors, and Wellness & Health Promotion Activities, AND the prospective utilization review activities are not conducted in accordance with a program that has been accredited by a recognized accreditation body.

The following items are broadly excluded as not meeting the definitions above:

• All retrospective and concurrent utilization review;
• Fraud prevention activities (all are reported as cost containment, but Part 1, Line 4 includes MLR recognition of fraud detection/recovery expenses up to the amount recovered that reduces incurred claims);
• The cost of developing and executing provider contracts and fees associated with establishing or managing a provider network;
• Provider credentialing;
• Marketing expenses;
• Any accreditation fees that are not directly related to activities included in Columns 1 through 5;
• Costs associated with calculating and administering individual enrollee or employee incentives; and
• Any function or activity not expressly included in Columns 1 through 5.

NOTE: The NAIC will review requests to include expenses for broadly excluded activities and activities not described under Columns 1 through 5 above. Upon an adequate showing that the activity’s costs support the definitions and purposes therein, or otherwise support monitoring, measuring, or reporting health care quality improvement, the NAIC may recommend that the HHS Secretary certify those expenses as Quality Improvement.

The sections for comprehensive health coverage (individual, small group and large group business), mini-med plans (individual, small group and large group business) and expatriate plans (small group and large group business) are defined as per the comprehensive health coverage (individual, small group and large group business), mini-med plans (individual, small group and large group business), expatriate plans (small group and large group business) and student health plans columns in Parts 1 and 2 of this supplement.

For questions on definitions, refer to the instructions for the Annual Statement Expenses Schedule (i.e., the Underwriting and Investment Exhibit, Part 3 for P/C and Health, and Exhibit 2 for Life and Fraternal), for the line references provided below.

DIFFERENT FROM A/S EXPENSE REPORTING: For non-affiliated management agreements/outourced services, report all amounts in the supplement’s Line 1.2, 2.2, 3.2, 4.2, 5.2, 6.2, 7.2, 8.2 or 9.2 for Outsourced Services (not just those amounts less than 10% of total expenses). Continue to allocate all affiliated management agreements/outourced services to the appropriate expense lines as if the costs had been borne directly by the insurer.
Salaries

Life/Fraternal Statement:

Exhibit 2, Line 2 Salaries and wages
Exhibit 2, Line 3.11 Contributions for benefit plans for employees
Exhibit 2, Line 3.12 Contributions for benefit plans for agents
Exhibit 2, Line 3.21 Payments to employees under non-funded benefit plans
Exhibit 2, Line 3.22 Payments to agents under non-funded benefit plans
Exhibit 2, Line 3.31 Other employee welfare
Exhibit 2, Line 3.32 Other agent welfare

Health Statement:

U&I Part 3, Line 2 Salaries, wages and other benefits

P/C Statement:

U&I Part 3, Line 8.1 Salaries
U&I Part 3, Line 9 Employee relations and welfare
U&I Part 3, Line 11 Directors’ fees

Outsourced Services

Include: All non-affiliated expenses for administrative services, claim management services, new programming, membership services, and other similar services, regardless of amount. Thus, non-affiliated amounts greater than the 10% threshold that are reported in the various expense categories (e.g., salaries, rent) for A/S Expense Exhibit reporting will be backed out of the expense categories and reported in Outsourced Services in the Supplemental Health Care Exhibit, Part 3. In addition, the non-affiliated amounts less than the 10% threshold will be included in Outsourced Services (reported as follows in the A/S Expense Exhibit):

Life/Fraternal Statement:

Exhibit 2, Line 4.5 Expense of investigation and settlement of policy claims
Outsourced portion of Exhibit 2, Line 7.1 Agency expense allowance

Health Statement:

U&I Part 3, Line 14 Outsourced services including EDP, claims, and other services

P/C Statement:

Outsourced portion of U&I Part 3, Line 1.4 Net claim adjustment services
Outsourced portion of U&I Part 3, Line 2.8 Net commission/brokerage
Outsourced portion of U&I Part 3, Line 3 Allowances to manager and agents

Exclude: Services provided by affiliates under management agreements.
Lines 1.3, 2.3, 3.3, 4.3, 5.3, 6.3, 7.3, 8.3 & 9.3 — EDP Equipment and Software

