##### Statutory Accounting Principles (E) Working Group

##### Hearing Agenda

##### December 9, 2025

**ROLL CALL**

|  |  |  |  |
| --- | --- | --- | --- |
| Dale Bruggeman, Chair | Ohio | Steve Mayhew/Kristin Hynes | Michigan |
| Kevin Clark, Vice Chair | Iowa | Ned Cataldo | New Hampshire |
| Sheila Travis/Richard Russell | Alabama | Bob Kasinow | New York |
| Kim Hudson | California | Diana Sherman | Pennsylvania |
| William Arfanis/Michael Estabrook | Connecticut | Jamie Walker | Texas |
| Rylynn Brown | Delaware | Doug Stolte/Jennifer Blizzard | Virginia |
| Cindy Andersen | Illinois | Amy Malm/Levi Olson | Wisconsin |
| Shantell Taylor/Tom Travis | Louisiana |  |  |
|  |  |  |  |
| NAIC Support Staff: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden  Note: This meeting will be recorded for subsequent use.  The Statutory Accounting Principles (E) Working Group met in regulator-to-regulator session on Dec. 2, 2025, pursuant to the NAIC Open Meetings Policy paragraph 6 (consultations with NAIC staff related to NAIC technical guidance of the *Accounting Practices and Procedures Manual*). No actions were taken during this meeting, as the discussions were for NAIC staff to present the technical guidance captured within the Fall National Meeting agenda.  **REVIEW AND ADOPTION OF MINUTES**   1. Summer National Meeting **(Attachment 1)** 2. September 10, 2025 **(Attachment 2)** 3. October 6, 2025 **(Attachment 3)** | | | |

**REVIEW AND ADOPTION of NON-CONTESTED POSITIONS**

The Working Group may individually discuss these items, or may consider adoption in a single motion:

1. Ref #2025-12EP: Editorial Revisions – Preamble
2. Ref #2024-21: Investment Subsidiaries
3. Ref #2025-18: *ASU 2019-12, Simplifying the Accounting for Income Taxes*
4. Ref #2025-20: Debt Security & Residual Interest Disclosures
5. Ref #2025-21: Retirement Plan Assets Held at NAV

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Ref #** | **Title** | **Attachment #** | **Agreement with Exposed Document?** | **Comment Letter** |
| **2025-12EP**  **(Julie)** | Editorial Revisions – Preamble | **4 – Agenda Item** | **Agreement** | **IP – 5** |

*Summary:*

On March 24, 2025, the Working Group exposed editorial revisions to the Preamble, revising an existing footnote and adding a new footnote, pertaining to paragraphs 42-43 for the statutory hierarchy. These revisions clarify treatment of issue papers in Level 5 and reference SEC rules and interpretations as sources of authoritative U.S. GAAP for SEC registrants.

*Comments:*

Interested parties agree with the edits that were made to the Statutory Hierarchy in the Preamble. As a very minor comment, the reference in the third line of the New FN to “issues papers” should be “issue papers.”

*Recommendation:*

**NAIC staff recommend that the Working Group adopt the editorial revisions to the Preamble with the correction to reflect “issue papers” as noted by interested parties.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Ref #** | **Title** | **Attachment #** | **Agreement with Exposed Document?** | **Comment Letter Page Number** |
| **2024-21**  **(Julie)** | Investment Subsidiaries | **5 – Agenda Item** | **No Comments** | **IP – 5** |

*Summary:*

On August 11, 2025, the Working Group exposed revisions to eliminate the investment subsidiary concept from the annual statement instructions, effective December 31, 2026, and directed NAIC staff to sponsor a corresponding Blanks proposal. The Working Group also directed NAIC staff to draft and send a referral to the Life Risk-Based Capital (E) Working Group upon adoption of the agenda item, along with suggested RBC instruction changes which are included in the exposed agenda item.

This agenda item was first exposed on March 24, 2025, and was drafted to address questions and concerns which came up regarding the classification of investments as “investment subsidiaries” in Schedule D-6-1: Valuation of Shares of Subsidiary, Controlled or Affiliated Companies, in the AVR and in the Life RBC formula on pages LR042, LR043 and LR044. The concept of an "investment subsidiary", (an SCA that solely holds assets for the benefit of the reporting entity) was originally recognized in SSAP No. 46, which required these entities to be measured using the equity method adjusted to statutory accounting principles. This approach was aimed at aligning the SCA’s valuation with what it would be if the underlying assets were held directly by the insurer. SSAP No. 46 was then replaced by SSAP No. 88 in 2005, which effectively eliminated the concept as investment subsidiary guidance was not included in the new SSAP. However, the investment subsidiary guidance in the annual statement instructions was not deleted when the concept was eliminated from statutory accounting guidance. In 2007, SSAP No. 88 was superseded by SSAP No. 97 which did not reincorporate the investment subsidiary concept. Under SSAP No. 97, SCAs that merely hold assets and do not conduct insurance or conduct specified activities or meet the revenue test are reported under paragraph 8.b.iii using audited U.S. GAAP equity value. It should be noted that *SSAP No. 25—Affiliates and Other Related Parties* is the only SSAP which retains references to investment subsidiaries and does so as part of the guidance for non-economic transactions, where gains on asset transfers are deferred until permanence is confirmed.

It was noted by both regulators and NAIC staff that the current reporting of “investment subsidiaries” lacks transparency for regulators and allows companies to self-calculate the RBC treatment simply by placing the investment in an investment subsidiary rather than directly holding the investment. Placing investments within an investment subsidiary could allow companies to obtain favorable look-through treatment by circumventing specific asset and SSAP treatment of that investment, as there is no explicit asset detail to ensure compliance with SSAP requirements, state investment limitations, or NAIC designation determination requirements. For example, if an investment held a private letter rating and was placed in an investment subsidiary, there would be no way to verify whether that security had complied with the SVO PLR reporting requirements. The same could be true of debt securities and whether they reflect bonds under the principles-based bond definition or if they should be captured as non-bond debt securities. Furthermore, Schedule D-6-1’s instruction requires reporting entities to measure investment subsidiaries using “imputed statutory value” which is an undefined term in the instructions and conflicts with SSAP No. 97 which requires measurement based on audited U.S. GAAP. Reporting of the imputed SAP valuation for RBC also relies solely on company-provided records, meaning the calculation cannot be verified using information contained on Schedule D-6-1.

