



Date 7/24/2025

2025 Summer National Meeting  
Minneapolis, MN

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

Monday, August 11, 2025

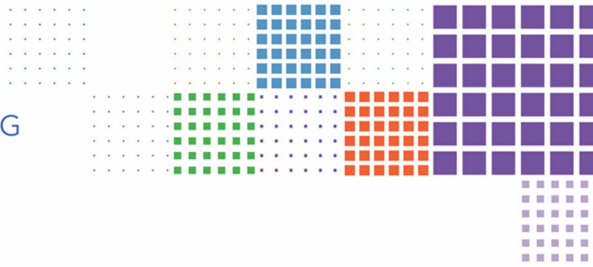
8:30 AM - 10:30 AM CDT

Hilton Minneapolis—Grand Ballroom ABC—Level 3

**OVERVIEW AGENDA**

**HEARING AGENDA**

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| <b>2. SAPWG Hearing – Review and Adoption of Non-Contested Positions<br/>—<i>Dale Bruggeman (OH)</i></b>                                  |                                    |                   |
| • Ref #2022-19: INT 23-01, Net Negative (Disallowed) IMR                                                                                  | 2                                  | 6                 |
| • Ref #2023-14: Hypothetical IMR                                                                                                          | 3                                  | 7                 |
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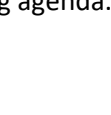
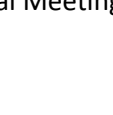
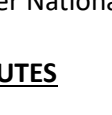
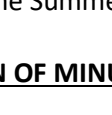
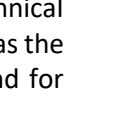
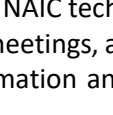
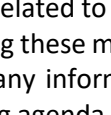
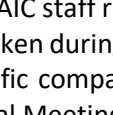
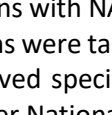
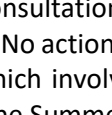
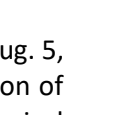
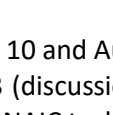
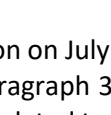
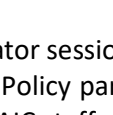
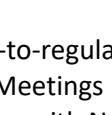
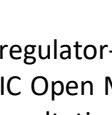
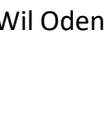
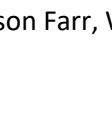
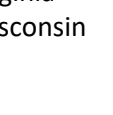
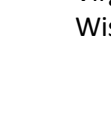
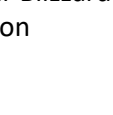
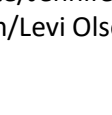
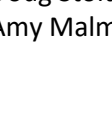
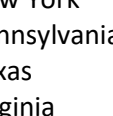
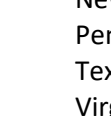
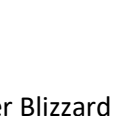
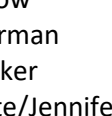
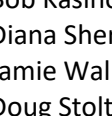
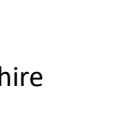
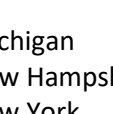
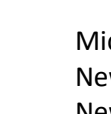
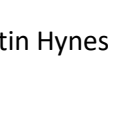
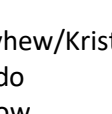
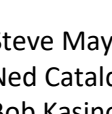
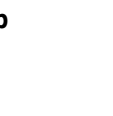
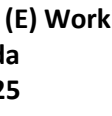
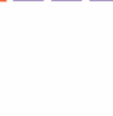
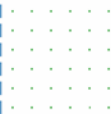
**OVERVIEW AGENDA**

**MEETING AGENDA**

|                                                                                                         | <b><u>Meeting Page</u></b> |                          |
|---------------------------------------------------------------------------------------------------------|----------------------------|--------------------------|
|                                                                                                         | <b><u>Number</u></b>       | <b><u>Attachment</u></b> |
| <b>4. SAPWG Meeting – Maintenance Agenda – Pending List—<i>Dale Bruggeman (OH)</i></b>                  |                            |                          |
| • Ref #2025-18: ASU 2019-12, Simplifying the Accounting for Income Taxes                                | 1                          | A                        |
| • Ref #2025-19: Private Securities                                                                      | 2                          | B                        |
| • Ref #2025-20: Debt Disclosures                                                                        | 3                          | C                        |
| • Ref #2025-21: Retirement Plans Held at NAV                                                            | 4                          | D                        |
| <b>5. SAPWG Meeting – Maintenance Agenda – Active List—<i>Dale Bruggeman (OH)</i></b>                   |                            |                          |
| • Ref #2024-21: Investment Subsidiaries Classification                                                  | 5                          | E                        |
| <b>6. SAPWG Meeting – Any Other Matters Brought Before the Working Group—<i>Dale Bruggeman (OH)</i></b> |                            |                          |
| • Update on the IMR Ad Hoc Subgroup                                                                     | 6                          | None                     |
| • Asset-Liability Matching Derivatives (Agenda Item 2024-15)                                            | 7                          | None                     |
| • Receive Referral from Life Risk-Based Capital (E) Working Group                                       | 7                          | F                        |
| • Receive LATF Coordination Memo                                                                        | 8                          | G                        |
| • Review of U.S. GAAP Exposures                                                                         | 8                          | None                     |
| • IAIS Audit and Accounting Working Group (AAWG Update)                                                 | 8                          | None                     |
| ➤ <b>Comment Deadline for Ref #2025-19 – Friday, September 19, 2025</b>                                 |                            |                          |
| ➤ <b>Comment Deadline for all other items – Friday, October 17, 2025</b>                                |                            |                          |



2025 SUMMER NATIONAL MEETING  
MINNEAPOLIS, MN



## Hearing Agenda

### Statutory Accounting Principles (E) Working Group Hearing Agenda August 11, 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     |
| Melissa Gibson/Shantell Taylor    | 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 July 10 and Aug. 5, 2025. These regulator-only sessions were pursuant to the NAIC Open Meetings Policy paragraph 3 (discussion of specific companies, entities or individuals) and paragraph 6 (consultations with NAIC staff related to NAIC technical guidance of the *Accounting Practices and Procedures Manual*). No actions were taken during these meetings, as the discussions involved financial statement reporting details, which involved specific company information and for NAIC staff to present the technical guidance captured within the Summer National Meeting agenda.

#### REVIEW AND ADOPTION OF MINUTES

1. Spring National Meeting (Attachment 1)
2. April 10, 2025 (joint call with LATF) (Attachment 2)
3. May 22, 2025 (Attachment 3)
4. June 2, 2025 (evote exposure) (Attachment 4)
5. June 5, 2025 (evote exposure) (Attachment 5)

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

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

1. Ref #2022-19: INT 23-01, Net Negative (Disallowed) IMR
2. Ref #2023-14: Hypothetical IMR
3. Ref #2025-03: Definition of IMR
4. Ref #2025-02: *ASU 2024-04, Induced Conversions of Convertible Debt Instruments*
5. Ref #2025-09: VM-22 Update Coordination
6. Ref #2025-10: *ASU 2023-07, Improvements to Reportable Segment Disclosures*
7. Ref #2025-11: ASU 2024-03 and ASU 2025-01, Reporting Comprehensive Income
8. Ref #2025-14: *ASU 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*
9. Ref #2025-15: *ASU 2025-02, SEC Updates*
10. Ref #2025-17EP: Editorial Process – May 2025

| Ref #              | Title                                    | Attachment # | Agreement with Exposed Document? | Comment Letter Page Number |
|--------------------|------------------------------------------|--------------|----------------------------------|----------------------------|
| 2022-19<br>(Julie) | INT 23-01: Net Negative (Disallowed) IMR | 6 - INT      | ACLI Agreement                   | ACLI – 18                  |

**Summary:**

On June 5, 2025, the Working Group exposed revisions to INT 23-01 to extend the effective date to Dec. 31, 2026. Revisions also clarify guidance and incorporate additional requirements to admit net negative IMR, as follows:

- Clarification on the adjusted capital & surplus calculation (from prior filed financials), with an additional cap to limit admittance to 10% of current unadjusted capital & surplus.
- New paragraph requiring completion of the data-captured template disclosures to admit net negative IMR.
- New paragraph requiring net negative IMR to be captured in the PBR calculation or AAT/CFT pursuant to VM-20, with a requirement to prepare a reconciliation to ensure that reserves are not overstated.
- Clarification on the derivative disclosure roll-forward and to ensure that the amount disclosed for “net negative disallowed IMR” reflects the total.
- Revised effective date guidance to December 31, 2026, with automatic nullification on January 1, 2027.