**Life/Fraternal Statement:**

Exhibit 2, Line 5.7 Cost or depreciation of EDP equipment and software

**Health Statement:**

U&I Part 3, Line 13 Cost or depreciation of EDP equipment and software

**P/C Statement:**

U&I Part 3, Line 15 Cost or depreciation of EDP equipment and software

Lines 1.4, 2.4, 3.4, 4.4, 5.4, 6.4, 7.4, 8.4 & 9.4 — Other Equipment (excluding EDP)

**Life/Fraternal Statement:**

Exhibit 2, Line 5.6 Rental of equipment

Equipment amounts from Exhibit 2, Line 5.5 Cost or depreciation of furniture/equipment

**Health Statement:**

U&I Part 3, Line 12 Equipment

**P/C Statement:**

U&I Part 3, Line 14 Equipment

Lines 1.5, 2.5, 3.5, 4.5, 5.5, 6.5, 7.5, 8.5 & 9.5 — Accreditation and Certification

Include: Fees associated with the certification and accreditation of a health plan, including but not limited to: fees paid to Joint Commission on Accreditation of Health Care Organizations (JCAHO), National Committee on Quality Assurance (NCQA), and American Accreditation Health Care Commission (URAC).

**Life/Fraternal Statement:**

Applicable portion of Exhibit 2, Line 6.2 Bureau and association fees

**Health Statement:**

U&I Part 3, Line 5 Certification and Accreditation

**P/C Statement:**

Applicable portion of U&I Part 3, Line 5 Boards, bureaus and associations

Exclude: Rating agencies and other similar organizations.
Lines 1.6, 2.6, 3.6, 4.6, 5.6, 6.6, 7.6, 8.6, 9.6 - Other Expenses

Include: Any additional expenses not included in another category.

Life/Fraternal Statement:

Exhibit 2, Line 1 Rent
Exhibit 2, Line 4.1 Legal fees and expenses
Exhibit 2, Line 4.2 Medical examination fees
Exhibit 2, Line 4.3 Inspection report fees
Exhibit 2, Line 4.4 Fees of public accountants and consulting actuaries
Exhibit 2, Line 5.1 Traveling expenses
Exhibit 2, Line 5.2 Advertising
Exhibit 2, Line 5.3 Postage, express, telegraph and telephone
Exhibit 2, Line 5.4 Printing and stationery
Furniture portion of Exhibit 2, Line 5.5 Cost or depreciation of furniture/equipment
Exhibit 2, Line 6.1 Books and periodicals
Non-accreditation portion of Exhibit 2, Line 6.2 Bureau and association fees
Exhibit 2, Line 6.3 Insurance, except on real estate
Exhibit 2, Line 6.4 Miscellaneous losses
Exhibit 2, Line 6.5 Collection and bank service charges
Exhibit 2, Line 6.6 Sundry general expenses
In-house portion of Exhibit 2, Line 7.1 Agency expense allowance
Exhibit 2, Line 7.2 Agents’ balances charged off (less $__ recovered)
Exhibit 2, Line 7.3 Agency conferences other than local meetings
Exhibit 2, Line 9.1 Real estate expenses
Exhibit 2, Line 9.2 Investment expenses not included elsewhere
Exhibit 2, Line 9.3 Aggregate write-ins for expenses
Health Statement:

U&I Part 3, Line 1 Rent
U&I Part 3, Line 3 Commissions
U&I Part 3, Line 4 Legal fees
U&I Part 3, Line 6 Auditing, actuarial and other consulting
U&I Part 3, Line 7 Traveling expenses
U&I Part 3, Line 8 Marketing and advertising
U&I Part 3, Line 9 Postage, express and telephone
U&I Part 3, Line 10 Printing and office supplies
U&I Part 3, Line 11 Occupancy, depreciation and amortization
U&I Part 3, Line 15 Boards, bureaus and association fees
U&I Part 3, Line 16 Insurance, except on real estate
U&I Part 3, Line 17 Collection and bank service charges
U&I Part 3, Line 18 Group service and administration fees
U&I Part 3, Line 21 Real estate expenses
U&I Part 3, Line 24 Investment expenses not included elsewhere
U&I Part 3, Line 25 Aggregate write-ins