*Interested Parties’ Comments:*

Interested parties have no comment on this item.

*Recommendation:*

**NAIC staff recommend that the Statutory Accounting Principles (E) Working Group adopt this agenda item and communicate support for the Blanks proposal to eliminate investment sub reporting in the AVR and D-6-1, as well as send a referral to the Life Risk-Based Capital (E) Working Group with suggested changes to remove the concept of an investment subsidiary from the RBC instructions. The suggested changes to the Life RBC formula are detailed in the agenda item and were included in the exposure to be effective December 31, 2026.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Ref #** | **Title** | **Attachment #** | **Agreement with Exposed Document?** | **Comment Letter Page Number** |
| **2025-18**  **(Wil)** | **ASU 2019-12, Simplifying the Accounting for Income Taxes** | **6 – Agenda Item** | **Agreement** | **IP – 7** |

*Summary:*

On August 11, 2025, the Working Group exposed revisions to *SSAP No. 101—Income Taxes* to adopt with modification *ASU 2019-12 Simplifying the Accounting for Income Taxes*.

The Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2019-12, Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes* (the ASU) in December 2019 to reduce complexity in income tax accounting standards. The ASU removes several exceptions to calculating and assessing income taxes and tax deferrals and also simplifies the guidance for franchise (non-income based) taxes, goodwill tax basis step-ups, allocation of deferred tax to subsidiaries, reflection of changes to tax law in the interim period calculation of the effective tax rate, and other minor improvements. This agenda item adopts one of the revisions detailed in the ASU and fully incorporates guidance from APB Opinion No. 28 which had previously been adopted by reference. This revision was deemed necessary as stat accounting generally does not incorporates U.S. GAAP guidance by reference anyone and the referenced guidance is part of the language updated by the ASU.

*Interested Parties’ Comments:*

Interested parties agree with the proposed revisions to this item.

*Recommendation:*

**NAIC staff recommends that the Working Group adopt the exposed revisions toSSAP No. 101 to adopt with modification *ASU 2019-12 Simplifying the Accounting for Income Taxes*.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Ref #** | **Title** | **Attachment #** | **Agreement with Exposed Document?** | **Comment Letter Page Number** |
| **2025-20**  **(Julie)** | **Debt Security & Residual Interest Disclosures** | **7 – Agenda Item** | **No Comments** | **IP – 7** |

*Summary:*

On August 11, 2025, the Working Group exposed revisions to improve utilization of existing disclosures, clarify guidance, and incorporate consistent locations and frequency for specific debt security disclosures. As detailed in the agenda item, the exposure also included disclosures for residuals to identify the company’s measurement method, whether the company is transitioning from the practical expedient to the allowable earned yield (AEY) method, and for those following the AEY method, information comparable to SSAP No. 43 for impaired securities. With exposure, the Working Group directed staff to sponsor a blanks proposal with the intent for the disclosure revisions to be in effect December 31, 2026.

*Interested Parties’ Comments:*

Interested parties have no comments at this time but are continuing to evaluate the data that would be required. Any further comments, if any, will be made during the blanks exposure.

*Recommendation:*

**NAIC staff recommend that the Working Group adopt the exposed revisions to *SSAP No. 26—Bonds; SSAP No. 43—Asset-Backed Securities*; *SSAP No. 21—Other Admitted Assets* and *SSAP No. 2—Cash, Cash Equivalents, Drafts and short-Term Investments.* These revisions to improve consistency and utilization of existing disclosures, clarify guidance, and incorporate consistent locations and frequency for specific debt disclosures. Additionally, the exposure also included disclosures for residuals to identify the company’s measurement method, whether the company is transitioning from the practical expedient to the allowable earned yield (AEY) method and for those following the AEY method, information comparable to SSAP No. 43 for impaired securities.** *For this item, the blanks proposal was already sponsored and exposed by the Blanks (E) Working Group’s on Nov. 5, 2025.*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Ref #** | **Title** | **Attachment #** | **Agreement with Exposed Document?** | **Comment Letter Page Number** |
| **2025-21**  **(Wil)** | Retirement Plan Assets Held at NAV | **8 – Agenda Item** | **Agreement** | **IP – 8** |

*Summary:*

On August 11, 2025, the Working Groupexposed revisions to clarify that retirement plan assets can be held at net asset value (NAV) and shall be included in the required fair value disclosure.

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

*Interested Parties’ Comments:*

Interested Parties agree with the recommended accounting conclusion in this item.

*Recommendation:*

**NAIC staff recommends that the Working Group adopt the exposed revisions to *SSAP No. 92—Postretirement Benefits Other Than Pensions* and *SSAP No. 102—Pensions* to allow NAV in the required fair value disclosureasdetailed in the agenda item. With adoption, the Working Group will sponsor a blanks proposal to update the corresponding notes to financial statements.**

**REVIEW of COMMENTS on EXPOSED ITEMS**

The following items are open for discussion and will be considered separately.