**ACLI Comments:**

We are especially grateful for the thoughtful and disciplined engagement and open dialogue facilitated through the IMR Ad Hoc Working Group. The consistent cadence of meetings and the willingness of regulators and industry participants to constructively work together has been instrumental in addressing the complexities surrounding the admittance of net negative IMR. This collaboration will not only enhance the clarity of the guidance by reflecting new developments since enactment in 1992 but also facilitate the collective and holistic incorporation into SSAP No. 7, Asset Valuation Reserve and Interest Maintenance Reserve. It will also help ensure the permanent solution achieves a balanced and practical approach to statutory reporting.

We support INT 23-01 as drafted and believe the extension period will allow sufficient time for the achievement of the aforementioned objectives. ACLI maintains its commitment to work constructively with the Ad Hoc Group and NAIC to modernize the IMR guidance and ensure the admittance of negative IMR best reflects economic statutory surplus, with appropriate safeguards, in a way that does not disincentivize prudent investment and asset liability management behavior.

Recommendation:

**NAIC staff recommend that the Working Group adopt the revised INT extending the effective date to December 31, 2026 with the additional requirements and clarifications as exposed. Although captured as a non-contested position, this item is proposed for a separate vote to ensure Working Group members support the extension.**

| Ref #              | Title            | Attachment # | Agreement with Exposed Document? | Comment Letter Page Number |
|--------------------|------------------|--------------|----------------------------------|----------------------------|
| 2023-14<br>(Julie) | Hypothetical IMR | 7 – Memo     | Industry Agreement               | IP – 4                     |

Summary:

On March 24, 2025, the Working Group exposed a memo to detail the discussions and conclusions of the IMR ad hoc group with regards to hypothetical IMR. Ultimately, as detailed within, it identifies the merits and rationale for hypothetical IMR but identifies that the IMR ad hoc group reached an informal consensus that the practical limitations of applying the concept outweigh any potential benefit of retaining the concept. The IMR ad hoc group recommended that the memo be exposed to the full Working Group for comment. It is anticipated that this discussion and conclusion, and if supported, will be documented in the IMR issue paper and reflected in revisions incorporated under the broad IMR project captured under agenda item 2023-14.

Interested Parties' Comments:

This agenda item has been developed as a broad concept agenda item with the ultimate goal to incorporate accounting guidance for the asset valuation reserve (AVR) and the interest maintenance reserve (IMR) into SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve. Historically, this statement has included a brief overview of the AVR and IMR with the calculation and reporting guidance determined as directed by individual SSAPs or in accordance with the Annual Statement (A/S) Instructions for Life, Accident and Health / Fraternal Companies. As the SSAPs are highest in the statutory hierarchy as level 1, and the A/S instructions are level 3, the governing accounting concepts should be captured in the SSAPs.

It has also been noted that there are some disconnects between the SSAPs and the IMR/AVR guidance included in the Annual Statement Instructions. This is likely due to SSAP accounting revisions, such as with the measurement of preferred stock, not being carried to the specific IMR/AVR guidance in the Annual Statement. This agenda item, and the intent to ensure accounting concepts are in the SSAPs, intends to address those aspects and should help mitigate future disconnects with guidance going forward.

Lastly, it has also been identified that there are limited financial reporting cross-checks to the reporting within the AVR. Although the instructions are specific as to how reporting lines should map to the AVR, instances have been noted in which a company has reported on one specific line for the investment schedule and then did not carry those amounts to the appropriate AVR reporting category. Although these may be inadvertent reporting errors, as the RBC for life companies pulls from the AVR reporting, it is imperative that the reporting per the investment schedules be reflected properly in the AVR. As such, this agenda item also proposes cross-checks to ensure consistent and accurate reporting.

On March 24, 2025, the Working Group exposed a hypothetical IMR memorandum which details the discussions and recommended conclusion of the Interest Maintenance Reserve (IMR) ad hoc group to remove hypothetical IMR. This item was exposed at the full Working Group level to request feedback. It is anticipated that if supported, the concepts and conclusions within the memo will be included in the IMR issue paper and revised statutory accounting guidance.

Interested parties (including the American Council of Life Insurers, or ACLI) agree with the removal of hypothetical IMR, the findings of the work memorialized in the Hypothetical IMR Memo, and the concepts and conclusions therein to be included in the IMR issue paper and revised statutory accounting guidance. At some point, clarification of the accounting treatment for legacy hypothetical IMR balances will need to be addressed.

Recommendation:

**NAIC staff recommend that the Working Group direct the removal of hypothetical IMR as part of the broad IMR project and detail the concepts and conclusions from the IMR hypothetical memo within the corresponding IMR Issue Paper for historical retention purposes. Unless directed otherwise, this removal will occur with other revisions to incorporate IMR and AVR guidance in SSAP No. 7 and will have an effective date consistent with the broad SSAP No. 7 changes. (This broad agenda item (Ref #2023-14) will continue to stay open as the source reference for the broad IMR project.)**

| Ref #              | Title          | Attachment #                                    | Agreement with Exposed Document? | Comment Letter Page Number |
|--------------------|----------------|-------------------------------------------------|----------------------------------|----------------------------|
| 2025-03<br>(Julie) | IMR Definition | 8 – Agenda Item<br>9 – ACLI Discussion Document | No Objection to NAIC Definition  | IP – 6                     |

Summary:

On March 24, 2025, the SAPWG exposed this agenda item with the proposed ACLI IMR definition along with a NAIC staff proposed IMR definition. The exposure was accompanied by the ACLI discussion document on IMR. This agenda item is considered a new SAP concept as the resulting definition will be included in the IMR Issue Paper and revised SSAP No. 7—*Asset Valuation Reserve and Interest Maintenance Reserve* in accordance with the intent to include accounting-related concepts for IMR in the SSAP and not the Annual Statement Instructions.

Interested Parties' Comments:

*NAIC staff notes that the Interested Parties' comment letter is mostly a duplication of the agenda item that includes NAIC staff discussion on the proposed revisions to the ACLI suggested definition. The full comment letter is included in the comment letter packet (Attachment 22) NAIC staff have only included the conclusion below.*

**Interested Parties Conclusion Comments:**

Interested parties (ACLI) have no objection to the NAIC's proposed definition of IMR for inclusion within SSAP No. 7. However, we make the following observations:

All agree that IMR itself does not meet the definition of an asset or liability but rather is a valuation adjustment needed to maintain consistency between insurance liabilities (the assumptions for which are often unchanged from origin), and the assets needed to support them (where the assumptions can essentially be revisited any time there are fixed income realizations).

While we have no objections to removing non-economic from the proposed definition, we note that the ACLI document included with the exposure is important for understanding this concept as it shows, with proper reinvestment, a company is in the same economic position (or possibly in a better economic position) pre and post trade in a changing interest rate environment – e.g., IMR, whether positive or negative, is essentially a “reclassification” of unrealized losses on the balance sheet). This is invaluable information for those looking to understand the theoretical underpinnings of IMR.

Further, while we agree that the primary purpose of IMR, when it was adopted, was to prevent selling investments when they were in a gain position, caused by a decrease in interest rates (allowing a surplus benefit) when the funds received from the sale had to be reinvested at the lower interest rates as they would still be needed to satisfy future policyholder obligations – the logical impetus being surplus would be misstated. We also note that when IMR was developed, it was noted that IMR should be symmetrical, as in a declining interest rate environment, the proceeds received from the sale would be reinvested at the higher interest rates that can still satisfy future policyholder obligations notwithstanding that the realized losses would show a reduction of surplus. The ACLI document is also invaluable in understanding this concept and provides concrete numerical examples.

While the aforementioned is theoretically correct supporting symmetrical treatment of gains and losses, we acknowledge there may be situations where the assumptions in the real world do not play out in strict accordance with this theory and understand its proposed removal from the definition. The ACLI document proves invaluable in reinforcing the theoretical understanding of IMR as a valuation adjustment for consistent valuation of assets and liabilities, and therefore why it is inappropriate to view of negative IMR as an “asset” that cannot be used to pay claims.