P/C Statement:

In house portion of U&I Part 3, Line 1.4 Net claim adjustment services
In house portion of U&I Part 3, Line 2.8 Net commission/brokerage
In house portion of U&I Part 3, Line 3 Allowances to manager and agents
U&I Part 3, Line 4 Advertising
Non-accreditation portion of U&I Part 3, Line 5 Boards, bureaus and associations
U&I Part 3, Line 6 Surveys and underwriting reports
U&I Part 3, Line 7 Audit of assured’s records
U&I Part 3, Line 10 Insurance
U&I Part 3, Line 12 Travel and travel items
U&I Part 3, Line 13 Rent and rent items
U&I Part 3, Line 16 Printing and stationery
U&I Part 3, Line 17 Postage, telephone and telegraph, exchange and express
U&I Part 3, Line 18 Legal and auditing
U&I Part 3, Line 21 Real estate expenses
U&I Part 3, Line 24 Aggregate write-ins
Reimbursement by uninsured plans and fiscal intermediaries

**Life Statement:**
Exhibit 2, Line 6.7 Group service and administration fees
Exhibit 2, Line 6.8 Reimbursements by uninsured plans

**Health Statement:**
U&I Part 3, Line 19 Reimbursements by uninsured plans
U&I Part 3, Line 20 Reimbursements from fiscal intermediaries (e.g., Medicare, CHAMPUS, other governmental)

**P/C Statement:**
U&I Part 3, Line 23 Reimbursements by uninsured plans

Taxes, Licenses and Fees

**Life/Fraternal Statement:**
Exhibit 3, Line 1 Real estate taxes
Exhibit 3, Line 2 State insurance department licenses and fees
Exhibit 3, Line 3 State taxes on premiums
Exhibit 3, Line 4 Other state taxes, incl $ for employee benefits
Exhibit 3, Line 5 U.S. Social Security taxes
Exhibit 3, Line 6 All other taxes

**Health Statement:**
U&I Part 3, Line 22 Real Estate Taxes
U&I Part 3, Line 23.1 State and local insurance taxes
U&I Part 3, Line 23.2 State premium taxes
U&I Part 3, Line 23.3 Regulatory authority licenses and fees
U&I Part 3, Line 23.4 Payroll taxes
U&I Part 3, Line 23.5 Other (excluding federal income and real estate)
P/C Statement:

U&I Part 3, Line 8.2 Payroll taxes

U&I Part 3, Line 20.1 State and local insurance taxes, deducting guaranty association credits of $___

U&I Part 3, Line 20.2 Insurance department licenses and fees

U&I Part 3, Line 20.3 Gross guaranty association assessments

U&I Part 3, Line 20.4 All other taxes, licenses and fees (excluding federal and foreign income and real estate)

U&I Part 3, Line 22 Real estate taxes

Lines 1.11, 2.11, 3.11, 4.11, 5.11, 6.11, 7.11, 8.11 & 9.11 ———— Total Fraud and Abuse Detection/Recovery Expenses Included in Column 7 (Informational Only)

Include: __________ Fraud and abuse detection and recovery expenses as well as prevention expenses.
EXPENSE ALLOCATION SUPPLEMENTAL FILING

A single (not state-by-state), separate, regulator-only supplemental filing must be made by the insurer to provide a description of the method utilized to allocate QI expenses to each state and to each line and column on Part 3.

Additionally, companies reporting QI expenses in Part 3, Columns 1 through 5 must include a detailed description of such expense elements, including how the specific expenses meet the definitions above.

The definitions established in the Supplemental Health Care Exhibit apply to this supplemental filing, as well. For a new initiative that otherwise meets the definition of QI above but has not yet met the objective, verifiable results requirement, include an “X” in the “New” column of the supplement and include in the description the expected time frame for the activity to accomplish the objective, verifiable results.

Expenses for prospective utilization review and the costs of reward or bonuses associated with wellness and health promotion that are included in QI should include an “E” in the “New” column. These will be reviewed for adherence to the definition and standards of QI and may be specifically incorporated into, or excluded from, the instructions for QI for future reporting purposes.