1. Ref #2025-01: Sale-Leaseback Clarification
2. Ref #2025-13: Residential Mortgage Loans Held in Statutory Trusts
3. Ref #2024-15: ALM Derivatives
4. Ref #2025-19: Private Placement Securities

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Ref #** | **Title** | **Attachment #** | **Agreement with Exposed Document?** | **Comment Letter Page Number** |
| **2025-01**  **(Jake)** | Sale-Leaseback Clarification | **9 – Agenda Item** | **Comments Received** | **Brotherhood – 1 NAMIC/APCIA – 2**  **IP – 6** |

*Summary:*

On August 11, 2025, the Working Group exposed revisions to clarify that sale leasebacks with restrictions on access to the cash received as part of the sale do not qualify for sale leaseback accounting and must be accounted for by the seller using the financing method. This agenda item was drafted in response to a question NAIC staff received on a sales leaseback transaction that included a significant restriction on the cash received as part of the sale of the assets, and if such a transaction would meet the definition of a sale leaseback in accordance with *SSAP No. 22—Leases*. In the transaction, the company was able to sell the nonadmitted asset to an unaffiliated party, but as a part of the transaction, the cash the seller received was to be held in such a manner that the selling insurance company would not be able access the cash until the leaseback was fully paid off years in the future. If the insurer were to be put into receivership during the lease term, the cash would not be able to be used to pay policyholder claims. This agenda item intends to provide guidance that sales leaseback accounting would not be applicable in situations in which the selling insurer is restricted from readily accessing the sales proceeds. In such instances the financing method would be required.

*Interested Parties’ Comments:*

Interested parties discussed this item and no concerns were raised. We refer the Working Group to a joint letter that is being submitted by the American Property Casualty Insurance Association (APCIA) and National Association of Mutual Insurance Companies (NAMIC) on this proposal.

*National Association of Mutual Insurance Companies* (*NAMIC) and* *American Property and Casualty Insurance Association (APCIA) Comments (“The Trades”)*

The Trades appreciate the work that the NAIC staff has done on this issue to make it clear what type of transaction should fall under *SSAP No. 22 – Leases.* We support the continued use of sale-leaseback accounting as a viable accounting practice when the transaction meets all necessary conditions.

To make it clear that this edit does not overrule the guidance found in SSAP No 4 – Assets and Nonadmitted Assets and INT 01-31, regarding collateral pledged for their performance under a contract and for easier flow of reading, the Trades suggest the below edits. First, change the lead in sentence to say, “meets the following criteria.” This edit makes it clear to the reader that this type of transaction does not fall under the sale-leaseback accounting method. The second edit suggestion is a rewording of the first sentence in (c), clarifying that if the cash or assets received by the seller have access restrictions and do not meet the definitions found in SSAP No. 4, the restricted cash and assets are nonadmitted. Our edits underscore that is that total restriction on access to cash or assets, not the mere presence of a restriction, that renders the transaction incompatible with sale accounting.

1. Sale-leaseback accounting shall be used by a seller-lessee only if a sale-leaseback transaction meets the following criteria:
2. A normal leaseback is a lessee-lessor relationship that involves active use of the property by the seller-lessee in consideration for payment of rent, including contingent rentals that are based on future operations of the seller-lessee. The phrase active use of the property by the seller-lessee refers to use of the property during the lease term in the seller-lessee’s trade or business, provided that subleasing of the leased property is minor.
3. Admitted assets, if the buyer-lessor is a related party, or either admitted or nonadmitted assets if the buyer-lessor is not a related party. For purposes of this paragraph, related parties include those identified in SSAP No. 25 and entities created for the purpose of buying and leasing nonadmitted assets for the reporting entity and/or its affiliates.
4. When cash or assets received by the seller cannot be accessed until the end of the contract and/or such cash or assets will be lost in whole or in part if the seller terminates the contract, and the cash or assets do not meet the definition of admitted assets. The restricted cash and assets received are not considered available to meet policyholder obligations and are nonadmitted. Such transactions do not meet the definition of a sale for sale-leaseback accounting and shall be recorded as a financing arrangement as described in paragraph 39.

We believe the above edits support the goal of the proposed changes to SSAP No. 22 and make it clear that there is no intent to open or change other guidance regarding assets pledged as collateral found in SSAP No. 4. and INT-01-31.

We encourage the working group to consider the real-world reliance many companies place on the current accounting interpretation. A rigid application of revised guidance without adequate flexibility could lead to unintended consequences. We urge the working group to consider transition options, such as grandfathering existing transactions that would no longer qualify under the new guidance to continue under the old accounting until maturity, or existing transactions must be reevaluated and restated as financing as of 12/31/2026. This would provide regulators and insurers with the ability to apply reasonable judgment and avoid unnecessary disruption. Finally, we recommend the effective date of the new guidance to be set for 1/1/2026. This provides sufficient time for companies to evaluate their existing arrangements, make operational or reporting changes as needed, and coordinate with regulators.

*Brotherhood Mutual*

In reviewing the proposed changes, we have not yet determined if they will apply to us. However, if they do, we believe it would be more appropriate for the Working Group to ensure that any modifications adopted be applied prospectively, not retroactively.

Applying these changes retroactively could have significant unintended consequences for entities that have already entered into sale-leaseback arrangements under the current guidance. These transactions were structured in good faith based on existing interpretations, and retroactive application could materially alter financial reporting outcomes and regulatory positions in a way that is neither equitable nor reflective of the original economic substance of the agreements.

A prospective application would preserve the integrity of past transactions while allowing the industry to move forward in compliance with any new requirements. This approach aligns with principles of fairness and minimizes disruption to ongoing operations and financial planning.