We raise these points so those looking to truly understand the concept of IMR, its theory, and its interaction with AAT and PBR, can very simply grasp these concepts (via the ACLI document) under the NAIC’s largely “amortized cost” framework.

Recommendation:

**NAIC staff recommend that the Working Group direct use of the NAIC staff proposed IMR definition as detailed in agenda item 2025-03 for inclusion in the IMR Issue Paper and forthcoming revisions to SSAP No. 7. With this direction, as both the issue paper and revised SSAP will be subject to exposure, further discussion and edits can still be considered with potential expansions for clarity. This direction will conclude discussion of this agenda item, with agenda item 2023-14 serving as the source for the broad IMR project.**

**The NAIC staff proposed definition is below. A small edit clarifies that the guidance reflects the “intent” of IMR. Tracking from the original ACLI proposed definition is detailed in the agenda item. As noted above, subsequent revisions may be considered, but the definition intends to reflect the broad focus of IMR.**

IMR is a valuation adjustment to maintain consistency between insurance liabilities (the assumptions for which are often unchanged from origin), and the assets needed to support them (where the assumptions can essentially be revisited any time there are fixed income realizations).

IMR intends to defer~~s~~ and amortize~~s~~ the recognition of realized gains or losses where investment activity essentially unlock unrealized gains/losses for either assets or liabilities. IMR is not intended to defer realized gains and losses compelled by liquidity pressures that fund cash outflows (e.g., such as excess withdrawals and collateral calls).

| Ref #            | Title                                                            | Attachment #     | Agreement with Exposed Document? | Comment Letter Page Number |
|------------------|------------------------------------------------------------------|------------------|----------------------------------|----------------------------|
| 2025-02<br>(Wil) | ASU 2024-04, Induced Conversions of Convertible Debt Instruments | 10 – Agenda Item | No Comments                      | IP – 5                     |

Summary:

On March 24, 2025, the Working Group exposed agenda item 2025-02 addressing *ASU 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20), Induced Conversions of Convertible Debt Instruments* which clarifies accounting for induced conversions of convertible debt under Subtopic 470-20. The ASU specifies that to qualify as an induced conversion, the inducement must offer at least the consideration originally provided under the instrument’s conversion terms. It aims to improve consistency in determining whether such conversions should follow induced conversion or debt extinguishment guidance.

ASU 2024-04 applies to debt issuers, not holders, of debt instruments that receive consideration for induced conversions. Current guidance in *SSAP No. 15—Debt and Holding Company Obligations* requires recognition of an expense for the fair value of the additional consideration issued to induce conversion, which is consistent with the measurement guidance of current U.S. GAAP. While most of the ASU’s provisions are not recommended for incorporation into statutory accounting, some of the language regarding recognition timing and acceptable forms of consideration are recommended for adoption. In addition, NAIC have included revisions to statutory guidance to require expense recognition when the inducement offer is accepted, rather than when issued. NAIC staff noted this change aligns with U.S. GAAP, would only slightly defer the recognition of the expense compared to the current requirement, and is not expected to have significant regulatory impact as such transactions are rare in the insurance industry.

Interested Parties’ Comments:

Interested parties have no comment on this item.

Recommendation:

**NAIC staff recommends the Working Group adopt with modification *ASU 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20), Induced Conversions of Convertible Debt Instruments* to *SSAP No. 15—Debt and Holding Company Obligations* for statutory accounting. The revisions provide clarifications on induced conversions, including when the inducement shall be recognized as an expense by the issuer as well as the fair value measurement of that expense.**

| Ref #              | Title                     | Attachment #     | Agreement with Exposed Document? | Comment Letter Page Number |
|--------------------|---------------------------|------------------|----------------------------------|----------------------------|
| 2025-09<br>(Robin) | VM-22 Update Coordination | 11 – Agenda Item | No Comments                      | IP – 10                    |

Summary:

On March 24, 2025, the Working Group exposed this agenda item as part of the coordination process between the *Accounting Practices and Procedures Manual* and the *Valuation Manual*. The exposure recommended minor consistency revisions to *SSAP No. 51—Life Contracts* to reflect updates to that the Life Actuarial (A) Task Force has



made to the *Valuation Manual* in VM-22 PBR: Requirements for Principle-Based Reserves for Non-Variable Annuities (VM-22). The revisions are to clearly reflect different reserving methodologies and include adding “and” “/or” in a few places and a specific reference to “variable annuities.”

Interested Parties’ Comments:

Interested parties have no comment on this item.

Recommendation:

NAIC staff recommend that the Statutory Accounting Principles (E) Working Group adopt revisions to add minor consistency revisions to *SSAP No. 51—Life Contracts* reflect updates to the *Valuation Manual* in VM-22 PBR: *Requirements for Principle-Based Reserves for Non-Variable Annuities*. The revisions are to clearly reflect different reserving methodologies in VM-22 principle-based reserve requirements and include adding “and” “/or” in a few places and a specific reference to “variable annuities.”

| Ref #         | Title                                                       | Attachment #     | Agreement with Exposed Document? | Comment Letter Page Number |
|---------------|-------------------------------------------------------------|------------------|----------------------------------|----------------------------|
| 2025-10 (Wil) | ASU 2023-07, Improvements to Reportable Segment Disclosures | 12 – Agenda Item | No Comments                      | IP – 10                    |

Summary:

On March 24, 2025, the Working Group exposed an agenda item with a recommendation to reject as not applicable ASU 2023-07, *Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures*. This ASU addresses segment guidance, which has previously been determined as not an applicable concept under statutory accounting concepts.

Interested Parties’ Comments:

Interested parties have no comment on this item.

Recommendation:

NAIC staff recommends that the Working Group adopt the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject ASU 2023-07, *Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures* as not applicable to statutory accounting.

| Ref #         | Title                                                       | Attachment #     | Agreement with Exposed Document? | Comment Letter Page Number |
|---------------|-------------------------------------------------------------|------------------|----------------------------------|----------------------------|
| 2025-11 (Wil) | ASU 2024-03 and ASU 2025-01, Reporting Comprehensive Income | 13 – Agenda Item | No Comments                      | IP – 10                    |

Summary:

On March 24, 2025, the Working Group exposed an agenda item with a recommendation to reject as not applicable ASU 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40), Disaggregation of Income Statement Expenses* and ASU 2025-01, *Clarifying the*

*Effective Date of ASU 2024-03.* This ASU is specific to comprehensive income disclosures for public entities, which is not an applicable concept for statutory accounting purposes.

*Interested Parties' Comments:*

Interested parties have no comment on this item.

*Recommendation:*

NAIC staff recommends that the Working Group adopt the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2024-03, Disaggregation of Income Statement Expenses* and *ASU 2025-01, Clarifying the Effective Date of ASU 2024-03* as not applicable to statutory accounting.

| Ref #            | Title                                                                                                                            | Attachment #     | Agreement with Exposed Document? | Comment Letter Page Number |
|------------------|----------------------------------------------------------------------------------------------------------------------------------|------------------|----------------------------------|----------------------------|
| 2025-14<br>(Wil) | <i>ASU 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets</i> | 14 – Agenda Item | No Comments                      | IP – 13                    |

*Summary:*

On May 22, 2025, the Working Group exposed an agenda item with a recommendation to reject as not applicable *ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*. This item is not applicable as the ASU amends U.S. GAAP guidance on derecognition of nonfinancial assets, which is not a concept applicable to statutory accounting purposes.

*Interested Parties' Comments:*

Interested parties have no comment on this item.

*Recommendation:*

NAIC staff recommends that the Working Group adopt the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* as not applicable to statutory accounting.

| Ref #            | Title                    | Attachment #     | Agreement with Exposed Document? | Comment Letter Page Number |
|------------------|--------------------------|------------------|----------------------------------|----------------------------|
| 2025-15<br>(Wil) | ASU 2025-02, SEC Updates | 15 – Agenda Item | No Comments                      | IP – 13                    |

*Summary:*

On May 22, 2025, the Working Group exposed an agenda item with a recommendation to reject as not applicable *ASU 2025-02, Liabilities (Topic 405), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 122*. This ASU is not applicable as it eliminates SEC guidance which was rejected for statutory accounting purposes.

Interested Parties' Comments:

Interested parties have no comment on this item.

