Date 7/27/2026

2026 Summer National Meeting
Columbus, OH

Statutory Accounting Principles (E) Working Group
Wednesday, August 12, 2026
8:30 AM - 10:30 AM ET
Hilton Tower 401—Bellows Ballroom A-D—Lower Level

OVERVIEW AGENDA

HEARING AGENDA

	Hearing Page Number	Attachment
1. SAPWG Hearing – Adoption of Minutes—*Kevin Clark (IA)*	1	1-3
2. SAPWG Hearing – Review and Adoption of Non-Contested Positions —*Kevin Clark (IA)*		
• Ref #2026-07: Referral on AVR affiliated common stock	2	4
3. SAPWG Hearing – Review of Comments on Exposed Items—*Kevin Clark (IA)*		
• Ref #2026-06: Fair Value Disclosures	3	5, 6
• Ref #2026-05: Securities Lending Restricted Asset Reporting	7	7
• Ref #2026-02: Valuation of Funds Withheld	11	8
• Ref #2026-04: ASU 2025-10, Accounting for Government Grants Received by Business Entities	15	9
Comment Letters		10
4. SAPWG IMR & ALM Hearing – Review of Comments on Exposed Items—*Kevin Clark (IA)*		
• Ref #2023-14: SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve	1	2.1-2.5
• Ref #2024-15: Asset Liability Management (ALM) Derivatives	19	2.6-2.7
Comment Letters		2.8-2.9

OVERVIEW AGENDA

MEETING AGENDA

	Meeting Page Number	Attachment
5. SAPWG Meeting – Maintenance Agenda – Pending List—*Kevin Clark (IA)*		
• Ref #2026-08: SSAP No. 21 – COLI	1	A
• Ref #2026-09: SSAP No. 86 – RSATs	3	B
• Ref #2026-10: SSAP No. 26 – Embedded ALM Risk	6	C
• Ref #2026-11: Residential Mortgage Loan Definition	9	D, E
• Ref #2026-12: Retroactive Reinsurance Exception	11	F
• Ref #2026-13: Medicaid Updates	13	G
• Ref #2026-14: Updates to INT 18-03 for OBBBA	15	H
• Ref #2026-15: SSAP No. 23 – Canadian Translations	16	I
6. SAPWG Meeting – Maintenance Agenda – Active Listing—*Kevin Clark (IA)*		
• Ref #2025-22: IMR Impact to Reinsurance Collateral	17	J, K
7. SAPWG Meeting – Any Other Matters Brought Before the Working Group —*Kevin Clark (IA)*		
• Errors / Noncompliance in Statutory Financial Statements	20	None
• Life Risk-Based Capital (E) Working Group Referral – Collateral Loan Reporting	21	L
• Update on SSAP No. 48 Discussions & Revisions	22	None
• Update on the Commitments and Contingencies Disclosures	22	None
• Review of U.S. GAAP Exposures	22	M
• LATF VM Coordination Memo	22	N
• IAIS Audit and Accounting Working Group (AAWG Update)	22	None

- **Comment Deadline for all other items – Friday, October 2, 2026**
- **Potential Shortened Comment Deadline for IMR items – Friday, September 18, 2026**

Statutory Accounting Principles (E) Working Group
Hearing Agenda
August 12, 2026

ROLL CALL

Kevin Clark, Chair	Iowa	Steve Mayhew/Kristin Hynes	Michigan
Dale Bruggeman, Vice Chair	Ohio	Ned Cataldo	New Hampshire
Sheila Travis/Richard (Hamp) Russell	Alabama	Bob Kasinow	New York
Kim Hudson	California	Diana Sherman	Pennsylvania
William Arfanis/Michael Estabrook	Connecticut	Jamie Walker	Texas
Rylynn Brown	Delaware	Doug Stolte/Jennifer Blizzard	Virginia
Cindy Andersen	Illinois	Amy Malm/Levi Olson	Wisconsin
Shantell Taylor/Tom Travis	Louisiana		

NAIC Support Staff: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden

Note: This meeting will be recorded for subsequent use.

The Statutory Accounting Principles (E) Working Group met in regulator-to-regulator session on August 4, 2026, pursuant to the NAIC Open Meetings Policy paragraph 6 (consultations with NAIC staff related to NAIC technical guidance of the *Accounting Practices and Procedures Manual*). No actions were taken during this meeting, as the discussions were for NAIC staff to present the technical guidance captured within the Spring National Meeting agenda.

The Working Group also met on June 25 to review 2025 annual statutory financial statement data, in compliance with the NAIC Open Meeting Policy, paragraph 3, for company specific information.

REVIEW AND ADOPTION OF MINUTES

1. Spring National Meeting **(Attachment 1)**
2. April 22 Evote **(Attachment 2)**
3. May 18 Interim Meeting **(Attachment 3)**

REVIEW AND ADOPTION of NON-CONTESTED POSITIONS

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

1. Ref #2026-07: Referral on AVR affiliated common stock

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter
2026-07 (Robin)	**Referral on AVR affiliated common stock**	**4 – Agenda Item**	**Agreement**	**IP – 6**

Summary:
On May 18, the Working Group moved this item to the active listing, categorized as an SAP clarification, and exposed revisions to the Life, Accident & Health/Fraternal Annual Statement blank and instructions. In addition, the Life Risk-based Capital (E) Working Group was notified of the exposure. No statement of statutory accounting principles revisions were exposed.

This agenda item responds to a referral from the Life Risk-Based Capital (E) Working Group received at the 2025 Summer National Meeting. The referral forwarded comments from the American Council of Life Insurers (ACLI) which raised questions on the asset valuation reserve (AVR) equity reporting lines for subsidiary, controlled or affiliated (SCA) common stock on the AVR reporting schedule and requested clarifications to the AVR blanks and instructions. The following four AVR equity schedule lines were highlighted in the referral for clarification:

AVR Maximum Reserve Factor	2025 AVR Schedule Line Number and Name
.1580	15 - Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries (See SVO Purposes & Procedures Manual)
	68 - Investments with the Underlying Characteristics of Common Stock – Affiliated Certain Other (See SVO Purposes & Procedures Manual)
.1945	16 - Subsidiary, Controlled or Affiliated Common Stocks – Other
	69 - Investments with the Underlying Characteristics of Common Stock – Affiliated Other – All Other

Based on research on the historical intent, the proposed annual statement instructions and blanks revisions detailed in the agenda include SCAs with statutory accounting impacted valuations. That is audited SAP and GAAP with SAP adjustments, in line 15, receiving a lower RBC charge as the "SCA – Certain Other" category. All other SCAs captured in line 16. Note that existing "Line 4 - Subsidiary, Controlled or Affiliated Common Stocks – Life Insurers with an AVR" are excluded from lines 15 and 16.

Interested Parties' Comments:
Interested parties have no comment on this item.

Recommendation:
NAIC staff recommend that the Working Group adopt this agenda item and direct NAIC staff to proceed with sponsoring a proposal to update the 2027 Life, Accident & Health/Fraternal Annual Statement blank and instructions to incorporate instruction changes to the noted AVR reporting lines, as well as to revisions to other AVR reporting lines (particularly lines 65-69) to ensure the instructions are clear. This agenda item does not include any SSAP revisions. In addition, Life Risk-Based Capital (E) Working Group should be notified of the plan to submit a blanks proposal.

The proposed annual statement instructions and blanks revisions detailed in the agenda include SCAs with statutory accounting impacted valuations (excluding life SCAs that have an AVR) in line 15, receiving a lower RBC charge as the "SCA – Certain Other" category, and all other SCAs captured in line 16. Note that the instructions for lines 65-68 are quite brief. With the sponsored blanks proposal for this item, NAIC staff will work with the blanks staff support to proposed clarifying edits to these lines, as well as the corresponding common stock lines.

REVIEW of COMMENTS on EXPOSED ITEMS

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

1. Ref #2026-06: Fair Value Disclosures
2. Ref #2026-05: Securities Lending Restricted Asset Reporting
3. Ref #2026-02: Valuation of Funds Withheld
4. Ref #2026-04: ASU 2025-10, Accounting for Government Grants Received by Business Entities

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-06 (Julie)	**Fair Value Disclosures**	**5 – Agenda Item 6 – Referral**	**Comments Received**	**IP – 3**

Summary:
This agenda item was exposed during the May 18 interim meeting with proposed revisions to eliminate the disclosure exclusion for "equity method investments" from the aggregate disclosure on financial instruments captured in *SSAP No. 100—Fair Value*. With this current scope exclusion, investments in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, and investments in scope of *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, which are reported under an equity method, are not being captured in the financial instrument disclosure (Note 20C).

As background, the disclosure requirements in SSAP No. 100 were predominantly adopted to match U.S. GAAP when *FAS 157, Fair Value Measurements* was first adopted in SSAP No. 100 for statutory accounting in 2009. Since the December 31, 2010, effective date of SSAP No. 100, there have not been significant revisions to the original fair value disclosure requirements.