<table>
<thead>
<tr>
<th>Expense Type from Part 3</th>
<th>Line Number</th>
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<tbody>
<tr>
<td>Improve Health Outcomes</td>
<td>1.0001 – 1.9999</td>
</tr>
<tr>
<td>Activities to Prevent Hospital Readmission</td>
<td>2.0001 – 2.9999</td>
</tr>
<tr>
<td>Improve Patient Safety and Reduce Medical Errors</td>
<td>3.0001 – 3.9999</td>
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<td>Wellness &amp; Health Promotion Activities</td>
<td>4.0001 – 4.9999</td>
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<td>HIT Expenses for Health Care Quality Improvements</td>
<td>5.0001 – 5.9999</td>
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### ANNUAL STATEMENT BLANK – LIFE/FRATERNAL, HEALTH, AND PROPERTY

**SUPPLEMENTAL HEALTH CARE EXHIBIT – PART 3**

**(To Be Filed By April 1 Not for Rate-Pay Purposes)**

**REPORT FOR:** 1. CORPORATION ____________________________________________________________________________ 2. ____________________________________________________________________________

**LOCATION**

NAIC Group Code __________  BUSINESS IN THE STATE OF ___________________________________________ DURING THE YEAR ___________ NAIC Company Code __________

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### SUPPLEMENTAL HEALTH CARE EXHIBIT – PART 3 (Continued)

(To Be Filed By April 1 – Not for Rate-Purpose Purposes)

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<th>Column 3 Improve Health</th>
<th>Column 4 Reduce Medical Errors</th>
<th>Column 5 Wellness Promotion</th>
<th>Column 6 Other Claim Adjustments Expenses</th>
<th>Column 7 Cost Containment Expenses</th>
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### SUPPLEMENTAL HEALTH CARE EXHIBIT – PART 3 (Continued)

**To Be Filed By April 1 – Not for Rebuttal Purposes**

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<td>8.5 Reimbursements by uninsured plans and fiscal intermediaries</td>
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<td>8.6 Taxes, licenses and fees (in total, for tying purposes)</td>
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<td>8.9 Taxes, licenses and fees (in total, for tying purposes)</td>
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<td>8.10 Total (8.7 to 8.9)</td>
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<td>8.11 Total fraud and abuse detection/recov. expenses included in Column 7 (informational only)</td>
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<td><strong>9.</strong> Student Health Plans Expenses</td>
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<td>9.1 Salaries (including $ for affiliated services)</td>
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### SUPPLEMENTAL HEALTH CARE EXHIBIT’S EXPENSE ALLOCATION REPORT

*(To Be Filed by April 1)*

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**Description of allocation methodology:**

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**Detailed Description of Quality Improvement Expenses:**

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<td>1. Improve Health Outcomes</td>
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<td>2. Activity at Parent</td>
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<td>3. Improve Patient Safety and Reduce Medical Errors</td>
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<td>5. Health Expense</td>
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© 2023 National Association of Insurance Commissioners
NAIC BLANKS (E) WORKING GROUP
Blanks Agenda Item Submission Form

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<td>New Reporting Requirement [ ]</td>
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<td>[ ] QUARTERLY STATEMENT</td>
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<td>[ ] Property/Casualty</td>
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<td>[ ] Health</td>
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<td>Anticipated Effective Date: Annual 2023</td>
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<tr>
<td>IDENTIFICATION OF ITEM(S) TO CHANGE</td>
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</table>
Instructional corrections on the handling of Exchange Traded Funds (ETFs) and/or Securities Valuation Office (SVO) Identified Funds within the Interest Maintenance Reserve (IMR) and the Asset Valuation Reserve (AVR).
| REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE** |
The classification of Bond Mutual Funds is no longer used in statement reporting, within the Accounting Practices and Procedures Manual nor within the Purposes and Procedures Manual of the NAIC’s Investment Analysis Office. However, the IMR/AVR instructions have not been updated to reflect the new terminology.
| NAIC STAFF COMMENTS |
Comment on Effective Reporting Date: ________________________________
Other Comments: ________________________________

** This section must be completed on all forms.
Revised 7/18/2022
ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL

INTEREST MAINTENANCE RESERVE

This exhibit is designed to capture the realized capital gains/(losses) that result from changes in the overall level of interest rates and amortize them into income over the approximate remaining life of the investment sold.