Recommendation:

NAIC staff recommends that the Working Group adopt the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2025-02, Liabilities (Topic 405)*, *Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 122* as not applicable to statutory accounting. This guidance is not applicable as it eliminates SEC guidance which was rejected for statutory accounting purposes.

| Ref #                | Title                        | Attachment #     | Agreement with Exposed Document? | Comment Letter Page Number |
|----------------------|------------------------------|------------------|----------------------------------|----------------------------|
| 2025-17EP<br>(Julie) | Editorial Process – May 2025 | 16 – Agenda Item | No Comments                      | IP – 13                    |

Summary:

This agenda item was exposed on May 22, 2025 and proposes editorial revisions to three SSAPs and one interpretation. The tracked changes showing the revisions are reflected in the agenda item, with a brief overview of each item below:

- **SSAP No. 26—Bonds:** Update Disclosure 40.f. to Match Schedule D, Part 1A Maturity categories. Schedule D, Part 1A has maturity categories of 10-20 years and over 20 years. The disclosure in SSAP No. 26 only goes up to an after 10-year category.
- **SSAP No. 41—Surplus Notes:** Remove remaining reference to a “CRP” designation in paragraph 11. Whether the designation is required from a Credit Rating Provider or from the SVO is contingent on the Purposes and Procedures Manual of the NAIC Investment Analysis Office.
- **SSAP No. 56—Separate Accounts:** Delete Disclosure 32.d. The disclosure is no longer applicable with previously adopted revisions.
- **INT 22-01: Freddie Mac When Issued K-Deal (WI Trust) Certificates:** Remove old SSAP No. 43R—Loan-Backed and Structured Security terminology

Interested Parties' Comments:

Interested parties have no comment on this item.

Recommendation:

NAIC staff recommend that the Working Group adopt the editorial revisions as illustrated within the Form A.

**REVIEW of COMMENTS on EXPOSED ITEMS**

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

1. Ref #2024-05: Appendix A-791
2. Ref #2024-06: Risk Transfer Analysis of Combination Reinsurance Contracts
3. Ref #2025-01: Sale Leaseback Clarification
4. Ref #2025-13: Residential Mortgage Loans Held in Statutory Trusts
5. Ref #2025-16: Status Section Updates

| Ref #              | Title          | Attachment #     | Agreement with Exposed Document? | Comment Letter Page Number |
|--------------------|----------------|------------------|----------------------------------|----------------------------|
| 2024-05<br>(Robin) | Appendix A-791 | 17 – Agenda Item | No Comments Received             | None                       |

**Summary:**

On June 2, 2025, the Working Group re-exposed this agenda item proposed to delete a sentence in A-791, paragraph 2c in the QA. This agenda item was developed in response to the December 2023 Valuation Analysis (E) Working Group’s referral to the Statutory Accounting Principles (E) Working Group. This referral recommended a clarifying edit to Appendix A-791 Life and Health Reinsurance Agreements (A-791), Section 2.c’s Question and Answer to remove the first sentence. The referral notes that:

First, this sentence is unnecessary, as it is an aside in a discussion about group term life. More importantly, this statement is being misinterpreted as supporting the use of Commissioner’s Standard Ordinary (CSO) rates as a “safe harbor,” at or below which YRT rates would be automatically considered not to be excessive.

The 791 section 2c QA guidance does not provide a safe harbor based on CSO. It indicates that if the YRT reinsurance premium is higher than the proportionate underlying direct premium for the risk reinsured, then the reinsurance premium is excessive. VAWG observes that the prudent mortality under the *Valuation Manual*, Section 20: Requirements for Principle-Based Reserves for Life Products (VM-20), may appropriately be either higher or lower than the CSO rate depending on the facts and circumstances.

**Re-exposed revision to A-791, Life and Health Reinsurance Agreements, paragraph 2c QA are shown tracked:**

2. No insurer shall, for reinsurance ceded, reduce any liability or establish any asset in any statutory financial statement if, by the terms of the reinsurance agreement, in substance or effect, any of the following conditions exist:
  - c. The ceding insurer is required to reimburse the reinsurer for negative experience under the reinsurance agreement, except that neither offsetting experience refunds against current and prior years’ losses under the agreement nor payment by the ceding insurer of an amount equal to the current and prior years’ losses under the agreement upon voluntary termination of in force reinsurance by the ceding insurer shall be considered such a reimbursement to the reinsurer for negative experience. Voluntary termination does not include situations where termination occurs because of unreasonable provisions which allow the reinsurer to reduce its risk under the agreement. An example of such a provision is the right of the reinsurer to increase reinsurance premiums or risk and expense charges to excessive levels forcing the ceding company to prematurely terminate the reinsurance treaty;

**A-791, Life and Health Reinsurance Agreements, paragraph 2c's, Question and Answer):**

**Q – If group term life business is reinsured under a YRT reinsurance agreement (which includes risk-limiting features such as with an experience refund provision which offsets refunds against current and/or prior years' losses (i.e., a "loss carryforward" provision), under what circumstances would any provisions of the reinsurance agreement be considered "unreasonable provisions which allow the reinsurer to reduce its risk under the agreement" thereby violating subsection 2.c.?**

~~A – Unlike individual life insurance where reserves held by the ceding insurer reflect a statutorily prescribed valuation premium above which reinsurance premium rates would be considered unreasonable, group term life has no such guide.~~ So long as the reinsurer cannot charge premiums in excess of the premium received by the ceding insurer under the provisions of the YRT reinsurance agreement, such provisions would not be considered unreasonable. Any provision in the YRT reinsurance agreement which allows the reinsurer to charge reinsurance premiums in excess of the proportionate premium received by the ceding insurer would be considered unreasonable. The revisions to this QA regarding group term life yearly renewable term agreements is-are effective for contracts in effect as of January 1, 2021.

Comments:

No comments were received.

Recommendation:

NAIC staff recommend that the Working Group adopt the exposed revisions. This item has been exposed multiple times and no letters were received during the most recent exposure. The ACLI previously indicated that they did not object to the language if agenda item 20204-06 was resolved.

| Ref #              | Title                                                       | Attachment #     | Agreement with Exposed Document? | Comment Letter Page Number |
|--------------------|-------------------------------------------------------------|------------------|----------------------------------|----------------------------|
| 2024-06<br>(Robin) | Risk Transfer Analysis of Combination Reinsurance Contracts | 18 – Agenda Item | Comments Received                | ACLI – 20                  |

Summary:

On June 2, 2025, the Working Group exposed by email vote revisions to SSAP No. 61—*Life, Deposit-Type and Accident and Health Reinsurance and the QA of Appendix A-791, Life and Health Reinsurance Agreements* to address risk transfer on combination reinsurance contracts with interdependent contract features. The revisions to SSAP No. 61 have been revised and expanded from the prior exposures. The revisions to A-791 have not been previously exposed.

The Working Group's exposure provides that contracts with interdependent features must be analyzed in the aggregate for risk transfer and also stresses compliance with existing A-791 requirements including that contract(s) cannot 1) potentially deprive the ceding insurer of surplus at the reinsurer's option or automatically upon the occurrence of some event (A-791, paragraph 2b); 2) potentially require payments to the reinsurer for amounts other than the income realized from the reinsured policies (A-791, paragraph 2e), nor; 3) contain any of the other conditions prohibited by Appendix A-791 related to risk transfer.

The exposed A-791 QA language also focuses on not having the potential for payments out of surplus at the reinsurer's option or automatically upon the occurrence of some event, meaning that in all cases there would be an established liability to absorb any possible payments and notes that the YRT premium simply being at or below the valuation net premium does not ensure that payments from surplus are not possible.

SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance exposed revisions are illustrated below:

#### Transfer of Risk

17. Reinsurance agreements must transfer risk from the ceding entity to the reinsurer in order to receive the reinsurance accounting treatment discussed in this statement.

a. If the terms of the agreement violate the risk transfer criteria contained herein, (i.e., limits or diminishes the transfer of risk by the ceding entity to the reinsurer), the agreement shall follow the guidance for Deposit Accounting. In addition, any contractual feature that delays timely reimbursement violates the conditions of reinsurance accounting.

a.b. For purposes of evaluating whether a reinsurance agreement/contract (for this paragraph “contract”) transfers risk under statutory accounting, the determination of what constitutes a contract is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract. Multiple contracts, whether on one or multiple blocks of policies, must be evaluated together for risk transfer purposes where considerations to be exchanged under one contract depend on the performance of the other contract(s) whether they are entered into together, or separately, directly or indirectly, that achieve one overall planned effect. For contracts that contemplate reinsurance on both a YRT and coinsurance basis, where there are interdependent features such as a combined experience refund or an inability to independently recapture, each of the YRT and coinsurance reinsurance components satisfying risk transfer requirements on their respective bases is necessary but not sufficient for the contract as a whole to satisfy risk transfer. When evaluated in its entirety, such contract(s) cannot 1) potentially deprive the ceding insurer of surplus at the reinsurer’s option or automatically upon the occurrence of some event; 2) potentially require payments to the reinsurer for amounts other than the income realized from the reinsured policies, nor; 3) contain any of the other conditions prohibited by Appendix A-791 related to risk transfer.