The U.S. GAAP financial instrument fair value disclosure has an exclusion for "investments accounted for under the equity method." This exclusion was initially adopted for statutory accounting to match the U.S. GAAP disclosure, but has recently been questioned, as these investments are required to be disclosed with a fair value on Schedule BA (for SSAP No. 48 investments) and on D-2-2 (for SSAP No. 97 investments). There was also a question on whether equity investments should be required to complete the fair value components on the new public/private security disclosure since they are not required to be disclosed under the SSAP No. 100 aggregate financial instrument fair value disclosure. Regardless of the financial instrument exclusion, for these, and all reported investments, fair value is required to be disclosed in the investment schedules in accordance with the fair value definition in SSAP No. 100:

> Fair Value Definition: Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For investments reported under the equity method, the calculated equity method may not reflect an exit price fair value. If reporting entities are not using observable market inputs in the determination of fair value, which would include using the equity method as a proxy for fair value, then the reported fair value shall be identified as a level 3 fair value.

To eliminate questions, ensure consistency in reporting, and ensure that regulators have complete disclosures on financial instruments held as investments, including aggregate information on equity investments backed by level 3 fair values, this agenda item proposed to remove the "investments accounted for under the equity method" disclosure exclusion from the financial instrument fair value disclosure. This will create a U.S. GAAP to SAP disclosure mismatch in guidance requirements, but due to measurement method differences (e.g., investments held at fair value under U.S. GAAP may be held under a different standard under SAP), existing fair value disclosures already do not agree between U.S. GAAP and SAP.

The exposed disclosure revision was proposed to be in effect December 31, 2026. The existing disclosure illustration allows for variable lines; therefore, it is not required to revise the disclosure to implement this change. With adoption, a blanks proposal will be sponsored to capture the references to SSAP No. 48 and SSAP No. 97 investments within the disclosure illustration.

Although the focus of this agenda item is the current "investments accounted for under the equity method" exclusion from the financial instrument disclosure, NAIC staff has included the SSAP No. 100, paragraph 50 disclosure for review. This disclosure, which was also adopted from U.S. GAAP in 2009, is limited to assets <u>measured and reported</u> at fair value. This disclosure has historically generated numerous questions, as there are few investments routinely measured and reported at fair value under statutory accounting (e.g., common stock and derivatives), therefore only limited information is captured in this disclosure. The fair value level 3 roll-forward is captured within this disclosure scope. As such, it's not possible for regulators to quickly assess the aggregate change in level 3 fair values from this disclosure, and regulators that would like to have that detail would need to complete an aggregation of the per investment reporting that occurs on the investment schedules.

If desired by regulators, a subsequent agenda item could occur to reconsider the fair value disclosures captured for investments that are measured and reported at fair value. With the limited scope, NAIC staff is uncertain how regulators use these disclosures and requested comments on their use and if they are beneficial.

<u>Interested Parties' Comments:</u>
While this proposal began as a discussion of increasing the disclosure of fair values for Schedule BA assets, it also encompasses other investments that are accounted for using a statutory equity method. Interested parties note that there are different types of investments that are accounted for using the statutory equity method of accounting. These investments generally fall into the following three categories:

1. Operating entities/subsidiaries such as insurance, service, investment, and other companies that are operating business entities;
2. Equity method investments that hold entities that follow the accounting guidance in FASB ASC 946 – *Investment Companies* and are generally carried at fair value; and
3. Other equity investments such as LPs, LLCs that hold real estate and other assets.

Operating Entities/Subsidiaries
In researching this issue, we found that the fair value disclosure column was added to Schedule BA in the Annual Statement for 2005 year-end reporting (the related Blanks proposal, 2005-45BWG Modified, was adopted by the Blanks Working Group in June 2005). The justification for this change at the time was as follows:

> "The purpose of this column is to enable regulators to establish how much the fair value of the investment differs from the carrying value, for those investments where it is possible to determine fair value – in particular in cases of limited partnerships and hedge funds, where the investor receives financial statements with an estimate of market value. In other cases, a third-party quote can be obtained, or an estimate of fair value can be done."

Mike Moriarty (NY) on behalf of the Valuation of Securities Task Force (VOSTF) stated that this proposal was originally drafted by New York with the intent of capturing additional information for these types of assets that are typically not rated. A member of industry asked if the fair value disclosed in the Schedule BA under this proposal would be the same as that required under SSAP 27, *Disclosure of Information about Financial Instruments with Off-Balance Sheet Risk, Financial Instruments with Concentration of Credit Risk and Disclosures about Fair Value of Financial Instruments*. It was noted that the instruction for the fair value column of Schedule BA under this proposal was consistent with the definition of the term fair value within the glossary of the NAIC *Accounting Practices & Procedures Manual.*

The fair value disclosure in 2004-34BWG applied solely to Schedule BA assets (SSAP No. 48 investments) and did not include operating entities/subsidiaries reported in Schedule D. We also note that the definition of fair value at that time is not consistent with the current definition in SSAP No. 100, *Fair Value*. Determining an estimated fair value of operating entities/subsidiaries is impracticable from the perspective of closing the ledger and preparing statutory financial statements on a timely basis but also is not something that companies currently do as it is not a requirement under U.S. GAAP. Many insurance groups have large numbers of operating subsidiaries, e.g., property casualty companies with intercompany pooling agreements, and obtaining valuations under SSAP No. 100 for the estimated fair value of each entity would be extremely costly. Additionally, the public disclosure of such information could be harmful to a company that may be a potential target of an acquisition. As a result, we believe these entities should not be in scope for any new fair value disclosures.

ASC 946 Investment Companies
FASB Topic 946, Financial Services—Investment Companies, provides specialized accounting and reporting requirements for investment companies. Under this guidance, investment companies generally measure their investments at fair value, including controlling financial interests in investees that are not investment companies. As a result, we believe that using the reported equity value of ASC 946 entities is an appropriate approximation for a fair value disclosure.

Other equity investments such as LPs, LLCs that hold real estate and other assets

In discussing this category, interested parties requested insurers to identify:

1. How prevalent are these investments?
2. What is the nature of the structures?
3. Is it material to the company?

Included in the responses were the following:

- A non-insurance subsidiary providing loss prevention consulting services (may be operating),
- Real estate entity - investment/operating entity that both holds *and physically manages* commercial real estate assets/properties,
- Real estate entities – not in scope of ASC 946, and
- Other questions which would require more work as noted below.

Providing estimated fair values for the investments identified in the responses involves several challenges to developing fair value estimates on a timetable that allows for timely inclusion in the statutory financial statements. In addition to the struggle to obtain timely updated data inputs for use in a valuation model, the ability to do so may be exacerbated for insurers that are passive investors and do not have significant influence over the investee. As a result, we believe these types of investments will require more discussion and careful consideration as to what is possible and the cost/benefit of doing so within the confines of an accounting close schedule.

<u>*Recommendation:*</u>
NAIC staff recommend that the Working Group receive a referral from the Investment Analysis (E) Working Group on the Note 20C fair value disclosure and re-expose this agenda item with a specific request for industry to propose guidance and reporting categories that could be established to differentiate equity-method investments by "operating entities" and structures that hold investments ("holding entities"). The formation of the structure as within scope of *SSAP No. 48—Joint Venture, Partnerships and Limited Liability Companies* or *SSAP No. 97—Investments in Subsidiaries, Controlled and Affiliated Entities*, does not provide this distinction, as the determination of the applicable SSAP is strictly based on the ownership mechanism, with stock ownership the determinant for SSAP No. 97 applicability. Although it may be possible to isolate SSAP No. 97 "operating" SCAs accounted for under 8.b.i (insurance SCAs), 8.b.ii (non-insurance SCAs with insurance transactions/activities) and 8.b.iv (foreign insurance SCAs), it is not possible to identify whether investments reported as 8.b.iii. (non-insurance SCAs that follow U.S. GAAP) represent operating entities or just reflect a stock ownership percentage into a structure with the purpose of holding investments. For SSAP No. 48 entities, there is no current ability to separate operating entities versus those holding investments.

NAIC staff notes that the 2005 citation provided by industry continues to be a key initiative for the reporting of fair value. **"The purpose of this column is to enable regulators to establish how much the fair value of the investment differs from the carrying value…"** The reporting of fair value on the investment schedule has been a long-standing requirement and has been perceived to be used by regulators, analysts, and others, as a comparison to the reported book/adjusted carrying value (BACV) to identify instances in which the investment may be impaired. Both SSAP No. 48 and SSAP No. 97 require recognition of an other-than-temporary impairment <u>for any decline in fair value</u> that is other than temporary. With the industry response indicating that fair value assessments are not occurring for these equity-method investments, there is a question as to how/when industry would be using consistent metrics for impairment assessments. Presumably, such investments are not being subject to impairment assessments based on fair value declines, and other metrics are being used in determining whether an impairment should be recognized.