*Recommendation:*

**NAIC staff recommends that the Working Group expose this agenda item, which incorporates some of the suggested revisions that were provided by NAMIC and APCIA, with additional NAIC staff revisions, as illustrated below. We believe that these revisions provide further clarity to the issue. NAIC staff recommend an effective date of December 31, 2026, for these revisions.**

NAIC staff notes that there has been an increase of situations that have been identified for transactions that involve “sales-leasebacks” that are coupled with restrictions on the cash received and/or “collateral” requirements to secure the transaction. Comments have been received commingling references to operating lease accounting (which does not require an obligation to be reported for the lease commitment) and the admittance of collateral pledged under SSAP No. 4 and INT 01-31 (which addresses the admittance of assets pledged as collateral, referencing examples including investment, derivative, debt and policyholder transactions where the obligation is recorded). Fundamentally, a lease arrangement that incorporates restricted cash or has collateral requirements, is a financing arrangement, which is more in line with a debt agreement accounted for as a secured borrowing, and requires comparable reporting. Under a lease financing arrangement, the accounting includes the following:

* The “sold” asset under the sales-leaseback is not removed from the financial statements. (If this was a nonadmitted asset, it would continue to be nonadmitted and impact surplus.)
* The cash received from the “sale” is recognized as an asset.
* A liability to return the cash received is recognized as an obligation.
* Overtime, the “sold” asset retained on the books would continue to be depreciated, reducing the impact of nonadmitted.
* Amounts paid towards the “lease” would decrease the cash balance and the liability to return the cash received.

These discussions have raised questions around the intent of the admissibility guidance for assets pledged as collateral. The examples discussed in INT 01-31 are examples where the collateral secures a liability that has been recognized on the balance sheet. It is questionable whether admissibility is intended to be extended to assets pledged as collateral for off-balance sheet obligations, as is the case for an operating lease. If an insolvency were to occur during the term of the encumbrance, those assets would not be available to pay policyholders. Admitting such assets is counter to the principles underlying statutory accounting as described in the Statement of Concepts which states, “assets which are unavailable due to encumbrances or other third-party interests should not be recognized on the balance sheet.” Whereas admittance of collateral assets securing a recognized liability appropriately reflects the net assets available to pay policyholders, admittance of collateral encumbered by an off-balance sheet obligation does not. It is the view of NAIC Staff that such arrangements were not intended to be admissible under SSAP No. 4 and INT 01-31. While this agenda item addresses the issue as it relates to sale-leaseback transactions, the Working Group may want to consider clarifications to INT 01-31 to address other types of off-balance sheet obligations.

Gray highlights below denote new language added or removed from the prior exposed language.

1. Sale-leaseback accounting shall be used by a seller-lessee only if a sale-leaseback transaction meets the following criteria:
2. A normal leaseback is a lessee-lessor relationship that involves active use of the property by the seller-lessee in consideration for payment of rent, including contingent rentals that are based on future operations of the seller-lessee. The phrase active use of the property by the seller-lessee refers to use of the property during the lease term in the seller-lessee’s trade or business, provided that subleasing of the leased property is minor.
3. Admitted assets, if the buyer-lessor is a related party, or either admitted or nonadmitted assets if the buyer-lessor is not a related party. For purposes of this paragraph, related parties include those identified in SSAP No. 25 and entities created for the purpose of buying and leasing nonadmitted assets for the reporting entity and/or its affiliates.

c. When cash or assets received by the seller are effectively restricted (in whole or in part) from being accessed or used to satisfy policyholder obligations until the repayment of the lease and/or such cash or assets (or other assets pledged to the lender under the terms of the agreement) would be forfeited to the lessor/lender (in whole or in part) if the seller terminates the contact, then such transactions A sale where the cash received by the seller has access restrictions does do not meet the definition of a sale for sale-leaseback accounting and shall be recorded as a financing arrangement as described in paragraph 39.

**Effective Date and Transition**

54. This statement is effective for years beginning January 1, 2001. The conceptual revisions documented in *Issue Paper No. 161—Leases* are effective for all new leases entered into, and for existing leases reassessed due to a change in terms and conditions under paragraph 11, on or after January 1, 2020. Earlier adoption is permitted. The guidance in paragraph 34 regarding commercial airplanes was originally contained within *INT 00-02: Accounting for Leveraged Leases Involving Commercial Airplanes Under SSAP No. 22—Leases* and was effective March 13, 2000. The guidance in paragraph 5 was originally contained within *INT 04-20: EITF 01-8: Determining Whether an Arrangement Contains a Lease* and was effective March 13, 2005. Guidance in paragraph 27 related to maintenance costs incurred by lessee was previously included within *INT 09-05: EITF 08-3: Accounting by Lessees for Maintenance Deposits* and was effective for periods beginning September 21, 2009. The guidance in paragraphs 17 and 18 was originally contained within *INT 00-27: EITF 98-9: Accounting for Contingent Rent* and was effective September 11, 2000. The guidance in paragraphs 33 and 39, clarifying the statutory accounting treatment for sale-leaseback transactions that do not qualify for sale-leaseback accounting and therefore must apply the financing method, applies to contracts in effect on or after December 31, 2026.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Ref #** | **Title** | **Attachment #** | **Agreement with Exposed Document?** | **Comment Letter Page Number** |
| **2025-13**  **(Wil)** | Residential Mortgage Loans Held in Statutory Trusts | **10 – Agenda Item** | **Comments Received** | **IP – 6** |

*Summary:*

This agenda item was last exposed by the Working Group on August 11, 2025, and proposed additional revisions to this agenda item which included recommended revisions from NAIC staff as well as recommended revisions from interested parties’ comment letter. This agenda item was initially exposed on May 22, 2025, and proposed revisions to *SSAP No. 37—Mortgage Loans* in response to interested parties’ comments on agenda item 2024-21: Investment Subsidiaries.

This agenda item proposes new guidance in SSAP No. 37 which would allow for qualifying statutory trust structures to hold and report residential mortgage loans on Schedule B – Mortgage Loans as if they loans were held directly by the insurer. For a statutory trust to be considered qualifying it must meet six criteria; trust must be domiciled in either a U.S. state or territory, insurer must hold 100% beneficial ownership interest of the trust, may only hold certain assets (cash and cash equivalents, real estate received through foreclosure, and residential mortgage loans), may not engage in restricted activities, all cash flows from mortgage loans must flow directly through the trust to the insurer, and the trust must maintain certain documentation requirements.