18. This paragraph applies to all life, deposit-type and accident and health reinsurance agreements except for yearly renewable term reinsurance agreements and non-proportional reinsurance agreements such as stop loss and catastrophe reinsurance. All reinsurance agreements covering products that transfer significant risk shall follow the guidance for reinsurance accounting contained in this statement. All reinsurance contracts covering products that do not provide for sufficient transfer of risk shall follow the guidance for Deposit Accounting.

19. Yearly renewable term (YRT) reinsurance agreements that transfer a proportionate share of mortality or morbidity risk inherent in the business being reinsured and do not contain any of the conditions described in Appendix A-791, paragraphs 2.b., 2.c., 2.d., 2.h., 2.i., 2.j. or 2.k., shall follow the guidance for reinsurance accounting, including paragraphs 55-57 of this statement that apply to indemnity reinsurance. Contracts that fail to meet the requirements for reinsurance accounting shall follow the guidance for Deposit Accounting. For all treaties entered into on or after January 1, 2003, the deferral guidance in paragraph 3 of A-791 shall also apply to YRT agreements. YRT agreements shall follow the requirements of A-791, paragraph 6, regarding the entire agreement and the effective date of agreements. Since YRT agreements only transfer the mortality or morbidity risks to the reinsurer, the recognition of income shall be reflected on a net of tax basis, as gains emerge based on the mortality or morbidity experience. See paragraph 17.b. for additional requirements if a YRT agreement has interdependent contract features with reinsurance on a different basis (such as coinsurance).

**(Note that the exposed A-791 revisions are shown in the recommendation section).**

Background/History:

The agenda item was developed to address the VAWG referral, excerpted below, which noted risk transfer concerns regarding interdependent contract features which had been analyzed for risk transfer separately instead of in the aggregate. It also raised several concerns regarding the classification of reinsurance contracts and the size of the reinsurance credit taken. The referral noted that **(bolding added for emphasis)**:

VAWG has identified that issues arise when evaluating reinsurance for risk transfer in accordance with *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*, when treaties involve more than one type of reinsurance, and there is **interdependence of the types of reinsurance, including but not limited to an experience refund that is based on the aggregate experience**. In such cases, VAWG regulators find that these types of reinsurance must be evaluated together and cannot be evaluated separately for the purpose of risk transfer. For example, where a treaty includes coinsurance and YRT with an **aggregate experience refund and the inability to independently recapture the separate types of reinsurance, it is not adequate to separately review the coinsurance and YRT pieces of the transaction for risk transfer**. The treaty as a whole is non-proportional. **This complexity is not immediately apparent to the regulatory reviewer, and it is important that this issue be raised broadly, so that individual state regulators are aware**. Individual regulators are encouraged to contact VAWG if they would like additional perspective when reviewing such treaties.

Generally, VAWG regulators observe that **some companies are reporting an overstated reserve credit due to a bifurcated risk transfer analysis**. Specifically, some companies reported a proportional reserve credit for a coinsurance component, despite in aggregate the reinsurer only being exposed to loss in tail scenarios. From an actuarial perspective, there is consensus among VAWG members that it is not appropriate for a ceding company to take a proportional reserve credit that reflects the transfer of all actuarial risks when not all actuarial risks are transferred.

VAWG recommends that SAPWG discuss this issue, to **1) increase familiarity with the issue and 2) consider whether any clarifications to risk transfer requirements is appropriate**.

As noted in the referral above, regulators have observed reinsurance transactions that combine both coinsurance and YRT, with interdependent features including an **aggregate experience refund** and recapture provisions that allow for recapture by the cedant, **but only if both components are recaptured simultaneously**.

VAWG observed that some insurers have assessed these components under A-791 as if they were **separate agreements**, concluding that the requirements for risk transfer are met for each. Reserve credit was then taken on each component; a proportional credit for the quota share on the coinsured policies, and a YRT credit for the YRT component. Note that YRT contracts ordinarily cover a percentage of the one-year mortality risk for the net amount at risk on a policy. A simple way to describe net amount at risk is the difference between the policy reserve held and the face value of the policy.

Prior discussions:

In **March 2024**, the Working Group exposed revisions *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* to address the risk transfer aspect from the VAWG referral. The SSAP No. 61 revisions were narrowly focused and incorporated guidance noting that interdependent contract features such as shared experience refunds must be analyzed in the aggregate when determining risk transfer.

At the **2024 Summer National Meeting**, the Working Group reviewed two letters and re-exposed the prior revisions to allow for further discussion. One that was in support of the exposed revisions (Claire Thinking) and

comments from interested parties' / ACLI that requested further discussion. The Working Group direct NAIC staff to forward the comments received to the Valuation Analysis (E) Working Group, Life Actuarial (A) Task Force and the Reinsurance (E) Task Force.

On December 17, 2024, the Statutory Accounting Principles (E) Working Group received a preliminary overview of the comments received from the August 2024 re-exposure.

On April 10, 2025, the Statutory Accounting Principles (E) Working Group and the Life Actuarial (A) Task Force held a joint meeting. The meeting discussed this agenda item and agenda item 2024-05: A-791 Paragraph 2.c.; heard a presentation from the American Council of Life Insurers (ACLI) on statutory risk transfer considerations and heard a presentation on combined coinsurance funds withheld YRT agreements from the LATF chair.

*American Council of Life Insurers (ACLI) Comments:*

ACLI also values the thoughtful discussions and your consideration of our feedback and recommendations. Throughout this process, we have collectively sought to understand our respective concerns – regulatory concerns with combination reinsurance agreements and ACLI concerns with the SAPWG exposures on this topic – to arrive at a mutual understanding about how combination reinsurance agreements could achieve risk transfer.

The original draft of the SAPWG 2024-06 exposure suggested that all combination reinsurance agreements are non-proportional. Through our dialog, we concluded that, while this would be true for some combination agreements, it would not be true for others. We also concluded that:

1. Each agreement must be evaluated individually with each component (i.e., the coinsurance component and the YRT component) evaluated against its respective requirements under SSAP No. 61, and then
2. Collectively as a contract to ensure no deprivation of ceding insurer surplus could occur (rather than applying a likelihood of loss standard).

In contemplating the evolution of thought noted above, we respectfully recommend that any final guidance be made to apply on a prospective basis only. We note that the proposal for prospective application of any new guidance is not intended to shield in force transactions that are clearly in violation of risk transfer rules (e.g., those having automatic recapture provisions), and we would support language to that effect.

We additionally suggest revisions to the proposed SSAP No. 61 and Appendix, A-791 language as documented in the attached version of the exposure. We note it would be helpful for the historical record to document the evolution of thought which led to the contemplated changes reflected in the exposure. This will help regulators, companies, and auditors better understand the intent behind the proposed changes to SSAP No. 61 and Appendix A-791 should any ambiguity in the interpretation of the new language persist. We have included footnotes in the attached version of the exposure for this purpose.

In summary we request SAPWG adopt any changes to existing guidance prospectively; make the changes to the proposed language to SSAP No. 61 and Appendix A-791; include the proposed footnotes documenting the "historical record"; and re-expose such changes to allow time for stakeholders to evaluate the final proposed revisions to ensure no unintended consequences arise.