As a bit more background, as highlighted above, the reporting of fair value in the investment schedules has been required for some time. The proposed change within this agenda item simply removes the disclosure exclusion for capturing the reported fair value in an aggregate note within the financial statements. This was intended to be a minor edit, as "fair value" is already being reported in the investment schedules for each investment. **However, with the inclusion in the note, and the audit requirement for notes to the financial statements, this edit would result with auditor review and providing validation for the reported fair values. Pursuant to the interested parties' comment letter, as the reported "fair values" in the investment schedule do not reflect fair value per SSAP No. 100, this has caused concern as they would not be able to continue their current practice under audit scrutiny.**

Although NAIC staff agree there could be exceptions captured, particularly for insurance SCAs that follow statutory accounting under SSAP No. 97, paragraph 8.b.i, NAIC staff are aware that both SSAP No. 48 and SSAP No. 97 structures can be used simply to hold investments, it has been noted that these structures should have fair value determined and reported. **Receiving additional information from industry to effectively separate entities would be beneficial during the exposure period.**

The overall quality of fair value reporting, as well as the structure of Note 20C, is currently a focus of other NAIC groups. The Working Group has received a referral from the Investment Analysis (E) Working Group (INVAWG) noting that the existing structure and free-form disclosure does not allow for alignment to what is reported in the investment schedules, has data quality inconsistency, limited ability to track changes year-over-year and limits the ability to trace Note 20C disclosures to existing statutory reporting lines, including those within Schedule BA—Other Long-Term Invested Assets. The INVAWG has requested improvements, including the standardization of mapping requirements between Note 20C and the investment schedules as well as categorization that allows reporting fair value to correspond to a specific reporting line from each schedule. (For example, the aggregate reported fair value for the CLO/CBO/CDO reporting line on Schedule D-1-2 should tie to a dedicated category in Note 20C.) **NAIC staff proposes to receive feedback from industry on the separation of operating entities and "holding entities" as detailed earlier in the recommendation, and then proceed, likely at the Fall National Meeting, with sponsoring a blanks proposal to expand Note 20C into a specific template as recommended by INVAWG to improve usability.**

Overall, NAIC staff believes that the fair value reporting in the investment schedules and in Note 20C should reflect fair value (exit price) and any exceptions, e.g., for distinct operating entities, should be specifically carved out with separate reporting lines and identification in the investment schedules.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-05 (Julie)	**Securities Lending Restricted Asset Reporting**	**7 – Agenda Item**	**Comments Received**	**IP – 3**

Summary:
This agenda item was exposed during the May 18 interim meeting with proposed revisions to clarify restricted asset reporting for securities lending transactions, particularly to clarify what should be reported as a restricted asset, and to address questions for potential double-counting that could occur based on existing guidance.

- For securities lending, current SSAP and annual statement instruction language refers to "collateral held" as the restricted asset, but in other similar situations, it is the lent asset still on the books that is reported as the restricted asset. Further, the RBC reference in LR017 for securities lending transactions refers to the asset "loaned to others" for the corresponding RBC charge but pulls from the GI lines for "collateral held" under securities lending agreements.

- For securities lending, in *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures* and the corresponding financial statement restricted asset disclosure in Note 5L, there is a distinct restricted asset reporting line for "collateral held under security lending agreements" as well as a reporting category for assets received as collateral reported on the financial statements when there is a recognized liability to return. With the expansion of Note 5L, many questions have been received as companies seem to have interpreted the guidance to require the securities lending collateral in both locations, resulting with questions on double counting of collateral held under these agreements.

To provide an overview of a securities lending transaction:

> A security lending transaction involves the temporary transfer of securities from one party (security lender) to another party (security borrower) and with the lender receiving collateral from the borrower to protect against the risk of loss. The lender receives a fee for the use of the security.

Under statutory accounting, when a reporting entity has entered into a securities lending arrangement, the lent asset is retained on the insurance company's investment schedule and included within the financial statements and subject to the corresponding RBC factor for that asset. This lent asset is restricted and not under the control of the reporting entity. This classification should exist regardless of whether the reporting entity lender has received collateral in exchange for that asset that they can pledge or sell:

- If the reporting entity has received collateral that they can pledge or sell, the reporting entity is to recognize the collateral received on their financial statements with an obligation to return the collateral. As this collateral is recognized on the insurance entity's books, it would be captured on an investment schedule and be subject to the corresponding RBC factor for that asset.

- If the reporting entity has received collateral that they cannot pledge or sell, then the reporting entity does not recognize that collateral on their financial statements and they do not recognize a liability to return. As this collateral is not recognized as an investment, there is no RBC asset charge.

Fundamentally, the asset loaned to the counterparty still reported on the insurance company's investment schedule should be what is captured as the "restricted asset" under a securities lending agreement. This agenda item proposes to incorporate changes to SSAP No. 1, the annual statement instructions and blanks to remove reference to "collateral held" and instead refer to the loaned asset.

For RBC purposes, the factor applied to this restricted asset will be influenced by whether the program qualifies as a conforming or non-conforming program (which is impacted by the type of collateral received) under the RBC requirements. However, the restricted asset classification will be to the lent asset still on the reporting entity's books and not to the collateral received.

- With this terminology change, collateral held for which the reporting entity does not have the ability to sell or pledge <u>will not</u> be captured as a restricted asset under existing provisions and <u>will not</u> be subject to any RBC factors. (This is because this collateral is not recognized on the reporting entity's financial statements.)

- With the terminology change, collateral held for which the reporting entity has the ability to sell or pledge shall be captured as a restricted asset on the investment schedule it is reported, and captured in Note 5L, in the category for which the entity has recognized collateral with the obligation to return. With the reporting in this category, under existing provisions, the collateral asset will not be subject to any additional RBC factors outside of the asset charge.

The revisions proposed in this agenda item should address both noted issues for 1) clarity in what should be reported as a restricted asset from securities lending transactions and 2) eliminate double counting for "collateral held" under securities lending agreements within the restricted asset disclosure. The restricted asset disclosure will capture the lent asset, and then if the entity has the ability to pledge or sell collateral received, the collateral received which is offset by a liability to return.

Interested Parties' Comments:
After discussion with staff regarding this proposal, interested parties understand the accounting that is being proposed but does not believe collateral received for securities lending arrangements that can be sold or repledged should be labeled a restricted asset as "collateral received with liability recognized for the return" unless there is an actual restriction on the collateral received. Many securities lending arrangements involve the use of cash as collateral that does not meet the criteria of a restricted asset. To avoid confusion, we recommend that the term merely be "assets received as collateral with a liability recognized for the return."

Recommendation:
NAIC staff recommend that the Working Group adopt the exposed agenda item with the exposed SSAP No. 1 revisions, sponsor a blanks proposal to incorporate corresponding references within the annual statement instructions, and send a referral to the Capital Adequacy (E) Task Force with request for corresponding changes. (Illustrations of the proposed revisions to the annual statement instruction and the instructions to LR017 in the Life RBC formula are shown in the agenda item.)

To address interested parties' comments, the classification of "collateral with a liability recognized for return" is within SSAP No. 1, paragraph 23c. This is outside of the dedicated "restricted assets" by category detailed in paragraph 23b. However, the total amount reported as collateral with a liability recognized to return is captured in the aggregate template detailing all restricted assets in Note 5L. There is no additional RBC charge for the amounts reported in the paragraph 23c category. All collateral items captured on balance sheet for which a liability is recognized for the return shall be captured in this reporting category. There is no change to the reporting guidance, rather than to clarify that the security lent (and not the collateral received) is captured in paragraph 23b.

SSAP No. 1 Revisions Recommended for Adoption (as exposed):

23. Reporting entities shall disclose the following information in the financial statements:

    a. Amounts not recorded in the financial statements that represent segregated funds held for others, the nature of the assets and the related fiduciary responsibilities associated with such assets. One example of such an item is escrow accounts held by title insurance companies; and

b. The total combined (admitted and nonadmitted) book adjusted carrying value (BACV) of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category, and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.) in the general and separate accounts by the reporting entity in comparison to total assets and total admitted assets. (Pursuant to SSAP No. 4, paragraph 6, all assets pledged as collateral or otherwise restricted shall be reported in this disclosure regardless if the asset is considered an admitted asset.) Reporting entities shall also disclose differences in the amounts reported in this note versus the amounts reported for the same categories in the general interrogatories. This disclosure shall include the following restricted asset categories:

i. Reported assets subject to contractual obligation for which liability is not shown;

ii. ~~Collateral held under~~Assets lent under security lending agreements;

iii. Assets subject to repurchase agreements;

iv. Assets subject to reverse repurchase agreements;

v. Assets subject to dollar repurchase agreements;

vi. Assets subject to dollar reverse repurchase agreements;

vii. Assets placed under option contracts;

viii. Letter stock or securities restricted as to sale – excluding FHLB stock;

ix. FHLB capital stock;

x. Assets on deposit with states;

xi. Assets on deposit with other regulatory bodies;

xii. Pledged as collateral to the FHLB (including assets backing funding agreements);

xiii. Assets pledged as collateral not captured in other categories; and

xiv. Other restricted assets.

c. The BACV and nature of any assets received as collateral or assets that are held under modified coinsurance (modco) or funds withheld reinsurance agreements, reflected as assets within the reporting entity's financial statements, for which there is a recognized liability to return these collateral assets or for the dedicated use of those assets under the modco/funds withheld agreement, in the general and separate accounts in comparison to total assets and admitted assets. The disclosure shall identify whether the modco/FWH assets are related to the reinsurer.