Statutory trusts which meet all six of the criteria are to be considered qualifying and within the scope of SSAP No. 37. Residential mortgage loans held within qualifying statutory trusts would be reported individually on Schedule B as if directly held by the insurer. Effectively all activity and balances within a qualifying statutory trust are to be reported as if directly held by the insurer. The proposed revisions would also establish new disclosures for qualifying statutory trusts which would include a description of the trust, summary of assets and liabilities held within trust, disclosure of material litigation and/or regulator reviews, disclosure of financing transactions, and a summary of mortgage loans held in trust disaggregated by loan standing.

*Interested Parties’ Comments:*

Interested parties appreciate SAPWG staff’s willingness to address our comments and questions. We agree with the changes made to the most recent proposal. We have a few additional comments as follows:

1. Under the Exposure Draft, look-through reporting would not be allowed if foreclosed real estate is owned by a wholly-owned LLC of the statutory trust. A fundamental characteristic of these trusts is the separation of legal and beneficial ownership. Therefore, the trustee holds legal title to the trust assets, while the trust beneficiaries are entitled to receive the benefit of the assets. The bank trustees are comfortable holding legal title to the mortgage loans and being the lender of record because that is their primary vocation. However, some bank trustees are not comfortable holding legal title to foreclosed real estate because of the potential for liability to the bank arising from property-related issues. For that reason, we understand that it can be common for the trustee to transfer title to such mortgage loans to a single member LLC that is 100% owned by the trust prior to foreclosure. Therefore, we kindly ask that the Working Group reconsider allowing the trust to create a 100% trust-owned single member LLC to hold any foreclosed real estate to address this circumstance.
2. We suggest the following edits to the revised footnote 6 for clarity:

“Some statutory trusts are formed with designated separate series, where each series maintains distinct and separate records, assets, and liabilities—either directly or indirectly (including through a nominee or otherwise)—from those of the overall trust and any other series. For ownership in a series of a statutory trust to meet the criterion described in paragraph 2b.ii. the trust agreement must explicitly provide that the liabilities of each series are enforceable only against the assets of that series ~~for the limitation of liabilities of each series~~, the reporting entity must hold 100% undivided beneficial ownership interest in all assets of that series the reporting entity’s ownership and ability to divest its interest in the series must not be contingent upon its ownership interest in any other series of the statutory trust, and the series trust must maintain distinct and separate records from those of the overall trust and other series.

1. It is not clear from the most recent exposure whether Schedule B will require individual loan reporting. The most recent exposure states that “the underlying loans held within a qualifying statutory trust must be disaggregated by group (loan standing), as shown below.” We are not sure if this means that each individual loan is reported under subgroups of “good standing,” “restructured,” “overdue interest over 90 days not in the process of foreclosure” and “in the process of foreclosure” or whether we are aggregating the book value of all the loans within each category and reporting under each category in total. Also, we are not sure what “as shown below” refers to.
2. Regarding effective date, interested parties suggest for a 1/1/27 effective date, but kindly ask for early adoption to be allowed since these trusts already exist and it would be preferable to report the loans on Schedule B to avoid changes in reporting schedules in the future. We understand that some of the new codes will not be available for 2025 year-end reporting, but key information about each loan will be provided on Schedule B for those who adopt early.

*Recommendation:*

**NAIC staff recommend that the Working Group discuss and provide direction on one of the following:**

1. **Adopt this agenda item, including the most recent revisions as summarized below and detailed within the Form A and shown in gray (beginning on page 24 of the agenda item), which establishes new accounting guidance in SSAP No. 37 for residential mortgage loans held within qualifying statutory trusts; or**
2. **Expose an updated draft of the SSAP No. 37 revisions for further public comment.**

NAIC staff do not have a strong preference between these two options. Interested parties have verbally indicated their support for adoption at the Fall National Meeting.

**Effective Date -** The revisions detailed within the agenda item are proposed to be applied prospectively, with a tentative effective date of January 1, 2027, with early adoption permitted. *If the Working Group chooses Option 2, it should be noted that the agenda item could not be adopted until after January 1, 2026, and further consideration may be required regarding the early adoption date.*

NAIC staff is aware that some companies have also communicated their intention to request permitted practices from their domestic regulators to apply this guidance as of December 31, 2025. While there are proposed updates to the Blanks to improve the accuracy and transparency of Schedule B reporting for residential mortgage loans held in qualifying statutory trusts, no new reporting lines or columns are proposed. The proposed Schedule B reporting codes cannot be added to the Blanks until the 2026 year-end reporting period; however, NAIC staff do not anticipate any structural issues that would complicate reporting for companies electing to early adopt this guidance either at year-end 2025 or throughout 2026. Once a company adopts the guidance, they will need to move the investments from the prior reporting location (likely from Schedule BA for those structured as SSAP No. 48 entities or from D-2-2 for those structured as SCAs). The SSAP includes transition guidance specifying movement at BACV to avoid a gain or loss with the move to Schedule B. The following paragraphs were added to the proposed revisions for both SSAP Nos. 37 and 40 for effective date and implementation:

*Drafting Note: Revisions to SSAP Nos. 37 and 40 detailing the effective date revisions are shown below both tracked and shaded.*

**SSAP No. 37**

34. The guidance for qualifying statutory trusts adopted on xx/xx/2025 shall be applied prospectively as of January 1, 2027, with early adoption permitted. For statutory trusts held prior to the effective date and considered qualifying per this statement, the insurer shall transfer all trust activities, assets, and liabilities at book/adjusted carrying value and ensure each is reported in accordance with this statement. A change resulting from the adoption of this guidance shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*. Subsequent Measurement of transferred assets and liabilities are subject to the applicable SSAPs as described in paragraphs 5.b.iii.(a)-(d).