-- Detail Eliminated to Conserve Space --

Line 2 – Current Year’s Realized Pre-tax Capital Gains/(Losses) of $______ Transferred into the Reserve Net of Taxes of $______

-- Detail Eliminated to Conserve Space --

Include realized capital gains/(losses) on:

Debt securities (excluding loan-backed and structured securities) and preferred stocks whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) designation at the end of the holding period is NOT different from its NAIC designation at the beginning of the holding period by more than one NAIC designation. Exclude any such gains/(losses) exempt from the IMR.

Bond Mutual Funds — as Identified by the SVO, Exchange Traded Funds (ETFs) as listed on the SVO Identified Bond ETF List (thereafter subject to bond IMR guidelines) and the SVO Identified Preferred Stock ETF List (thereafter subject to preferred stock IMR guidelines). Include any capital gains/(losses) realized by the Company, whether from sale of the Fund ETF or capital gains distributions by the Fund ETF. If, during the course of the year, the SVO removes the designation of “NAIC 1” from a Bond Mutual Fund — as Identified by the SVO, the company shall not report capital gains/(losses) in this schedule. If the ETF is removed from either SVO ETF list, the ETF is reported and treated as common stock, with any capital gains/(losses) excluded from the IMR. Any such removal of the “NAIC 1” designation will cause the Fund to be reported as common stock on the applicable schedules.

SVO Identified Funds designated for systematic value

Called bonds, tendered bonds, and sinking fund payments.

-- Detail Eliminated to Conserve Space --

Additional Provisions for Including/Excluding Gains (Losses) from IMR:

Mortgage loan prepayment penalties are not included in IMR. Treat them as regular investment income.

Interest-related gains/(losses) realized on directly held capital and surplus notes reported on Schedule BA should be transferred to the IMR in the same manner as similar gains and losses on fixed income assets held on Schedule D. A capital gain/(loss) on such a note is classified as an interest rate gain if the note is eligible for amortized-value accounting at both the time of acquisition and the time of disposition.
Determination of IMR gain/(loss) on multiple lots of the same securities should follow the underlying accounting treatment in determining the gain/(loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or loss.

Realized capital gains/(losses) on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of 6 at any time during the holding period should be excluded from the IMR and included as a non-interest-related gain/(loss) in the AVR.

Realized capital gains/(losses) on any preferred stock that had an NAIC/SVO designation of RP4, RP5 or RP6 or P4, P5 or P6 at any time during the holding period should be reported as non-interest-related gains/(losses) in the AVR.

The holding period for debt securities (excluding loan-backed and structured securities) and preferred stocks is defined as the period from the date of purchase to the date of sale. For the end of period classification, the most recent available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990. For preferred stocks acquired before Jan. 1, 1993, the holding period is presumed to have begun on Dec. 31, 1992. For Bond Mutual Fund—as Identified by the SVO Identified ETFs, the holding period is defined as one calendar year to expected maturity. For SVO Identified Funds designated for systematic value, the holding period is the weighted-average life of the underlying bonds.

**AMORTIZATION**

This supporting schedule calculates the amount of the Interest Maintenance Reserve to be amortized in each year.

<table>
<thead>
<tr>
<th>Column 1</th>
<th>Reserve as of December 31, Prior Year</th>
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<td>Enter the amount from Column 4 of the prior year’s schedule.</td>
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</table>

<table>
<thead>
<tr>
<th>Column 2</th>
<th>Current Year’s Realized Capital Gains/(Losses) Transferred into the Reserve Net of Taxes</th>
</tr>
</thead>
</table>

**Expected Maturity Date**

The presence of sinking fund payments, amortization schedules, expected prepayments, and adjustable interest rates complicate the determination of the number of calendar years to expected maturity. The expected maturity date is:

- For fixed income instruments with fixed contractual repayment dates and amounts (including bonds, preferred stock, callable or convertible bonds and preferred(s), the expected maturity is defined as the contractual retirement date which produces the lowest amortization value for annual statement purposes (lowest internal rate of return or “yield to worst”). Potential retirement dates include all possible call dates, and the contractual maturity date. However, where a convertible bond or convertible preferred stock is sold while its conversion value exceeds its book/adjusted carrying value and the gain is included in IMR, the expected maturity date is defined as the next conversion date. Conversion value is defined to mean the number of shares of common stock available currently or at next conversion date, multiplied by the stock’s current market price. When the instrument’s contractual terms include scheduled sinking fund payments of fixed amounts, an additional calculation of yield to average life should be included in the analysis where average life is defined.
as the date at which the instrument is 50% repaid. For puttable instruments, where the exercise option rests with the investor, expected maturity is the put or maturity date that produces the highest internal rate of return. For Bond Mutual Funds — as Identified by SVO Identified ETFs, use one calendar year to expected maturity. For SVO Identified Funds designated for systematic value, the expected maturity is the weighted-average life of the underlying bonds. For perpetual instruments, the expected maturity is 30 years from the current date.

For purposes of the grouped method, the following additional assumptions are applicable:

- For fixed income investments, other than residential mortgages and residential mortgage pass-throughs, without a maturity date or sinking fund schedule, a maturity date 30 years from the current year should be used.

- For mortgage-backed/asset-backed securities, use the remaining weighted average life of principal and interest payments consistent with the prepayment assumptions that would have been used to value the security had the security been repurchased at its sale price.

- For Bond Mutual Funds — as Identified by the SVO Identified ETFs, use one calendar year to expected maturity.
This supporting form is used to calculate the basic contribution, reserve objective and maximum reserve amount for the bond, preferred stock, derivative instruments and mortgage loan sub-components of the default component of the AVR. Instructions apply to the general account and the separate accounts, if applicable.

Lines 1 through 7 – Long-Term Bonds

Report the book/adjusted carrying value of all bonds and other fixed income instruments owned in Columns 1 and 4. “Book/Adjusted Carrying Value,” when applied to Bond Mutual Funds – as Identified by the SVO, equals the “Fair Value” shown in Column 9 of Schedule D, Part 1. “Bond Mutual Fund – as Identified by the SVO” ETFs on the SVO Identified Bond ETF List shall have the same meaning as set forth in the instructions to Schedule D, Part 1. Categorize the bonds and other fixed income instruments into NAIC designations 1 through 6 as directed by the Purposes and Procedures Manual of the NAIC Investment Analysis Office, except that, exempt obligations should be reported separately. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.
**ASSET VALUATION RESERVE**

**EQUITY AND OTHER INVESTED ASSET COMPONENT – BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS**

This supporting form is used to calculate the basic contribution, reserve objective and maximum reserve targets for the common stock, real estate and other invested assets sub-components of the equity component of the AVR. Instructions apply to the general account and to the separate accounts, if applicable.

### Line 1 – Unaffiliated Common Stocks – Public

Report the book/adjusted carrying value of all publicly issued common stock, including mutual funds (except money market mutual funds appropriately reported on Schedule E, Part 2), unit investment trusts, closed-end funds and ETFs (reported as common stock) in unaffiliated companies in Columns 1 and 4. **Exclude money market mutual funds appropriately reported on Schedule E, Part 2.** Multiply Column 4 by the reserve factor calculated for Columns 5, 7 and 9, and report the products in Columns 6, 8 and 10, respectively.

### Line 2 – Unaffiliated Common Stocks – Private

Report 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 in Columns 1 and 4. Multiply Column 4 by the reserve factor provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

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https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/ecmte/apptf/2023-1spring/summary and minutes/bwg/att two-d_2022-18bwg.docx
NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: 09/28/2022

CONTACT PERSON: ________________________________

TELEPHONE: ________________________________

EMAIL ADDRESS: ________________________________

ON BEHALF OF:______________________________

NAME: Mary Caswell and Jill Youtsey

TITLE: _______________________________________

AFFILIATION: NAIC

ADDRESS: _______________________________________

FOR NAIC USE ONLY

Agenda Item # 2022-20BWG

Year 2023

Changes to Existing Reporting [ X ]
New Reporting Requirement [ ]

REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

No Impact [ X ]
Modifies Required Disclosure [ ]

DISPOSITION

[ ] Rejected For Public Comment
[ ] Referred To Another NAIC Group
[ ] Received For Public Comment
[ X ] Adopted Date 03/07/2023
[ ] Rejected Date
[ ] Deferred Date
[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[ X ] ANNUAL STATEMENT
[ X ] QUARTERLY STATEMENT
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[ X ] Property/Casualty
[ X ] Health
[ X ] Separate Accounts
[ X ] Protected Cell
[ X ] Health (Life Supplement)
[ X ] Life (Health Supplement)