(Staff Note: Collateral received, recognized on balance sheet from security lending agreements with a recognized liability to return, shall be captured in the above paragraph 23c. This

treatment is consistent with all other situations in which collateral is recognized on the balance sheet and a liability is recognized for the return.)

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-02 (Robin)	**Valuation of Funds Withheld**	**8 – Agenda Item**	**Comments Received**	**IP – 2 ACLI – 7**

Summary:
On March 23, 2026, the Working Group exposed revisions *to SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*, as illustrated in the agenda item, to clarify the reporting of funds withheld liability under reinsurance contracts. With exposure, the Working Group also directed NAIC staff to work with industry to refine the exposed language and to coordinate on updating the corresponding blanks proposal 2026-10BWG to move the effective date to year-end 2027 and to incorporate additional revisions to the annual statement instructions.

This agenda item was developed to address inconsistent guidance regarding the valuation of the liability for funds withheld in a life or health reinsurance agreement. The Reinsurance (E) Task Force was also notified of the exposure. Funds withheld assets are often held by the ceding entity as reinsurance collateral to mitigate credit exposure (with all types of reinsurers) and/or to secure credit for reinsurance on amounts ceded to unauthorized or certified reinsurers. Pursuant to the *Credit for Reinsurance Model Law* (#785), funds withheld can be used as acceptable collateral to secure reinsurance credit with a variety of reinsurance contract types.

In a funds withheld reinsurance contract, the ceding entity withholds assets for collateral that would otherwise be paid to the reinsurer, in addition, the reinsurer may also provide additional collateral if needed. If the reinsurer provides additional collateral, it is typically referred to as funds deposited by the reinsurer. Because the funds withheld or deposited by the reinsurer are payable under the reinsurance contract to the assuming reinsurer, the ceding entity reports a liability for the funds withheld.

Reporting - Assets - The assets withheld from the reinsurer are reported in the investment schedules of the ceding entity at their statutory book adjusted carrying value in accordance with the applicable statements of statutory accounting principles (SSAPs).
Reporting - Liabilities - The ceding entity records a liability for funds withheld on the following liabilities lines:

- line **24.03 – Funds Held Under Reinsurance Treaties with Unauthorized and Certified Reinsurers**. The line 24.03 instructions reference Schedule S reinsurance columns which are unclear in the accounting basis as described in the agenda item.
- line **24.07 – Funds Held Under Coinsurance**
  The instructions for line 24.07 do not reference a valuation, but reference that line is for other than amounts held on line 24.03.

Interested Parties' Comments:
Interested parties support the comment letter submitted by the ACLI on this exposure.

ACLI Comments:
As noted in our prior letter, ACLI thinks the funds withheld liability in statutory financial statements should be defined in terms of the contractual liability in the underlying reinsurance agreement. This would ensure clear treatment for all types of funds withheld agreements, including cases where assets are not specifically identified or segregated.

We welcome the opportunity for continued dialogue among ACLI, NAIC staff, and SAPWG prior to adopting this exposure. Our recent discussions with NAIC staff have been productive and reinforce our view that industry participants and regulators are aligned in principle, and that a mutually workable accounting approach for all funds withheld arrangements can be achieved. Additional engagement would provide an important opportunity to further refine and document this shared understanding in the proposed guidance. Following alignment on the accounting framework, we can then address Annual Statement reporting considerations, including Schedule S.

We thank SAPWG and NAIC staff for their proactive work on this issue

Recommendation:
NAIC staff recommend that the Working Group expose modified guidance for SSAP No. 61 as illustrated below. The prior exposure had proposed revisions to SSAP No. 61, paragraph 40 on coinsurance with funds withheld and paragraph 53 on unauthorized and certified reinsurers. For this exposure NAIC staff recommend moving the new proposed guidance to SSAP No. 61, paragraph 22, which is a paragraph focusing on accounting and reporting. (The proposed revisions to paragraphs 40 and 53 have been modified.)

Industry comments previously recommended that the funds withheld liability be determined based on the terms of the reinsurance agreement. In reviewing SSAP No. 61, there are currently references to specific accounting and reporting items that include reference to the reinsurance contract terms. The proposed guidance shown below tries to strike the balance of recognizing reinsurance agreement contractual obligations that must also use statutory accounting and reporting requirements.

The effective date for the prior blanks proposal was changed to year-end 2027 and was deferred on May 28. Additional modifications to the blanks proposal will be developed after finalizing the SSAP No. 61 guidance.

The following modifications to the current SSAP No. 61 guidance are recommended: (These revisions do not show changes from the prior exposure. Only the new proposed guidance is shown.)

Accounting and Reporting of Reinsurance

21. The obligation of reporting reinsurance in force and of determining unpaid premiums and incurred claims and other balances is generally on the ceding entity because it knows the current status of the policies it has written directly and reinsured. A lag will develop between the time of the entry of the underlying policy transaction on the books of the ceding entity and the transmittal of information and its entry on the books of the assuming entity. The assuming entity shall estimate any material unreported premiums and related costs.

22. The ceding entity must report these items in its balance sheet:

a. Credits (deductions) to its policy and claim reserves and unpaid claims;

b. Premiums or other amounts payable on reinsured risks;

c. Amounts recoverable on claims, surrender values, dividends, experience rating refunds, taxes, commissions, and other expenses;

d. Modified coinsurance reserves; and

e. Amounts receivable or payable for funds withheld.

i. The ceding entity shall establish a funds withheld liability for funds deposited by or withheld from reinsurers pursuant to the reinsurance agreement. For agreements for which withheld collateral is segregated and investment risk ceded, the funded portion of the funds withheld liability shall be valued in accordance with the appropriate statement(s) of statutory accounting principles. Any unfunded portion of the funds withheld liability shall be reported at an amount equal and offsetting to the receivable described in paragraph 22.e.ii. For agreements that do not cede investment risk and segregate assets, the funds withheld liability shall equal the amount determined in accordance with the contract terms.

ii. The ceding entity shall also establish a reinsurance receivable for the unfunded amount of collateral owed by the reinsurer as of the reporting date in accordance with the contract terms.

iii. The funds withheld assets held on the ceding entity's investment schedules shall be accounted under the appropriate statement(s) of statutory accounting principles for the specific asset(s).

f. Collateral deficiency liability

i. Reinsurance with unauthorized and certified reinsurers require collateral to support credit for reinsurance under Appendix A-785. A liability shall be established for any deficiency of required collateral as described in paragraphs 47-51.

ii. For purposes of determining a collateral deficiency of assets withheld on the ceding entity's balance sheet shall be valued in accordance with the appropriate statement(s) of statutory accounting principles for the assets held. Collateral assets not held on the balance sheet, such as in a qualifying trust under Appendix A-785, shall be valued at fair value.

23. Similarly, in its balance sheet, the assuming entity must report:

a. Reserves for reinsurance assumed reduced by any modified coinsurance reserves;

b. Reinsurance premiums receivable or other amounts receivable;

c. Amounts payable for claims, surrender values, dividends, experience rating refunds, taxes, commissions, and other expenses; and

d. Amounts receivable or payable for funds withheld by the ceding entity which shall mirror what is recorded by the cedant pursuant to paragraph 22.e.

40. The following accounting applies to coinsurance arrangements with funds withheld:

a. Ceding Entity—Premiums paid or payable to the reinsurer net of any experience refunds shall reduce premium income. Policy benefit payments paid by the reinsurer shall reduce the ceding entity's reported policy benefits. Expense allowances paid by the reinsurer shall be reported separately in the summary of operations as they are earned. A net reduction to policy reserves shall be taken for the portion of the obligation assumed by the reinsurer. Any amounts deposited by the reinsurer which are held on the ceding entity's balance sheet or amounts contractually withheld by the ceding entity shall be recorded as a separate liability. (See funds withheld accounting guidance in paragraph 22.) Reporting entities filing the annual statement for life and accident and health insurers shall record any interest due or payable on the amounts withheld as a component of aggregate write-ins for miscellaneous deductions. Reporting entities filing the health annual statement shall record any interest due or payable on the amounts withheld as a component of aggregate write-ins for other income or expense.

b. Assuming Entity (Reinsurer)—Premiums received or receivable by the reinsurer net of any experience refunds shall increase premium income and policy benefit payments paid by the reinsurer shall increase the reported policy benefits. Expense allowances paid by the reinsurer shall be reported separately in the summary of operations when payable. The reinsurer shall record its share of the statutory policy reserves attributable to the business identified in the contract. Any funds withheld by the ceding entity shall be recorded as an accounts receivable. For reporting entities filing the annual statement for life and accident and health insurers shall record any interest earned or receivable on the funds withheld as a component of aggregate write-ins for miscellaneous income. Reporting entities filing the health annual statement shall record any interest earned or receivable on the funds withheld as a component of aggregate write-ins for other income or expense.

Funds Held Under Reinsurance Treaties with Unauthorized Reinsurers or Certified Reinsurers

53. This liability is established for funds deposited by or contractually withheld from unauthorized reinsurers or certified reinsurers. (See funds withheld accounting guidance in paragraph 22.)