Recommendation:

**NAIC staff recommend that the Working Group:**

1. **Adopt the exposed revisions to SSAP No. 61 with the editorial paragraph break revision which does not change the exposed wording as discussed below, with a Working Group specified effective date.**
2. **Adopt the exposed revisions to A-791 without the ACLI proposed revisions as discussed below.**
3. **NAIC staff does not recommend incorporating the ACLI proposed footnotes to the body of the agenda item.**

**Summary of key comments and proposed actions:**

1. **SSAP No. 61, exposure: NAIC staff recommend adopting the exposed revisions to SSAP No. 61 with the editorial paragraph break revision.** The ACLI only proposed an editorial paragraph break to divide the exposed revisions in paragraph 17b into two paragraphs. NAIC staff concur with dividing paragraph 17b into paragraph 17b and 17c. This division does not change the exposed language and improves readability. ACLI comments support the exposed language and the approach of evaluating interdependent contracts individually and in aggregate.
2. **Effective date: NAIC staff requests Working Group feedback on a year-end 2025 effective date.**  
The ACLI comments requests a prospective application, which would essentially grandfather existing contracts, NAIC staff view grandfathering as problematic. The original VAWG referral raised concerns with existing contracts and the application of current guidance in SSAP No. 61 and A-791. As the proposed edits are consistent with the application of existing concepts, they qualify as SAP clarifications and can be effective upon adoption. However, if a specific effective date is desired, then NAIC staff recommend an effective date of December 31, 2025. Discussions on this item began in Spring 2024 based on a 2023 referral. Potential effective language on the SSAP No. 61 effective date is shown below.

94. The disclosure for compliance with Model #787 or AG 48 shall be effective for reporting periods ending on or after December 31, 2015. The revisions adopted in November 2018 to expand liquidity disclosures are effective year-end 2019, concurrent with the inclusion of data-captured financial statement disclosures. The disclosures captured in paragraphs 78-84 which help to identify certain reinsurance contract features are effective for reporting periods ending on or after December 31, 2020. [Clarifications of existing guidance adopted in August 2025 regarding risk transfer on interdependent reinsurance agreements in paragraphs 17 and 19 are required to be applied to existing contracts as of the year-end 2025 financial statements and new contracts thereafter.](#)

3. **A-791 QA exposure: NAIC Staff recommend adopting the revisions as exposed the A-791 QA (see below) Appendix A-791, *Life and Health Reinsurance Agreements* exposed revisions to the first Q&A. NAIC staff does not recommend incorporating any of ACLI proposed revisions to the A-791 QA guidance.**
- Appendix A-791, *Life and Health Reinsurance Agreements* exposed revisions to the first Q&A

**Q – Aside from assumption reinsurance, what other types of reinsurance are exempt from the accounting requirements?**

**A – Yearly renewable term (YRT) and certain nonproportional reinsurance arrangements, such as stop loss and catastrophe reinsurance are exempt because these do not normally provide significant surplus relief and therefore are outside the scope of this Appendix. If a catastrophe arrangement takes a reserve credit for actual losses beyond the attachment**

point or the unearned premium reserve (UPR) of the current year's premium, there will most likely be no regulatory concern.

Similarly, if a YRT treaty provides incidental reserve credits for the ceding insurer's net amount at risk for the year with no other allowance to enhance surplus, there will most likely be no regulatory concern. For purposes of this exemption, a treaty labeled as YRT does not meet the intended definition of YRT if the surplus relief in the first year is greater than that provided by a YRT treaty with zero first year reinsurance premium and no additional allowance from the reinsurer.

For contracts that contemplate reinsurance on both a YRT and coinsurance basis, where there are interdependent features such as a combined experience refund or an inability to independently recapture, risk transfer can only occur if there is no potential for payments out of surplus at the reinsurer's option or automatically upon the occurrence of some event, meaning that in all cases there would be an established liability to absorb any possible payments. The YRT premium simply being at or below the valuation net premium does not ensure that payments from surplus are not possible.

Additional pertinent information applicable to all YRT treaties and to non-proportional reinsurance arrangements is contained in paragraphs 19 and 20 of SSAP No. 61.

**NAIC staff does not recommend incorporating any of ACLI proposed revisions to the A-791 QA guidance. The ACLI proposed revisions are shown as shaded tracked text below.** The proposed ACLI revisions would narrow the scope of the proposed guidance to focus more on YRT or YRT premiums.

The exposed guidance is focusing on combination reinsurance contracts with interdependent features and that the reinsurance cannot result in the deprivation of surplus. The deprivation of surplus is required to be evaluated under A-791. However, the ACLI proposed revision would change the scope of how that deprivation of surplus is evaluated to be narrower and have more focus on YRT premium. The ACLI proposed revision of changing "does" to "may" implies that in some cases it is sufficient to only compare whether the YRT premiums exceed the valuation net premium which is incorrect.

The ACLI redline version is included in the comment letter attachment and is shown below. The ACLI comment letter reflected the exposed revisions as accepted and their proposed tracked revisions.

The excerpt below includes exposed revisions with **the ACLI proposed revisions to the A-791 QA exposure shown as shaded text.**

**Q– Aside from assumption reinsurance, what other types of reinsurance are exempt from the accounting requirements?**

A – Yearly renewable term (YRT) and certain nonproportional reinsurance arrangements, such as stop loss and catastrophe reinsurance are exempt because these do not normally provide significant surplus relief and therefore are outside the scope of this Appendix. If a catastrophe arrangement takes a reserve credit for actual losses beyond the attachment point or the unearned premium reserve (UPR) of the current year's premium, there will most likely be no regulatory concern.

Similarly, if a YRT treaty provides incidental reserve credits for the ceding insurer's net amount at risk for the year with no other allowance to enhance surplus, there will most likely be no

regulatory concern. For purposes of this exemption, a treaty labeled as YRT does not meet the intended definition of YRT if the surplus relief in the first year is greater than that provided by a YRT treaty with zero first year reinsurance premium and no additional allowance from the reinsurer.

Combination reinsurance transactions should be assessed for risk transfer purposes, taking into consideration the specific terms of these agreements by evaluating each type of reinsurance against its specific requirements and further evaluating the contract as a whole to ensure there is no potential for deprivation of the ceding insurer's surplus. For contracts that contemplate reinsurance on both a YRT and coinsurance basis, where there are interdependent features such as a combined experience refund or an inability to independently recapture, risk transfer can only occur if there is no potential for payments for the ceding insurer to make YRT premium payments out of surplus at the reinsurer's option or automatically upon the occurrence of some event, meaning that in all cases there would be an established liability or realized income to absorb any possible YRT premium payments. The YRT premium simply being at or below the valuation net premium does not ensure that payments from surplus are not possible.

Additional pertinent information applicable to all YRT treaties and to non-proportional reinsurance arrangements is contained in paragraphs 19 and 20 of SSAP No. 61.

#### 4. **Form A footnotes: NAIC staff recommend adopting the Form A without incorporating the two proposed ACLI footnotes.**

The ACLI proposed two new footnotes in the body of the form A for the "historical record" which would not change the exposed guidance. The Form A is not authoritative, but NAIC staff does not recommend incorporating the two footnotes (excerpted below).

Page 2 footnote - VAWG's original referral was that they saw proportional reserve credit being taken for nonproportional coverage and concerns about taking too large of a reinsurance credit has not changed. NAIC staff also has concerns with implying that VAWG's original referral was somehow in error.

Page 3 footnote - **NAIC staff does not support** adding the page 3 footnote, as it says what is required to evaluate risk transfer but only includes a subset of the criteria listed in Paragraph 17. NAIC staff is concerned that the footnote might be perceived as narrowing the proposed authoritative language.

#### **ACLI proposed footnotes.**

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<sup>1</sup>New ACLI footnote: Subsequent discussions have yielded a more nuanced view of this statement such that it is acknowledged that not all combination agreements are nonproportional. Combination reinsurance transactions should be assessed for risk transfer purposes, taking into consideration the specific terms of these agreements by evaluating each type of reinsurance against its specific requirements and further evaluating the contract as a whole to ensure there is no potential for deprivation of the ceding insurer's surplus (rather than applying a likelihood of loss standard).

<sup>2</sup> [New ACLI Footnote: Combination reinsurance transactions should be assessed for risk transfer purposes, taking into consideration the specific terms of these agreements by evaluating each type of reinsurance against its specific requirements and further evaluating the contract as a whole to ensure there is no potential for deprivation of the ceding insurer's surplus.](#)

| Ref #             | Title                     | Attachment #     | Agreement with Exposed Document? | Comment Letter Page Number |
|-------------------|---------------------------|------------------|----------------------------------|----------------------------|
| 2025-01<br>(Jake) | Sales Lease Clarification | 19 – Agenda Item | Comments Received                | IP – 5<br>NAMIC/APCIA - 1  |

Summary:

On March 24, 2025, the Working Group exposed revisions to clarify that sale leasebacks with restrictions on access to the cash 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. 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 agree that transactions involving cash or assets received by a seller that have restrictions as to use, do not meet the definition of a sale for sale leaseback accounting and should be recorded as a financing arrangement. Because the cash and assets received are not available to meet policyholder obligations, such assets may be considered nonadmitted in accordance with *SSAP No. 4 – Assets and Nonadmitted Asset*.