**SSAP No. 40**

38. The guidance on residential mortgage loans within qualifying statutory trusts adopted in *SSAP No. 37—Mortgage Loans*, also addresses certain types of foreclosed real estate within such trusts that are held either directly or through an LLC that is directly and wholly owned by a qualifying statutory trust. The effective date and transition guidance for impacted real estate within these structures shall follow the guidance detailed in SSAP No. 37.

**Scope -** If adopted as exposed, the proposed revisions to SSAP No. 37 would **require reporting entities** to apply the guidance to all qualifying statutory trusts. In other words, application of this guidance would not be optional for statutory trusts that meet the qualifying criteria. This is consistent with the approach used for real estate held in LLCs in scope of SSAP No. 40. These revisions would also effectively remove qualifying statutory trusts from the subsidiary audit requirement that exists for SSAP No. 48 investments; however, the investments and related activity are required to reported as if directly held by the reporting entity and would be subject to audit testing procedures as part of the reporting entity’s audit.

**Summary of Fall 2025 Proposed Revisions** - NAIC staff incorporated all revisions recommended in the interested parties’ comments, and made the following key revisions:

* Added guidance to SSAP No. 37 and SSAP No. 40 permitting real estate acquired through foreclosure to be held within an LLC that is wholly and directly owned by a qualifying statutory trust. The proposed revisions to SSAP No. 40 further clarify that real estate must be owned by an LLC directly and wholly owned by either the reporting entity or a qualifying statutory trust. This means LLCs must be held directly by the qualifying statutory trust and cannot be layered (for example, an LLC wholly-owned by an LLC wholly-owned by the qualifying statutory trust).
* Added an additional reporting code to Schedule A to indicate whether a real estate investment is directly held by a qualifying statutory trust or an LLC directly held by a qualifying statutory trust.
* The proposed Schedule B reporting column for “State of Domicile” was deleted. Upon further review, NAIC concluded that this detail is more appropriately included as a note in the financial statements, rather than being required for each residential mortgage loan on Schedule B.
* Transition guidance was added for statutory trusts held prior to the effective date and considered qualifying by the guidance proposed by this agenda item. The transition guidance requires that reporting entities with qualifying statutory trusts transfer all trust activities, assets, and liabilities at book value and ensure each is properly reported in accordance with SSAP No. 37.

It should be noted that the Fall National Meeting attachment includes revisions recommended by interested parties’ to allow qualifying statutory trusts holding foreclosed real estate in LLCs wholly owned by the statutory trust (see most recent comment letter, paragraph 1). This comment was originally provided by interested parties at the Summer National Meeting but was considered and not incorporated by the Working Group at that time. Although initially rejected due to concerns about added complexity and multiple LLC layers, further discussions after the Summer National Meeting between the Working Group, NAIC staff, and interested parties determined that restricting direct ownership of real estate by a statutory trust would lead to several legal and operational challenges, including lack of liability protection, trustee restrictions on holding real estate directly, and potential state transfer taxes and fees. While NAIC staff recognize that allowing wholly-owned LLCs within qualifying statutory trusts adds further complexity, it was concluded that using wholly-owned LLCs to hold foreclosed real estate was the most practical approach to mitigate these risks and avoid costs that could otherwise undermine the statutory trust structure’s purpose. The following paragraphs are those which were specifically revised to allow qualifying statutory trusts to hold real estate within an LLC:

*Drafting Note: Revisions to SSAP Nos. 37 and 40 to allow for real estate to be held within an LLC are shown below both tracked and shaded.*

**SSAP No. 37—Mortgage Loans:**

Paragraph 5.b.iii. – Assets of the statutory trust may only consist of single residential mortgage loan agreements (meaning each to be legally separate and divisible) of a type that could otherwise be directly held by the reporting entity under SSAP No. 37; residential real estate which the statutory trust has acquired in accordance with paragraph 18 through an in substance repossession or foreclosure; or cash and cash equivalents that constitute proceeds of such mortgage loans or are required for the acquisition, ownership and management of such mortgage loans. The insurer shall also report and account for assets and liabilities of the statutory trust as if they were directly held by the insurer:

Paragraph 5.b.iii.(c) – Real estate held by the qualifying statutory trust shall be reported on Schedule A and classified as “Held for Sale” in accordance with *SSAP No. 40—Real Estate Investments*. Such properties must either be directly-owned by the qualifying statutory trust or held by the qualifying statutory trust as single residential real estate investments that are directly and wholly-owned through a limited liability company (LLC), provided they meet all requirements outlined in SSAP No. 40, paragraph 4.

***SSAP No. 40—Real Estate Investments:***

3. Real estate investments also include:

a. Certain acquisition, development and construction arrangements (ADC) as defined in SSAP No. 38—Acquisition, Development and Construction Arrangements;

b. Real estate held within a qualifying statutory trust(s), as defined in SSAP No. 37—Mortgage Loans, that was acquired through an in substance repossession or foreclosure in accordance with SSAP No. 37, paragraph 18.

4. A single real estate property investment that is wholly-owned by an LLC that is directly and wholly-owned either by the reporting entity or a qualifying statutory trust shall be captured within this statement and reported on Schedule A, Real Estate, if all of the following criteria are met. Real estate owned through an LLC that meets the stated criteria shall follow all statutory requirements within this statement. Real estate owned through an LLC that does not meet the criteria shall be reported on Schedule BA, Other Long-Term Invested Assets. Regardless of whether reported on Schedule A or Schedule BA, all LLC’s owned by the reporting entity shall be detailed in Schedule Y.