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter
2026-04 (Wil)	**ASU 2025-10, Accounting for Government Grants Received by Business Entities**	**9 – Agenda Item**	**Agreement**	**IP – 2**

Summary:
This agenda item was exposed at the May 18, 2026, interim meeting and was drafted in response to *Accounting Standards Update (ASU) 2025-10, Accounting for Government Grants Received by Business Entities* which the Financial Accounting Standards Board (FASB) issued to establish a new topic to provide accounting for a government grant received by a business entity, including guidance for (1) a grant related to an asset and (2) a grant related to income. Under ASU 2025-10, a grant related to an asset is a government grant, or part of a government grant, which is conditioned on the purchase, construction, or acquisition of an asset (for example, a long-lived asset or inventory). A grant related to income is a government grant, or part of a government grant, other than a grant related to an asset (for example, a grant that reimburses a business entity for operating expenses).

ASU 2025-10 continues to utilize the existing U.S GAAP disclosures in Topic 832: Government Grants, which were initially established through ASU 2021-10, Government Assistance and applied to government grant/assistance transactions accounted for by analogy using either the grant accounting model (IAS 20) or the contribution accounting model (Topic 958). ASU 2025-10 revised the scope of these disclosures so that they apply to a government grant received by a business entity and adopt many of the same accounting principles used under the grant accounting model. The Working Group previously addressed and rejected ASU 2021-10 and determined that neither the grant nor contribution methods of accounting for government grant/assistance transactions were permitted under SAP. Rather, government grants/assistance are to be recorded in accordance with gain contingency guidance per *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets* (recognition allowed once realized), and are subject to the reporting disclosure requirements of both SSAP No. 5 and *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items*.

The exposure recommended rejecting ASU 2025-10, as the guidance would be rarely utilized by insurance entities and the Working Group has already rejected the grant or contribution accounting models. Outside of the COVID-19 era programs such as the Paycheck Protection Program (PPP), Economic Injury Disaster Loans (EIDL), and Employee Retention Credits (ERC), government grant/assistance revenues are unusual and infrequent occurrences for insurers and existing guidance in SSAP No. 5 and SSAP No. 24 is sufficient to address such transactions.

Interested Parties' Comments:
Interested parties do not have any comments regarding the proposed conclusion to account for grants related to income as a gain contingency. However, we believe the guidance that accounts for a grant related to an asset (e.g., a data center) as a gain contingency only addresses the timing of recognition and is incomplete in contrast to ASU 2025-10. We recommend that the guidance for grants related to an asset be consistent with US GAAP, including the following requirements:

A grant related to an asset should be recognized on the balance sheet as a business entity incurs the related costs for which the grant is intended to compensate, either as:

1. Deferred income (the deferred income approach)

2. An adjustment to the cost basis in determining the carrying amount of the asset (the cost accumulation approach).

The resulting asset should be reported as either an admitted or nonadmitted asset based on the nature of the asset and the applicable SSAP.

Recommendation:

NAIC staff recommends that the Working Group expose revisions to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items* to reject *ASU 2025-10, Accounting for Government Grants Received by Business Entities*. The revisions to SSAP No. 24 incorporate interested parties' recommendation to include additional guidance for asset-related grants, replace the term "government assistance" with "government grants" to align with current U.S. GAAP terminology, and clarify that government grants are accounted for as gain contingencies.

Recommended Revisions to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items*:
Drafting Note: Revisions added to the current exposure are shown tracked with grey fill.

Unusual/Infrequent Items

16. The nature, including a general description of the transactions, and financial effects of each unusual or infrequent event or transaction shall be disclosed in the notes to the financial statements. Gains or losses of a similar nature that are not individually material shall be aggregated. This disclosure shall include the line items which have been affected by the event or transaction considered to be unusual and/or infrequent. If the unusual or infrequent item is ~~as~~ the result of government ~~assistance~~grants, the disclosures shall ~~additionally~~ include the form in which the ~~assistance~~ grant has been received (for example, cash or other assets), and information regarding significant terms and conditions of the transaction, with items including, to the extent applicable, the duration or period of the agreement, and commitments made by the reporting entity, provisions for recapture, or other contingencies. Government grants are to be treated as gain contingencies and shall be recognized and disclosed in accordance with *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets*.

17. If a government grant, or any component of the grant, is conditioned on the purchase, construction, or acquisition of an asset ("grants related to an asset")," the reporting entity shall recognize grants receivable and deferred grant income as the related costs are incurred, provided the grant has met the criteria for recognition as a gain contingency (the government grant has been awarded, it is probable that the reporting entity will comply with the conditions attached to the government grant, and the amount of the grant is determinable). Deferred grant income shall be recognized as other income on a systematic and rational basis over the periods in which the entity recognizes as expenses the related costs for which the government grant is intended to compensate. If a government grant becomes repayable, the reporting entity shall immediately recognize a liability for the amount repayable; for grants related to assets the repayment liability shall represent the amount in excess of any unamortized deferred grant income. Any grant receivable that will be used to acquire a nonadmitted asset shall be nonadmitted. Subsequent to acquisition, the acquired asset shall follow the applicable statutory accounting guidance for measurement and admittance.

Relevant Literature

24. This statement rejects *ASU 2021-10, Government Assistance: Disclosure by Business Entities about Government Assistance*. However, it does incorporate general disclosures about government assistance for all reporting entity types. This statement also rejects *ASU 2025-10, Accounting for Government Grants Received by Business Entities*.

Comment Letters:

- **The comment letters for this hearing agenda are included in Attachment 10** - (8 pages)**.**

- Comment letters addressing the IMR and ALM derivative topic are included as Attachment 8 to the IMR/ALM Hearing Agenda – 23 pages. (The ACLI proposed edits to the exposed IMR documents are captured in Attachment 9 to the IMR/ALM Hearing Agenda – 92 pages.)

Statutory Accounting Principles (E) Working Group
IMR & ALM Hearing Agenda
August 12, 2026

ROLL CALL

Kevin Clark, Chair	Iowa	Steve Mayhew/Kristin Hynes	Michigan
Dale Bruggeman, Vice Chair	Ohio	Ned Cataldo	New Hampshire
Sheila Travis/Richard (Hamp) Russell	Alabama	Bob Kasinow	New York
Kim Hudson	California	Diana Sherman	Pennsylvania
William Arfanis/Michael Estabrook	Connecticut	Jamie Walker	Texas
Rylynn Brown	Delaware	Doug Stolte/Jennifer Blizzard	Virginia
Cindy Andersen	Illinois	Amy Malm/Levi Olson	Wisconsin
Shantell Taylor/Tom Travis	Louisiana		

NAIC Support Staff: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden

REVIEW of COMMENTS on EXPOSED ITEMS

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

1. Ref #2023-14: *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*
2. Ref #2024-15: Asset Liability Management (ALM) Derivatives

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-14 (Julie)	**SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve**	**2.1 – Summary of Revisions** **2. 2 – SSAP No. 7** **2.3 – Issue Paper** **2.4 – Other SSAP Revisions** **2.5 – Reporting Revisions**	**Comments Received**	**ACLI – 1** **Nationwide – 6** **MetLife – 9** **Everlake – 16** **RGA - 18**

Summary:

On April 22, the Working Group exposed by evote a *revised SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* to capture accounting guidance within the SSAP instead of the annual statement instructions, pursuant to the December 1, 2023, Working Group direction. The exposure included the following four documents:

- Revised SSAP No. 7 – The draft SSAP reflects conclusions reached by the IMR Ad Hoc Group, which includes various revisions to historical guidance.

- Issue Paper – The draft issue paper details the discussions and conclusions of the IMR Ad Hoc Group.

- Proposed Revisions to Other SSAPs – The revisions to other SSAPs include both edits to refer to the revised SSAP guidance (and not the annual statement instructions) as well as detailed revisions to certain SSAPs (e.g., *SSAP No. 43—Asset-Backed Securities*) to reflect fundamental concept changes in allocating to IMR.

- Reporting Revisions – This document details proposed reporting revisions, including revised balance sheet reporting lines, a new capital gain and loss exhibit, and revised schedules and instructions for IMR. (Note – Although not exposed, corresponding revisions to the AVR to match the adopted allocation guidance will also be incorporated)

NAIC Staff have worked with industry representatives during the interim and have incorporated a variety of edits to the proposed guidance. Most of these edits are minor and only improve clarity of the exposed guidance. NAIC staff has prepared a list of the summary of revisions for ease of reference. In terms of fundamental concepts reflected in the exposure, the edits do not make any significant changes. NAIC staff has highlighted the following items as areas where the revisions may be of most interest:

<u>SSAP No. 7:</u>

- Paragraph 5 – The revisions clarify the definition of IMR. The paragraph continues to identify that neither IMR nor AVR meet the definition of assets and liabilities under SAP but are required to be recognized as statutory assets and liabilities. The IMR description has been revised to indicate that it is a valuation adjustment to maintain consistency between the *Valuation Manual* basis for insurance liabilities (for which the rate used to discount cash flows is often unchanged from origin), and the amortized cost of assets needed to support them (where the portfolio yield is updated any time there are fixed income realizations.)