Anticipated Effective Date: Annual 2023

IDENTIFICATION OF ITEM(S) TO CHANGE

***See next page for details***

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to reorder the listing of Vision and Dental lines of business in the Health Annual/Quarterly Statement Instructions and Blank to be consistent with all other statement types.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: ________________________________

Other Comments: ______________________________________

** This section must be completed on all forms.
IDENTIFICATION OF ITEM(S) TO CHANGE

Modify the instructions and blanks for the following Health exhibits to change the order of the Vision and Dental lines of business to be consistent with all other statement types. (*The detailed instructions are not shown in this proposal, but the instructions will also be updated with the column header changes.*)

Annual Health
- Analysis of Operations by Lines of Business
- Underwriting and Investment Exhibit
  - Part 1
  - Part 2
  - Part 2A
  - Part 2B
  - Part 2D

Annual Life (Health Supplement)
- Analysis of Operations by Lines of Business

Quarterly Health
- Quarterly Underwriting and Investment Exhibit
### ANALYSIS OF OPERATIONS BY LINES OF BUSINESS

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<td>Change in unearned premium reserves and reserve for rate credit</td>
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#### DETAILS OF WRITE-INS

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© 2023 National Association of Insurance Commissioners
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## UNDERWRITING AND INVESTMENT EXHIBIT

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(a) Excludes $………. loans or advances to providers not yet expensed.
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## UNDERWRITING AND INVESTMENT EXHIBIT

### PART 2B – ANALYSIS OF CLAIMS UNPAID – PRIOR YEAR-NET OF REINSURANCE

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(a) Excludes $……….. loans or advances to providers not yet expensed.
## UNDERWRITING AND INVESTMENT EXHIBIT
### PART 2D – AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY

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**DETAILS OF WRITE-INS**

| 0501. |                               |           |       |                   |             |             |                        |                      |                |            |                |               |     |
| 0502. |                               |           |       |                   |             |             |                        |                      |                |            |                |               |     |
| 0503. |                               |           |       |                   |             |             |                        |                      |                |            |                |               |     |
| 0598. | Summary of remaining write-ins for Line 5 from overflow page |       |       |                   |             |             |                        |                      |                |            |                |               |     |
| 0599. | Totals (Lines 0501 through 0503 plus 0598) (Line 5 above) |       |       |                   |             |             |                        |                      |                |            |                |               |     |

| 1101. |                               |           |       |                   |             |             |                        |                      |                |            |                |               |     |
| 1102. |                               |           |       |                   |             |             |                        |                      |                |            |                |               |     |
| 1103. |                               |           |       |                   |             |             |                        |                      |                |            |                |               |     |
| 1198. | Summary of remaining write-ins for Line 11 from overflow page |       |       |                   |             |             |                        |                      |                |            |                |               |     |
| 1199. | Totals (Lines 1101 through 1103 plus 1198) (Line 11 above) |       |       |                   |             |             |                        |                      |                |            |                |               |     |

(a) Includes $\ldots$ premium deficiency reserve.
## HEALTH SUPPLEMENT

### ANALYSIS OF OPERATIONS BY LINES OF BUSINESS

<table>
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<tr>
<th>Line</th>
<th>Description</th>
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<td>Emergency room and out-of-area</td>
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<td>Increase in reserves for accident and health contracts</td>
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© 2023 National Association of Insurance Commissioners
## UNDERWRITING AND INVESTMENT EXHIBIT
### ANALYSIS OF CLAIMS UNPAID-PRIOR YEAR-Net of Reinsurance

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<tr>
<th>Line of Business</th>
<th>Claims Paid Year to Date</th>
<th>Liability End of Current Quarter</th>
<th>5 Claims Incurred in Prior Years (Columns 1 + 3)</th>
<th>6 Estimated Claim Reserve and Claim Liability Dec. 31 of Prior Year</th>
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<tbody>
<tr>
<td>1. Comprehensive (hospital and medical) individual</td>
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<td>2. Comprehensive (hospital and medical) group</td>
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<td>4. <strong>Dental Vision</strong> only</td>
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<td>13. Health subtotal (Lines 1 to 8)</td>
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<td>14. Health care receivables (a)</td>
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<td>15. Other non-health</td>
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<td>16. Medical incentive pools and bonus amounts</td>
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<td>17. Totals (Lines 13-14+15+16)</td>
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(a) Excludes $…… loans or advances to providers not yet expensed.