27. An entity that holds real estate investments through an LLC, which qualifies for inclusion in this statement because all the criteria in paragraph 4 are met, shall separately report each investment on Schedule A, and code the real estate as wholly-owned through an LLC. A reporting entity that holds real estate investments through a qualifying statutory trust in accordance with SSAP No. 37, shall separately report each investment on Schedule A.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Ref #** | **Title** | **Attachment #** | **Agreement with Exposed Document?** | **Comment Letter Page Number** |
| **2024-15**  **(Julie)** | ALM Derivatives | **11 – Agenda Item**  **11.a – AC Proposal**  **11.b – FV Proposal** | **Agreement and Comments** | **ACLI – 9** |

*Summary:*

On September 10, 2025, the Working Group received a presentation on proposed asset-liability matching (ALM) derivative guidance from the ACLI, along with two drafts of potential statutory accounting guidance. These drafts illustrate possible ALM derivative guidance using 1) an amortized cost method and 2) fair value and spread method. The Working Group exposed the entire package (presentation and both potential options for SAP guidance) with a comment period ending October 31, 2025. Comments were specifically requested on whether guidance for ALM derivatives should be further pursued, and if so, whether the amortized cost or fair value method is preferred.

*Note: Although this item has support from interested parties, it has been included for discussion as regulator feedback and consideration is key for this item.*

*Interested Parties’ Comments:*

The ACLI appreciates the opportunity to comment on the exposure referred to above that was released for comment by SAPWG on September 10, 2025.

* We strongly support the development of statutory accounting guidance for interest-rate hedging derivatives used for asset-liability management (ALM), also referred to as “ALM Derivatives.”
* ACLI is very appreciative of the on-going dialogue with SAPWG and offers the following additional comments on this topic:
  + While we support both of the exposure drafts, the amortized cost method is favored by industry due to its operational advantages and alignment with the reporting of the hedged items.
  + Regarding the exclusion of derivatives with asymmetrical payoffs and/or premiums at inception in the Terms/Concepts section of both drafts (section 3a), we remain flexible on this issue and could see (and be supportive of) an adjustment stating that derivative instruments meeting the definitions noted in "(1)" and "(2)" of section 3a are eligible for the accounting provisions of this statement, and any premiums are required to be amortized over the shorter of the option period or the weighted average liability of hedged liability portfolio (subject to the limits on the latter noted throughout this draft guidance).
  + The drafts currently note an effective date of January 1, 2026. As these drafts were initially written a few months ago, this date is no longer feasible; we suggest an updated implementation date of January 1, 2027.

Once again, the ACLI appreciates the opportunity to provide comments and looks forward to continued dialogue on new statutory guidance for ALM Hedges. If you have any questions regarding this letter, please do not hesitate to contact us.

*Recommendation:*

**NAIC staff recommend that the Working Group direct NAIC staff to move forward with an issue paper and concurrent SSAP to reflect statutory accounting guidance for interest-rate hedging derivatives used for asset-liability management (ALM) using the amortized cost approach. These items will be presented for exposure in the interim (if possible) or at the 2026 Spring National Meeting with a potential effective date of Jan. 1, 2027. NAIC staff notes that the proposed guidance will likely require revised or new reporting guidance on how to capture these items within existing reports. If the overall recommendation to move forward with this statutory accounting guidance is supported, NAIC staff will work with industry and regulators in the interim to develop proposed reporting solutions that provide the needed information.**

NAIC staff recommend the amortized cost method to mirror the *SSAP No. 86—Derivatives* approach for highly-effective hedges, where derivatives would be reported at cost (e.g., zero if there is no upfront cost) without surplus valuation changes from fair value fluctuations throughout the duration. With this approach, if the derivative continues to be highly effective, there would be no unrealized gain or loss recognized until termination, meaning that there would be no need to track or recognize deferred assets or losses throughout the duration of the derivative. At termination, the resulting gain or loss would be recognized with a deferred gain or loss as permitted under the guidance. Under the fair value approach, the fair value fluctuations would be recognized as unrealized gains and losses, resulting in the need to recognize and adjust deferred assets and liabilities throughout the duration and not just at termination. As the deferred balance would be captured in cash flow testing (CFT) and principle-based reserving (PBR), including these unrealized fair value changes in the deferred balance would create an inconsistency in the amount used as an adjustment for CFT and PBR. Use of the amortized cost approach would result with only realized gains and losses being captured in these assessments. As such, in addition to mirroring the SSAP No. 86 approach for highly effective hedges, the amortized cost method is perceived to be a simpler approach for both application and review.

NAIC staff recommend that the Working Group discuss and provide guidance on the use of asymmetrical derivatives within the standard. Due to the complexity added for the inclusion of these items, and the potential for up-front premiums to be captured as losses and deferred (instead of amortized over the derivative life), NAIC staff supports the continued exclusion, but welcomes further discussion and viewpoints on these derivatives.

Regarding asymmetrical derivatives, this term relates to the payoff profile of the derivative. A typical swap (symmetrical) has no upfront payment or receipt, and at inception has an equal chance of resulting with a gain or loss. Conversely, an option has an asymmetrical payoff profile. If a company buys an option, the purchase price paid is the maximum loss amount, while resulting gains can be much more than the maximum loss. Other asymmetrical derivatives include swaps with ceilings/floors and other non-standard derivatives. The original proposed guidance excluded asymmetrical derivatives to avoid the possibility that companies that buy options that mature out of the money would defer the “loss” although it was the upfront purchase price. It also excluded asymmetrical derivatives to limit the ALM derivative standard to a specified limited population of standard derivatives for ease of application and review.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Ref #** | **Title** | **Attachment #** | **Agreement with Exposed Document?** | **Comment Letter Page Number** |
| **2025-19**  **(Julie)** | Private Placement Securities | **12 – Agenda Item** | **Agreement with Comments** | **IP – 11** |

*Summary:*

On August 11, 2025, the Working Group exposed revisions to incorporate a new electronic reporting column to identify private placement securities in the investment schedules and incorporate an aggregate disclosure that details key investment information by type of security (public and private placement type). This item was exposed for a shortened comment period ending September 19, 2025, to allow for comments to be considered prior to sponsoring a blanks proposal.