- Paragraph 13 – The revisions incorporate examples of known liquidity sales. The ACLI edits proposed limiting terms on a known liquidity sale, and these not been added. A company that does not reinvest proceeds from the sale of an IMR qualifying fixed income investment into another qualifying fixed income investment is not permitted to recognize realized losses from the sale into IMR.

- Paragraph 19 – The proof of reinvestment guidance has been expanded, reorganized and clarified. As a key item, the guidance has been expanded to include an additional exception when a reporting entity has assumed net negative IMR losses from a reinsurance arrangement. (Meaning, such IMR losses will be permitted to increase net negative IMR even if the reporting entity does not complete or fails the tests within the proof of reinvestment.)

- Paragraph 20 – ACLI proposed edits to the reinsurance guidance have been reflected. These revisions include a key change that directs the offset to an IMR adjustment to the "Aggregate Write-ins For Deductions." This is currently used for FWH agreements, but is not consistently used for modco agreements, so it could reflect a change for some companies.

- Paragraph 26 – The revisions alter the initially exposed guidance for admittance allocation between the general and separate accounts. With the changes, reporting entities will be permitted to admit negative IMR to the extent it exists in each account as they choose, up to the overall net admittance limit. Language is included to require reporting entities that do not follow a proportional approach to provide rationale on their admittance allocation methodology upon state regulator request.

- Paragraph 30 – Revisions limit the IMR disclosure to entities with admitted net negative IMR. Previously, the disclosure was not specific to admitted balances and would have been completed even if IMR was fully nonadmitted.

<u>Revisions to Other SSAPs:</u>

- *SSAP No. 86—Derivatives*, paragraph 24 – Revisions have been incorporated to clarify how accounting-effective derivative gains and losses shall be reflected. The revisions eliminate ambiguity on whether derivative gains and losses can be taken to IMR, with guidance that such items can be taken to IMR only when offsetting gains/losses from the hedged item are taken to IMR.

<u>Reporting Revisions:</u>

- Exhibit of Capital Gain and Loss – Although the ACLI letter refers to needed refinements, revisions have yet to be proposed. The ACLI notes that they will work with NAIC staff in the interim to clarify before the SAPWG sponsors a blanks proposal.

- IMR Form – Revisions have been proposed to expand the schedule to detail the net realized losses removed when a company does not pass the proof of reinvestment, as well as to include an “other” adjustment line to capture transfers between the general account and the separate account. Corresponding instruction changes have been reflected for the new reporting lines.

- Modco/FWH Reporting – ACLI edits proposed to limit this exhibit to the IMR impact from modco/FWH reinsurance transactions. NAIC staff is proposing to eliminate the new exhibit at this time, which walks through the accounting and reporting of broad modco/FWH transactions (and is not limited to IMR). NAIC staff will work with industry to refine the guidance and propose inclusion as part of a subsequent project that focuses on the accounting and reporting of modco/FWH transactions.

<u>Issue Paper:</u>

- Paragraphs 9-12 – Revisions have been incorporated to clarify the IMR definition and the related history and discussion. Some ACLI proposed edits have not been included.

- Proof of Reinvestment Exhibit – Revisions have included an additional adjustment to the proof, to eliminate known liquidity sales that were recognized as immediate capital losses.

Additional Notes: Revisions to the issue paper also include corresponding edits incorporated into the SSAP. The ACLI has also proposed to include the illustrations and reporting templates currently included in the issue paper into the reporting revisions. NAIC staff agrees that these will be included in the blank’s proposal for inclusion in annual statement instruction and blanks reporting, but changes to duplicate these illustrations in the “reporting revisions document” will not occur until adoption at SAPWG. This prevents staff from having to update the same templates in multiple locations while being discussed.

<u>Comment Letters Received:</u>

<u>Nationwide Comments:</u>
Nationwide and its subsidiaries ("Nationwide") form one of the largest insurance and financial services companies in the United States, operating both property and casualty and life insurance businesses with combined surplus of $24.1 billion.

Nationwide supports the American Council of Life Insurers ("ACLI") proposal of eliminating the 10% admissibility limitations for negative IMR under INT 23-01 and adopting full admittance of negative IMR.

<u>Reasons for Full Admittance of Net Negative IMR</u>
As clarified in the exposed SSAP No. 7, IMR is a valuation adjustment intended to maintain consistency between the valuation of insurance liabilities and the amortized cost basis of the supporting fixed-income assets. When a book-value IMR eligible asset is sold, IMR defers and systematically amortizes the recognition of non-economic realized gains and losses arising from investment activity that effectively unlocks interest rate–related unrealized gains and losses. This treatment aligns recognition of those amounts with the long-duration nature of insurance liabilities and the reinvestment of asset proceeds.
The proof of reinvestment appropriately emphasizes that the core premise of negative IMR is the reinvestment of proceeds from fixed-income asset sales into new fixed-income assets with higher yields. Nationwide agrees with this principle and believes that, when combined with the revised SSAP No. 7 guidance requiring immediate recognition of material liquidity sale losses and a formal attestation supporting that conclusion, the proof of reinvestment framework provides an adequate basis to support full admittance of net negative IMR. In our view, retaining a quantitative admissibility limitation would create an inconsistency between the valuation of liabilities and the valuation basis of the supporting assets, contrary to the stated purpose of IMR.

Asset adequacy testing provides another important safeguard supporting the full admittance of negative IMR. In asset adequacy testing, admitted negative IMR is incorporated as part of the assets supporting the liabilities, which can make it more difficult to demonstrate asset sufficiency and therefore increases the likelihood that an insurer would need to establish additional asset adequacy reserves. As a result, negative IMR is explicitly contemplated within the actuarial framework ensuring that assets, including negative IMR, are sufficient to meet policyholder obligations under a range of stress scenarios.

As originally highlighted within INT 23-01, we emphasize that limiting the admissibility of net negative IMR would not accurately reflect insurer investment performance, as it would, in cases where the cap is exceeded, result in an immediate reduction to surplus and risk-based capital when bonds are sold in a rising interest rate environment, despite the reinvestment of proceeds at higher prevailing yields. In general, rising interest rates are favorable to the financial health of the insurance industry and policyholders, but the accounting outcome would inappropriately suggest a deterioration in financial strength despite an improvement in future earnings and could encourage companies to avoid prudent investment transactions and strategies. Furthermore, such a limitation may introduce unintended consequences, including potential adverse interpretations by rating agencies and impacts on product pricing, ultimately affecting policyholders.

The current admissibility limitation also creates unintended consequences in the reinsurance market, particularly for U.S.-domiciled reinsurers. Depending on the underlying insurance liabilities transferred as part of a reinsurance transaction, and the issue year of those policies, the historical discount rate established at contract issue may be used for all or part of the post reinsurance measurement of those liabilities. These liabilities are not remeasured or "unlocked" as part of the transaction. In contrast, the supporting assets must be brought onto the reinsurer's balance sheet at fair value, effectively resetting their measurement basis to current market interest rates. This asymmetry—where liabilities remain on a historical basis while assets are recorded at current value—can result in the generation of negative IMR when current market rates differ from the original issue-date assumptions, even though the underlying economics of the block and the asset portfolio have not changed. In this context, IMR serves its intended purpose as a valuation adjustment to restore consistency between the measurement of assets and liabilities. However, because the resulting IMR is treated as newly established on the reinsurer's books, under the current proposal it can inappropriately contribute to the 10% admissibility cap despite reflecting no new economic loss or incremental risk. As a result, reinsurers would have to actively consider this artificial constraint when pricing transactions, which can increase the cost of reinsurance or limit capacity. This dynamic places U.S. reinsurers at a competitive disadvantage relative to offshore counterparties that are not subject to the same reserving requirements and, therefore, are unimpacted by IMR and related U.S. statutory admissibility limitations.

Additionally, reinsurance transactions are subject to regulatory review and approval and involve transferring an established block of business without altering the underlying liability structure, which fundamentally differentiates the resulting transactional IMR from the IMR generated through discretionary investment activity. For these reasons we believe that negative IMR arising from reinsurance transactions should be fully admitted because it is solely the result of a measurement mechanic and not a change in the underlying risk of the block being transferred.

Based on the above reasons, we fully support the recommendation of the ACLI to eliminate the net negative IMR admissibility limitation from the revised SSAP No. 7 guidance.

MetLife Comments:
MetLife supports the NAIC's efforts to modernize the IMR framework and agrees that a well-designed proof of reinvestment test is a more principles-based approach to evaluating the deferral of realized losses. However, to fully achieve that objective, we believe (i) the existing 10 percent cap should be removed for losses that satisfy the proof, and (ii) the framework must be aligned with operational feasibility to avoid unintended reporting complexity, volatility, and implementation risk. This framework also plays an important role in the insurance context by supporting policyholder outcomes—promoting stability in earnings and capital recognition over time and reinforcing the alignment between assets and liabilities that underpins insurer solvency.