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**Blanks (E) Working Group**  
**Editorial Revisions to the Blanks and Instructions**  
*(presented at the March 7, 2023, Meeting)*

Statement Type:  
H = Health; L/F = Life/Fraternal Combined; P/C = Property/Casualty; SA = Separate Accounts; T = Title

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<tr>
<th>Effective</th>
<th>Table Name</th>
<th>Description</th>
<th>Statement Type</th>
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| 2023      | Accident and Health Policy Experience Exhibit | CHANGE TO INSTRUCTION  
Change the formula to CY-PY  
Column 6 – Direct Incurred Claims Amount  
This column does not include the “Increase in Policy Reserves.”  
The grand total reported should equal:  
Life/Fratalnal Exhibit 8, Part 2, Line 6.1, Columns (9+10+11). MinusPlus Exhibit 6, Line 14, Column 1 CY. PlusMinus Exhibit 6, Line 14, Column 1 PY. | H, L/F, P/C | Annual |
| 2023      | General Interrogatories Part 2 | CHANGE TO INSTRUCTION  
Change premiums from written to earned for the Numerator to be consistent with the Denominator Item 2.1 – Premium Numerator  
Health Premium values listed in the Net Premiums Written Earned During Year column (Column 64) of the reporting year’s U&I Part 1B:  
Lines 13.1 and 13.2  
Lines 15.1, 15.2, 15.4, 15.6, and 15.8  
Line 15.5 (should include Medicare Pass-Through Payments Reported as Premium)  
Line 15.9 in part (include only Medicare Part D and Stop Loss and Minimum Premium) | P/C | Annual |
<table>
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</table>
| 2023      | General Interrogatories Part 2 | **CHANGE TO INSTRUCTION**  
Update the Underwriting and Investment Exhibit, Part 2B Line references for Reporting Year Data and Prior Year Data columns  
Item 2.4 – Reserve Numerator | H | Annual |
|           | Schedule T | **CHANGE TO INSTRUCTION**  
Add clarifying language to the Details of Aggregate Write-ins for Other Alien  
Details of Write-ins Aggregated on Line 58 for Other Alien  
List separately each alien jurisdiction for which there is no pre-printed line on Schedule T.  
*Exclude all premium adjustments (both increases and decreases), including but not limited to Affordable Care Act (ACA) premium adjustments related to the risk adjustment program. These shall be allocated as premium in the respective jurisdiction.* | H, L/F, P/C | Annual |
| 2023      | Actuarial Opinion | **CHANGE TO INSTRUCTION**  
Correct the list of disclosure items  
4. The SCOPE paragraph should contain a sentence such as the following: | T | Annual |
<table>
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<th>Effective</th>
<th>Table Name</th>
<th>Description</th>
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<td></td>
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<td>“I have examined the actuarial assumptions and methods used in determining reserves listed in Exhibit A, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials, as of December 31, 20__, and reviewed information provided to me through XXX date.”</td>
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<tr>
<td></td>
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<td>Exhibit A should list those items and amounts with respect to which the Appointed Actuary is expressing an opinion.</td>
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<td>The Appointed Actuary should state that the items in the SCOPE paragraph, on which he or she is expressing an opinion, reflect the Disclosure items (8 through 4413) in Exhibit B.</td>
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<td>2023</td>
<td>Notes to Financials</td>
<td><strong>CHANGE TO INSTRUCTION</strong></td>
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<td>Add clarifying language to Note 11A to include FHLB borrowings per SSAP No. 15</td>
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<td>11. Debt</td>
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<td>A. Disclose the following items related to debt, including capital notes and FHLB borrowings accounted for under SSAP No. 15. Refer to SSAP No. 15—Debt and Holding Company Obligations for accounting guidance:</td>
</tr>
</tbody>
</table>

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