On the October 6, 2025, interim meeting to discuss comments from the August 2025 exposure, the Working Group exposed revisions to the proposed private placement reporting requirements and disclosure. These revisions were exposed for a shortened comment period ending October 31, 2025, to allow for discussion at the 2025 Fall National Meeting. The revisions are summarized as follows:

1. Incorporated clarifying revisions to reference *SSAP No. 30—Unaffiliated Common Stock* and *SSAP No. 32—Preferred Stock*, revise the word “securities” to “investments” in the proposed SSAP disclosure and update the categories in the audited financial statements in the “Supplemental Schedule of Selected Statutory-Basis Financial Data” to reflect the revised broad reporting categories.
2. Incorporated revisions to collapse the reporting categories into public, Rule 144A, private placement securities, and not applicable. The revisions clarify that all non-publicly registered securities subject to the 1933 Securities Act, excluding Rule 144A, shall be reported as a private placement. Only investments not within the scope of the Securities Act of 1933 shall be reported as not applicable. (For example, long-term certificates of deposit and bank loans that are not securities are likely not subject to the 1933 Securities Act and would be reported as NA.)
3. Incorporated revisions to limit the Schedule BA electronic column reporting to items captured as “non-bond debt securities” and “residuals.” The other reporting lines captured on Schedule BA will not be subject to the reporting for public / private classification.
4. Incorporated revisions to clarify that the investment schedule electronic column shall be captured in the applicable acquisition and disposal investment schedules for quarterly reporting and in the annual investment schedules. For separate accounts, the investment schedule reporting will be annual only. The aggregate disclosure will not be identified as a required quarterly disclosure but shall follow the preamble concept for interim reporting. (This is detailed in paragraph 65 of the AP&P Preamble and requires disclosure if there have been significant changes from the prior annual report.)
5. For Schedule D-1A, proposed revisions to remove the public and privately placed reporting columns, along with the aggregate footnote for Rule 144A.

*Interested Parties’ Comments:*

Interested parties appreciate the exposure reflects many of our prior comments. We support the substance of the proposed exposure with the following two proposed editorial revisions:

1. Paragraph 40 m. i. includes the following:

(This individual investment disclosure shall be completed with the applicable investment schedules for quarterly acquisitions and disposals as well as for annual investment schedule reporting.

1. Paragraph 40 m. ii. includes the following:

(This disclosure is required annually, with quarterly inclusion pursuant to paragraph 65 of the Preamble)

The above language appears to be editorial and/or related to the annual statement instructions/disclosures. As the above disclosures are specifically related to the annual audited financial statements, the above captions are not appropriate and should not be in the SSAPs. Rather, they should be addressed in the annual statement instructions only.

*Recommendation:*

**NAIC staff recommend that the Working Group adopt the exposed agenda item incorporating the new private security disclosures to be effective year-end 2026, without incorporating revisions from the interested parties’ comments.** With adoption, the Working Group is also recommended to sponsor a blanks proposal to incorporate the new disclosure requirements. It’s anticipated that this blanks proposal will be exposed via a chair-exposure shortly after the Fall National Meeting to allow for the blanks revisions to be adopted for a year-end 2026 effective date.

The interested parties’ comments to remove the guidance detailing when disclosures are required and where they should be captured are not supported as these components are common within the SSAPs and ensure consistent application. As a reminder, agenda item 2025-20: Debt Security & Residual Interest Disclosure was recently addressed to ensure consistent reporting frequency and location for parallel debt security disclosures. The revisions within that agenda item (Ref #2025-20) included updating which disclosures were required in the interim and annual financial statements, which were annual audited only, and even included schedule locations to identify where a particular disclosure was predominantly satisfied. Further, the guidance pointing to the preamble requirement for determining whether the disclosure is required in the interim was specifically requested during the last discussion and is consistent with the guidance previously included in SSAP No. 1 for restricted assets. (The SSAP No. 1 guidance has only recently been deleted with a Working Group decision to require the restricted asset disclosure in all interim and annual financial statements.)

**With adoption, disclosure requiring individual investment disclosure in the applicable investment schedules and an aggregate disclosure in the notes to the financial statements will be incorporated into the following SSAP locations and required as of December 31, 2026. (The disclosure is new and shown clean from the prior exposures for ease of readability.)**

* *SSAP No. 2—Cash, Cash Equivalents*, Drafts and Short-Term Investments, paragraph 18f.
* *SSAP No. 21—Other Admitted Assets* – Debt Securities that Do Not Qualify as Bonds, paragraph 27m
* *SSAP No. 21—Other Admitted Assets* – Residual Transfers or Interests/Loss positions, paragraph 38
* *SSAP No. 26—Bonds*, paragraph 40m.
* *SSAP No. 30—Unaffiliated Common Stock*, paragraph 19
* *SSAP No. 32—Preferred Stock*, paragraph 20
* *SSAP No. 43—Asset-Backed Securities*, paragraph 44.m.

For all investments in scope:

1. Identify whether each investment is publicly registered, a private placement under Rule 144A (collectively capturing all exclusions for resales that do not involve the issuer, underwriter or dealer), a private placement security, including Regulation D, a general exemption pursuant to Section 4(a)2 of the Securities Act of 1933 or other exclusion from SEC registration for investments captured under the Securities Act of 1933, excluding Rule 144A. (This individual investment disclosure shall be completed within the applicable investment schedules for quarterly acquisitions and disposals as well as for annual investment schedule reporting.)

ii. The reporting entity must aggregate each type (public, Rule 144A, private placement, or N/A) by investment schedule, capturing the total BACV, fair value (with fair values determined by level 2 and level 3 reported), the total amount of aggregate deferred interest and paid-in-kind interest, and the total BACV supported by private letter ratings. This disclosure is required annually, with quarterly inclusion pursuant to paragraph 65 of the Preamble.

**The comment letters are included in Attachment 13**: Comment Letters (13 pages)

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/12-9-25 Fall National Meeting/Hearing/00 - 12-9-2025 - SAPWG Hearing Agenda.docx