At the same time, the proposed framework introduces significant operational complexity and implementation risks, particularly with respect to current implementation timing, data availability, and reporting processes. Accordingly, MetLife encourages the NAIC to align policy design with operational feasibility to ensure that the framework can be implemented in a manner that supports high-quality, consistent, and decision-useful statutory reporting. MetLife also has significant concern with the unintended consequences of the proposal to reinsurance treaty accounting and the possible introduction of significant volatility to settlements.

Finally, MetLife worked closely with the ACLI in the development of specific feedback on draft SSAP 7, how it integrates with the Issues Paper, and various other relevant issues. MetLife supports the ACLI comment letter submitted in response to SAPWG Ref #2023-14. Our support is focused on the key IMR framework recommendations reflected in that letter.

We outline below more detailed considerations.

MetLife Supports Full Admittance of Net Negative IMR
MetLife supports the proof of reinvestment test in theory (with some operational considerations below) because it provides a robust and effective way to ensure appropriateness of deferring realized losses through IMR. In MetLife's view, the 10 percent cap on admitted net negative IMR was a useful temporary guardrail when there was insufficient time to develop and implement a proof of reinvestment approach and regulators sought to provide timely relief to the industry.

However, MetLife believes the 10 percent cap is no longer necessary once a proof of reinvestment framework is implemented as recommended by the ACLI in their comment letter, which reflects broad industry alignment on this issue. In this context, the proof of reinvestment serves as a more precise and economically grounded safeguard, replacing a broad, rules-based limitation with a targeted validation of reinvestment behavior.

In practice, the existence of the 10 percent cap could result in otherwise qualifying reinvestment losses being non-admitted, which MetLife believes is an unintended consequence of the framework. This potential outcome may be particularly relevant for certain products, such as pension risk transfer (PRT), where asset turnover and reinvestment dynamics during initial portfolio construction can give rise to temporary realized losses even when insurers are prudently managing interest rate risk and aligning assets with liabilities.

For example, in PRT transactions, insurers typically receive a large, one-time premium and subsequently invest those proceeds over a defined period to establish the intended long-term asset portfolio. To manage interest rate risk during this transition, insurers often temporarily invest in duration-matched U.S. Treasury securities, which are then rotated into higher-yielding assets. If interest rates rise during this period, the sale of these temporary investments may generate realized losses, even though reinvestment into higher-yielding assets offsets those losses over time.

Under a proof of reinvestment framework, these outcomes would appropriately support deferral through IMR. However, the 10 percent cap could limit the ability to admit such losses, particularly in larger or longer-duration transactions, where relatively modest interest rate movements could consume the available buffer.

While the cap may be sufficient for lines of business with limited asset turnover, its application in these contexts may disproportionately affect certain products and discourage prudent interest rate risk management. Accordingly, MetLife respectfully recommends that the NAIC remove the 10 percent cap for net negative IMR, consistent with the ACLI recommendation.

MetLife recognizes the policy objective of maintaining guardrails around surplus recognition. However, where a robust proof of reinvestment test is satisfied, the continued application of a cap creates an additional constraint that does not enhance prudential outcomes but instead distorts economic alignment.

MetLife Has Significant Concern with Proof of Reinvestment Operational Complexities
At its core, the proposed framework introduces a structural sequencing mismatch—requiring end-of-period data to validate accounting determinations that must be executed early in the close process.

The proposed framework requires reporting entities to pass both a reinvestment test and a weighted average yield test before moving into, or increasing, a net negative IMR balance. If the proof is not satisfied, realized losses in excess of current-year gains would be recognized directly in surplus rather than deferred through IMR. More fundamentally, the framework requires reassessment of IMR eligibility after initial recognition, introducing the potential for retrospective adjustments within the close process. Of particular concern is the resulting risk of late-stage rework across the statutory reporting cycle. These challenges fall into three primary categories: (i) timing and sequencing constraints within the close process, (ii) data availability and cross-system dependencies, and (iii) downstream reporting and reinsurance impacts. Within these categories, we highlight the following key risks:

- **Timing mismatch between IMR accounting and proof inputs.** IMR accounting is typically performed at the beginning of the statutory reporting process so that amortization, income statement impacts, balance sheet presentation, and downstream exhibits can be prepared within established statutory deadlines. However, the proposed proof of reinvestment relies on current financial statement information and investment activity data that may not be finalized until later in the reporting period. This creates a timing gap where the IMR position may be calculated before the entity can confirm whether it has passed the required proof.

- **Risk of late-stage rework and downstream reporting impacts if the proof fails.** If the company initially records current-year realized losses through IMR and later determines that the proof of reinvestment was not satisfied, losses originally deferred through IMR may need to be removed and recognized directly in surplus. This would require re-performance of IMR accounting and related reporting in a compressed close window, including updates to the statutory balance sheet, surplus, investment income amortization, IMR roll-forward, annual statement exhibits, notes, disclosures, management reporting, regulatory analytics, RBC-related support, and internal control evidence.

- **Potential inability to increase a negative IMR balance.** Under the proposed approach, failure of the proof would limit the ability to add additional realized losses to an existing negative IMR balance, except to the extent such losses offset current-year realized gains. This creates operational uncertainty for entities managing portfolios in a rising-rate or repositioning environment, as the final statutory treatment may depend on proof results that are not known until late in the process. A further operational constraint is determining which realized losses, and from which portfolios or reinvestment strategies, must be excluded from negative IMR treatment and instead recognized as a direct charge to surplus, particularly when the exclusion cannot be identified until after portfolio activity and proof results are finalized.

- **Data availability and reconciliation complexities.** The proof requires timely access to sale activity, acquisition activity, book yields, investable premiums, mortgage loan activity, bond classifications, and other investment data. Because these data points may reside in different systems and may not be finalized at the same time, the proof would require additional cross-system reconciliations, data validation, and review procedures within an already compressed statutory reporting timeline.
- **Compressed reporting timeline and elevated filing risk**. If the proof cannot be finalized until late in the reporting period, statutory reporting teams may have limited time to revise IMR accounting, update exhibits and disclosures, obtain approvals, and complete quality control reviews. This increases the risk of late adjustments, inconsistent reporting, audit comments, or regulatory questions.

- **Unintended Consequences to Reinsurance Treaties**. The issues presented above for the Proof of Reinvestment will have downstream impacts on reinsurance and present similar operational complexity. Reinsurance agreements typically settle monthly, and any changes to the IMR deferral amounts and related amortization may affect the ModCo or Funds Withheld reserves (inclusive of IMR) and the preparation, timing and amounts net settled. The impacts of precluding IMR deferrals of realized capital losses (RCLs) would generally move in the opposite direction of the direct impacts and may provide a full or partial offset within the income statement and surplus, although the timing of such offsets may vary and will depend on the negotiated terms in the reinsurance agreement.

To address these challenges, MetLife encourages refinements to clarify the sequencing of the proof of reinvestment relative to IMR recognition, including timing expectations within the close process, to minimize the need for retrospective adjustments after initial reporting, and to provide reasonable implementation flexibility to align with existing reporting timelines and cross-system dependencies.

MetLife Supports a One-Year Implementation Delay

The proposed changes introduce substantial technical and operational complexities across multiple dimensions of the IMR framework, including revised treatment of negative IMR, proof-of-reinvestment requirements, and the interaction of IMR with reinsurance structures. Implementing the proposed changes would require extensive modifications to reconciliation and reporting systems, including updates to calculation logic, data sourcing, and reporting outputs, as well as alignment across multiple upstream and downstream processes.

In addition, the proposed guidance introduces new interpretive considerations that will require coordinated updates across actuarial, finance, and investment systems. These changes will require sufficient time for design, development, testing, and parallel validation to ensure that results are complete, accurate, and consistent across reporting entities.

Given the current level of uncertainty in certain areas of the proposal and the need for cross-functional integration, a January 1, 2027 effective date presents a significant risk to implementation quality, operational stability, and the integrity of statutory reporting. Absent sufficient implementation time, there is a heightened risk of inconsistent application across insurers, increased audit findings, and additional regulatory inquiries during early adoption periods.

Accordingly, MetLife strongly recommends that the NAIC defer the effective date to January 1, 2028. A one-year preparation period would provide the necessary runway to properly implement system enhancements, perform comprehensive testing, validate results under various market scenarios, and ensure that appropriate governance and control frameworks are in place. This additional time would also allow for more consistent interpretation and application of the guidance across the industry, reducing the risk of divergence in practice. We believe that aligning the effective date with the operational realities of implementation will ultimately support the NAIC's objectives by promoting higher-quality reporting, stronger controls, and more consistent application of the IMR framework across insurers. A measured implementation timeline will be important not only for individual company readiness but also to promote consistent interpretation and application across the industry.