National Association of Mutual Insurance Companies (NAMIC) and American Property and Casualty Insurance Association (APCIA) Comments:

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 are neutral on the edits that clarify that sale leasebacks with restrictions on access to cash do not qualify for the sale leaseback accounting method and must be accounted for by the seller using the financing method.

To make it clear that this edit does not overrule the guidance found in 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, make the proposed clarification the new number (34) as opposed to a new subsection (c). This edit makes it clear to the reader that this type of transaction does not fall under the sale-leaseback accounting method. Second, the insertion of a footnote at the end of the new number (34), referencing that nothing in the edit is meant to negate any guidance found in INT 01-31. (Revisions proposed by trades, shown shaded below)

33. Sale-leaseback accounting shall be used by a seller-lessee only if a sale-leaseback transaction includes all of the following:

- a. 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.
- b. 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.

34. A sale where the cash received by the seller has access restrictions does not meet the definition of a sale for sale leaseback accounting and shall be recorded as a financing arrangement as described in paragraph 39.<sup>1</sup>

**Trades proposed FOOTNOTE <sup>1</sup>** Nothing in this section shall be construed to negate the guidance found in INT 01-31 regarding collateral pledged for their performance under a contract.

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 collateral

Recommendation:

**NAIC staff recommends that the Working Group expose expanded revisions to SSAP No. 22—Leases, as illustrated below, which clarify that sale leasebacks with restrictions on access to the cash do not qualify for sale leaseback accounting and must be accounted for by the seller using the financing method. These have been modified from the prior exposed version to be clearer. NAIC staff does not recommend exposing the footnote proposed by the joint trades.**

**Proposed for August 2025 exposure – New Revisions from the Prior Exposure are Shaded:**

34. Sale-leaseback accounting shall be used by a seller-lessee only if a sale-leaseback transaction includes all of the following:

- a. 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.
- b. 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 have restrictions as to the use of the cash or sale of the assets, the cash and assets received are not considered available to meet policyholder obligations and are nonadmitted in accordance with SSAP No. 4—Assets and Nonadmitted Assets. 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.

39. A sale-leaseback transaction that does not qualify for sale-leaseback accounting nor the deposit method shall be accounted for by the financing method. Under this method the seller-lessee shall not derecognize the transferred asset and shall account for any amounts received as a financial liability and the buyer-lessor shall not recognize the transferred asset and shall account for the amounts paid as a receivable. A sales-leaseback transaction where the cash or assets received as part of the sale are subject to restrictions as described in paragraph 34.c. would not qualify for sales-leaseback accounting and shall be accounted for using the financing method.

| Ref #         | Title                                               | Attachment #     | Agreement with Exposed Document? | Comment Letter Page Number |
|---------------|-----------------------------------------------------|------------------|----------------------------------|----------------------------|
| 2025-13 (Wil) | Residential Mortgage Loans Held in Statutory Trusts | 20 – Agenda Item | Comments Received                | IP – 15                    |

Summary:

On May 22, 2025, The Working Group exposed this agenda item and proposed revisions to SSAP No. 37—*Mortgage Loans* in response to interested parties’ comments on agenda item 2024-21: Investment Subsidiaries. Comments from interested parties noted that a significant part of the increase in investment subsidiaries is primarily due to increased usage of Delaware Statutory Trusts (DSTs). DSTs are distinct from common-law trusts as they are established under Delaware statutory trust laws, which allows for significant flexibility in structuring the trust. While holding real estate investments within a DST provides a number of structural and tax advantages, one of the most notable benefits is that it enables insurance companies to bypass the requirement of obtaining individual state lending licenses for each state where they hold residential mortgage investments.

The initial revisions exposed on May 22, 2025, for SSAP No. 37 provide accounting guidance for qualifying trust structures, regardless of the state of domicile, that hold residential mortgage loans with reporting of these items on Schedule B – Mortgage Loans. 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 the mortgage loans held within 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 several 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 agree with reporting residential mortgage loans (RMLs) owned through a trust directly on Schedule B. The trust is created for the purposes of operational efficiency, with all the risks and rewards of the beneficial ownership interest in the assets belonging to the insurer. Therefore, look-through treatment, as if these are transactions of the reporting entity, seems most appropriate for this type of RML investment structure.

We are grateful for the time that NAIC staff has spent with us going over our questions and comments. We have summarized some of the most significant discussion points between the NAIC staff and interested parties below:

1. Regarding ownership of the trust's assets, title to the RMLs is held by the trustee on behalf of the trust. The books and records of the trust then allocate a beneficial interest in each loan to a specific series. Same goes for any other assets of the trust. Some updates will be needed to the current Exposure Draft to reflect how these structures operate from a legal perspective.
2. Interested parties believe that the same requirements that apply to RMLs directly held and accounted for under SSAP No. 37 – *Mortgage Loans* should apply to the RMLs owned through a trust. As stated above, since all the risks and rewards related to ownership of the RMLs pass through to the insurer, this makes the most sense from a reporting perspective. Therefore, second lien loans should be allowed and RML participations of less than 100% should be allowed as well, consistent with SSAP No. 37.
3. The trust should be allowed to pledge the RMLs for the benefit of the insurer. Suggested language was discussed to make this clear in the Exposure Draft.
4. The Exposure Draft included a request for input on the appropriate reporting for foreclosed real estate that becomes an asset of the trust. Interested parties believe that any real estate assets, cash, or other assets related to investing in the RMLs such as receivables as well as liabilities, should be reported as if held directly by the insurer since the insurer gets all the risks and rewards of ownership. We also understand that it may be common for the trust to set up an LLC to own foreclosed real estate. If that is the case, since SSAP No. 40 – *Real Estate Investments* allows for single, wholly-owned real estate held in an LLC to be directly reported on Schedule A, we believe the same look-through provision would apply here and the insurer would report the real estate as directly owned.
5. We suggest changing the name from statutory trust to a qualifying trust. A trust can be a statutory trust or a common law trust. We understand that a statutory trust can have series whereas common law trusts do not, but both types can be used to hold RMLs on behalf of the insurer.
6. Interested parties question whether disclosure of fees paid to the servicer is a critical disclosure. We have received feedback that this information is confidential and could impact competitive market practices among servicers. Since such disclosure is not required for RMLs/CMLs directly owned and managed by a third-party servicer, we suggest that this disclosure be removed. In addition, the last sentence of paragraph 2 b (iv) implies that the loans will not be disclosed individually as it states "the detail must contain at a minimum, the same information as would be required were the mortgage loans to be individually reported on Schedule B." If the ultimate decision is to report the loans individually on Schedule B, then this sentence should be removed.
7. In item 27.b., interested parties believe the materiality qualifier should apply to both parts of the disclosure (litigation and state or federal regulatory review).
8. Interested parties suggest adding a code to the residential mortgage loan sections of Schedule B to note loans that are held in statutory trusts so that directly held loans versus loans held in trust are easily identifiable by the regulators.
9. Interested parties also suggest adding guidance in the Exposure Draft for RMLs held in trusts that do not meet the proposed criteria, so that it is clearer how those investments should be accounted for and reported.

Recommendation:

NAIC staff recommend that the Working Group expose an updated draft of revisions to expand the scope of SSAP No. 37—*Mortgage* to include qualifying investment trusts holding residential mortgage loans to be reported Schedule B – Mortgage. Key revisions include:

- Proposed updates to permit qualifying statutory trusts to hold cash and cash equivalents, and real estate obtained through foreclosure, along with clarification on the applicability of SSAP No. 2 and SSAP No. 40.
- Replacement of the restriction to first-lien mortgages as well as the requirement to hold the entire loan with broader language permitting any single residential mortgage loan eligible under SSAP No. 37 to be held in a qualifying statutory trust.
- Additional criteria for a qualifying statutory trust series which requires the qualifying trust to maintain separate and distinct records from the overall statutory trust and other series
- Clarification that an insurer may pledge qualifying statutory trust assets as collateral; however, assets encumbered or pledged to a third party by action of the statutory trust itself are nonadmitted.
- Eliminated management fee disclosure and added language elsewhere clarifying that statutory trust activities are subject to related party and affiliate disclosure requirements.
- New requirement to disclose a summary of assets and liabilities held within qualifying statutory trusts. Since such balances are to be reported as if directly held by the insurer, this disclosure is intended to provide regulators with a high-level overview of the balances held within the trust(s).

NAIC staff met with industry representatives during the interim and considered feedback from those discussions as well as the submitted comment letter. NAIC staff agreed with industry on many of the recommended revisions and incorporated those into this exposure draft. (These would include all comment letter recommendations except for recommendations 4 and 5)

However, NAIC staff did not incorporate some of the recommendations made by industry, specifically: (1) expanding qualifying trust guidance to allow both statutory and common law trust structures; (2) permitting qualifying trusts to hold foreclosed real estate within wholly owned LLCs; and (3) allowing qualifying trusts to receive “other assets” as proceeds from RMLs. NAIC staff believe these changes would significantly broaden the scope of what was intended to be a narrowly focused project and would introduce additional complexity and increase regulatory challenges.

| Ref #              | Title                  | Attachment #     | Agreement with Exposed Document? | Comment Letter Page Number |
|--------------------|------------------------|------------------|----------------------------------|----------------------------|
| 2025-16<br>(Robin) | Status Section Updates | 21 – Agenda Item | Comments Received                | IP – 13                    |

Summary:

On May 22, 2025, the Working Group exposed this agenda item to update the Status Section on the cover page of the statements of statutory accounting principles (SSAPs). The two primary revisions are: 1) to change



“substantively” revised to “conceptually” revised in the status section and to remove the issue paper references in the status section.

*Interested Parties’ Comments:*

Interested parties note that previously the use of the term “substantive” meant that a new SSAP would be issued and “nonsubstantive” meant that the SSAP would be updated. Before adopting the new terms, we recommend that there be a better description of what the new terms mean in the context of new guidance versus updates to existing guidance.

*Recommendation:*

**NAIC staff recommend that the Working Group adopt this agenda item and the revisions detailed within the Form A to be incorporated in the 2026 publication. The revisions will better match previously adopted terminology in the policy statement and streamline the status section of the SSAPs. The proposed revisions do not change any accounting guidance. Additional background information below provides more information regarding the terminology revisions adopted in 2021. As the terminology revisions were previously adopted, NAIC staff are not proposing additional revisions at this time but would be willing to discuss with interested parties if future revisions are needed to the policy statements in response to the 2021 terminology revisions.**

**Background:** The revisions are consistency revisions to the status section which match terminology updates that were adopted in agenda item 2021-14: Policy Statement Terminology Change – Substantive & Nonsubstantive. Agenda item 2021-14 was developed pursuant to a referral from the Financial Condition (E) Committee, which noted that discussions had highlighted that the statutory accounting terminology of “substantive” and “nonsubstantive” to describe statutory accounting revisions being considered by the Statutory Accounting Principles (E) Working Group to the Accounting Practices and Procedures Manual (AP&P Manual) could be misunderstood by users that are not familiar with the specific definitions and intended application of those terms.”

The new proposed status section revisions on the face of the SSAPs will better match the revisions previously made under the 2021 policy statement change. The removal of the issue paper reference is primarily to streamline the first page of the SSAPs. References to the issue papers will be maintained at the end of the SSAPs, typically in the effective date section regarding the revisions documented in the issue papers, so historical tracking will be maintained.

**The comment letters are included in Attachment 22: Comment Letters (37 pages)**

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/08-11-25 Summer National Meeting/Hearing/00 - 08-11-25 - SAPWG Hearing Agenda.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2025/08-11-25%20Summer%20National%20Meeting/Hearing/00-08-11-25-SAPWG%20Hearing%20Agenda.docx)



2025 SUMMER NATIONAL MEETING  
MINNEAPOLIS, MN



## Meeting Agenda

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

#### A. Consideration of Maintenance Agenda – Pending List

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

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

#### Summary:

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

#### Recommendation:

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

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

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

| Ref #              | Title              | Attachment # |
|--------------------|--------------------|--------------|
| 2025-19<br>(Julie) | Private Securities | B – Form A   |

Summary:

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

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

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

Recommendation:

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

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

Summary:

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

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

- 1) Expansion of the existing annual audited only SSAP No. 26 and SSAP No. 43 disclosure on bond sale proceeds and the resulting realized gain or loss to be a statutory data-captured disclosure. The disclosure has also been revised to include proceeds and realized gain/loss information for maturities and has been added to include bonds in SSAP No. 2 and non-bond debt securities in SSAP No. 21.
- 2) Clarifications to the reporting requirements for the bonds by maturity date disclosure. This bond detail is captured in Schedule D, Part 1A, but a summary presentation by maturity date bucket is required in the annual audit report. Additionally, a comparative summary disclosure was added to SSAP No. 21 for non-bond debt securities. (Schedule D, Part 1A is limited to bonds, therefore the non-bond debt securities are not captured in that detail.)
- 3) The disclosure of impaired securities (when fair value is less than amortized cost) has been revised to be consistently included in the statutory financial statements for all debt securities with a data-captured template. Clarity as to what shall be captured in this disclosure (all impaired securities regardless of measurement method) has also been incorporated. The revisions eliminate the required quarterly disclosure requirement, but regulator comments are requested on whether the interim reporting should be retained. (Prior to these edits, the disclosure was a required interim / annual statutory disclosure for SSAP No. 43 only. The disclosure was annual audited only under SSAP No. 26.)
- 4) In the annual statement instructions and template, the disclosure for bifurcated other-than-temporary impairment has been expanded to include non-bond debt securities as well as residual interests that follow the allowable earned yield method.
- 5) Disclosures have been incorporated for residuals in scope of SSAP No. 21 to be consistent with other invested asset disclosures.
- 6) Within the current debt security SSAPs, some statements refer to disclosure requirements in other SSAPs. To eliminate the potential for missing these disclosure requirements, the disclosure requirements have been fully incorporated into each SSAP.

Recommendation:

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

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

| Ref #            | Title                        | Attachment # |
|------------------|------------------------------|--------------|
| 2025-21<br>(Wil) | Retirement Plans Held at NAV | D – Form A   |

Summary:

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

Recommendation:

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

**B. Consideration of Items on the Active Maintenance Agenda**

## 1. Ref #2024-21: Investment Subsidiaries Classification

| Ref #            | Title                                  | Attachment # |
|------------------|----------------------------------------|--------------|
| 2024-21<br>(Wil) | Investment Subsidiaries Classification | E – Form A   |

Summary:

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

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

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

Recommendation:

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

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

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

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

## C. Any Other Matters

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

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

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

should work such that an overall nonadmittance of a portion of negative IMR (reduction to surplus) should not be reduced due to using negative IMR as a form of collateral (that could increase surplus of that nonadmittance amount).

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

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

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

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

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

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



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

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

1. 2025-11: Valuation Manual, Section II Subsections 2, 3, 6, VM-01, VM-22, VM-31, VM-G, and VM-V - This amendment introduces a new principle-based reserving framework for non-variable annuities, located in Section VM-22 of the NAIC Valuation Manual.
  - **Action:** The SAPWG has an agenda item 2025-09: VM 22 Update Coordination in progress which is planned for adoption consideration at Summer National Meeting
2. 2025-04 VM-20 Section 6, VM-20 Section 7, VM-20 Appendix 1, VM-21 Section 8, VM-31 Section 3 - This amendment updates the Valuation Manual economic scenario generator references for the adoption of the Conning-maintained prescribed economic scenario generator.
  - Action: NAIC staff have identified that a SAPWG agenda item will be prepared regarding the optional implementation period for this item. This may occur as a possible interim exposure after the Summer National Meeting.

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

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

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

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

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

*This update simply intends to inform the SAPWG regulators and interested parties of these ongoing NAIC staff actions to monitor and participate in the IAIS AAWG. Any questions on discussions or if additional information is requested, please contact NAIC staff.*

**Comment Deadlines:**

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

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/08-11-25SummerNationalMeeting/Meeting/0-08-2025SAPWGMeetingAgenda.docx>