Conclusion

MetLife supports the NAIC's objective of strengthening the IMR framework through a proof-of-reinvestment approach that better reflects economic outcomes. To fully realize these benefits, we recommend removing the 10 percent cap where losses satisfy the proof, thereby avoiding unintended constraints on prudent risk management. Equally important, we urge the NAIC to recognize the significant operational complexity associated with the proposed framework and to provide sufficient time and flexibility for implementation. A measured approach—grounded in both sound policy and practical feasibility—will promote more consistent application across the industry and ultimately enhance the quality, transparency, and reliability of statutory financial reporting. Taken together, we believe these refinements will better align the framework with its intended objectives while ensuring it can be implemented in a robust, consistent, and auditable manner across the industry. Additionally, we believe these recommendations are consistent with the NAIC's objective of promoting financial stability, transparent reporting, and policyholder protection.

Everlake Life Insurance Company:
Everlake strongly supports the adoption of a permanent solution that permits the full admittance of net negative IMR, subject to the safeguards included within the revised framework. The ACLI and numerous industry participants have similarly concluded that full admittance is the appropriate outcome under the proposed framework. As recognized throughout the SAPWG process, these transactions generally do not diminish an insurer's claims-paying ability and therefore should not result in an artificial reduction of admitted surplus.

The following section sets out why we support full admission.

- The fundamental purpose of IMR is to maintain consistency between the valuation of insurance liabilities and the fixed-income assets that support those liabilities. Historically, IMR has deferred the recognition of interest rate-related realized gains to avoid artificial increases in surplus that do not reflect a change in an insurer's underlying financial strength. The same principle should apply when insurers realize losses and reinvest proceeds into higher-yielding assets. In those circumstances, immediate recognition of losses can create a surplus outcome that is inconsistent with the economics of the transaction and with the long-term nature of insurance liabilities.

- The proposed proof-of-reinvestment approach, together with the other protections incorporated into the proposal, provides a sound and principled basis for recognizing negative IMR and appropriately reflects the economic realities of insurers' asset-liability management activities. Other protections include restrictions on liquidity-sale losses, asset adequacy testing considerations, actuarial review and attestation requirements, enhanced reporting and disclosure, limitations related to credit-related losses, and risk-based capital thresholds. Taken together, these safeguards provide regulators with robust oversight while allowing statutory accounting to more faithfully reflect economic substance.

- The accounting framework should support, rather than discourage, prudent portfolio management. Insurers routinely reposition investment portfolios to manage duration, credit exposure, liquidity, and other risks in support of policyholder obligations. The treatment of negative IMR should not create disincentives for risk-management actions that strengthen asset-liability alignment and improve long-term financial outcomes for policyholders.

For these reasons, Everlake respectfully encourages SAPWG to remove the current admissibility limitation and adopt full admittance of net negative IMR as contemplated by the proposed revisions to SSAP No. 7.

Reinsurance Group of America:
SAPWG Ref #2023-14 proposes revisions to Statement of Statutory Accounting Principles ("SSAP") No. 7, which will permanently include guidance from Interpretation of the Statutory Accounting Principles Working Group No. 23-01: Net Negative (Disallowed) Interest Maintenance Reserve ("Int 23-01") set to expire on January 1, 2027. INT 23-01allows negative IMR to be included as an admitted asset, providing specific criteria are met, up to 10% of adjusted surplus.

RGA gives its full support to the American Council of Life Insurers (ACLl)'s comment letter dated June 25, 2026, which provided comments on the proposed exposures. ACLl's proposed changes, including the full admittance of negative IMR and technical clarifications for reinsurance, are essential to preserving the life and health insurance industry's ability to provide insurance solutions to its policyholders and customers.

Reinsurance plays a critical role in the insurance industry by providing insurance companies with meaningful risk transfer and capital management solutions. It enables insurers to write additional business, strengthens surplus and capital positions, and stabilizes operating results. A symmetric and economically consistent IMR framework ensures that these important risk management solutions are available and are appropriately reflected in the statutory framework, which ultimately better protects policyholders.

For these reasons outlined above, and as further supported in the ACLI comment letter, RGA supports the full admittance of net negative IMR. This approach supports a stable, principle-based framework that accurately reflects an insurer's financial position while promoting sensible investment practices and sustaining the broader industry that benefits policyholders, insurers, reinsurers, and regulators.

ACLI Comments:
ACLI appreciates the NAIC’s development of the interim solution and the subsequent Ad Hoc Working Group process to address negative IMR. We believe this work is important to appropriately reflect surplus and, therefore, insurer solvency. Over the past several years, the dialogue among regulators, ACLI, and its member companies has been constructive, transparent, and productive.

IMR was developed during a period of declining interest rates and generally positive IMR balances. At that time, regulators were concerned that insurers could sell higher-yielding bonds and reinvest in lower-yielding bonds while recognizing gains that increased surplus or were distributed, even though the insurer’s claims-paying ability had not improved. IMR addressed this concern by requiring realized gains to be deferred and amortized over the remaining life of the assets sold, thereby preserving surplus at a level consistent with the pre-sale position and maintaining consistency between asset yields and the discount rates used for related liabilities.

Although it was recognized in 1992 that IMR conceptually should operate symmetrically, SAP was initially updated to reflect deferral of net gains, with the expectation that negative IMR would be addressed at a later date. That issue became more significant in recent years as rising interest rates, following decades of declining rates, caused IMR balances to turn negative. Through the Ad Hoc Working Group process, NAIC staff, state regulators, ACLI, and its member companies have addressed a number of complex issues necessary to accommodate negative IMR and to strengthen the broader statutory framework. These issues include the treatment of reinsurance, the incorporation of IMR into PBR and asset adequacy testing, the interaction of derivatives with IMR, treatment in separate and general accounts, refinement of IMR-eligible gains and losses, and the support needed for symmetrical treatment of negative IMR. ACLI believes that symmetry is appropriately supported when lower-yielding assets are sold and proceeds are reinvested in higher-yielding assets, as demonstrated through proof of reinvestment. Consistent with positive IMR, deferring and amortizing realized losses over the remaining life of the assets sold helps preserve surplus at a level consistent with the pre-sale position and aligns asset yields in the financial statements with the liability discount rates established when the original assets were purchased.

For these reasons, ACLI supports full admittance of net negative IMR. This treatment is consistent with the adopted definition of IMR as a valuation adjustment intended to maintain consistency between insurance liabilities (for which the rate used to discount cash flows is often unchanged from origin), and the amortized cost of assets needed to support then (where the portfolio yield is updated any time there are fixed income realizations). While IMR was originally applied to realized gains, its broader purpose is to appropriately reflect surplus, and that objective applies equally to realized losses when supported by reinvestment.

The proof-of-reinvestment requirement provides an important safeguard by demonstrating that, in a higher interest rate environment, realized losses are offset by higher future yields with an equivalent present value, making the transaction non-economic from a surplus perspective. The framework should be durable and should not depend on the current interest rate environment. Otherwise, future changes in interest rates could recreate the same challenges as more life insurers experience negative IMR balances. Insurers should not be penalized, and policyowners should not be adversely affected, when insurer solvency is unchanged.

The accounting framework also should not discourage prudent investment activities, such as trades made for credit, duration, or other risk-management purposes—that benefit policyowners, insurers, and regulators. In this context, the framework, including the proof of reinvestment, provides a more targeted and economically grounded approach relative to the broader rules-based limitations, helping to avoid unintended distortions in surplus recognition and better align outcomes with insurers' asset-liability management practices and prudent interest rate risk management.

Summary of Additional Safeguards Proposed for IMR

1. Documented "proof of reinvestment" primarily derived from annual statement data provides evidence of reinvestment in fixed income securities with a higher yield.
2. Asymmetrical treatment of liquidity sales – all gains are deferred but not losses.
3. Requirement to record losses on liquidity sales immediately, have documented controls and procedures in place to identify them, and require related attestation.
4. Requirement to deduct admitted IMR from beginning invested assets used in cash flow testing– increases the likelihood of increasing asset adequacy reserves.
5. Actuarial opinion and memorandum requirement to reconcile admitted IMR to reported IMR for PBR and cash flow testing.
6. Changes to NAIC Designation guidance for determining IMR eligible losses – narrowing losses eligible for IMR but all gains still deferred.
7. Losses related to impairments or credit events are not eligible for IMR deferral.
8. Authorized control level risk-based capital of 300 required to admit negative IMR.

9. Expanded exhibit of capital gains and losses that provides additional discipline around IMR process – reconciles where all current year capital gains and losses are included within the financial statements.
10. Admitted negative IMR shown as a write-in for special surplus.

We look forward to discussing these issues with SAPWG members so we can clarify any points and answer any questions you may have.

The remainder of our letter includes more specifics to the various exposures. Comments of an editorial nature are in appendices although we highlight meaningful items due to their prominence.

Revised SSAP No. 7

The ACLI provides the following comments on key elements of the proposed changes to the accounting guidance for IMR as impacted by net negative IMR. We have also attached a markup version of the exposed SSAP No. 7 reflecting editorial revisions which have been discussed with NAIC staff.

- The editorial changes to SSAP No. 7 should be consistent as is reflected in the Issue Paper.
- For known liquidity sales in paragraph 13, companies must attest to this and additional clarity is needed. The proposal introduces disclosure concepts (paragraph 29b) while retaining principle-based definitions, which avoids rigid rules that could be exploited.
- ACLI proposes editorial changes to paragraphs 20-21 on reinsurance that will assist with the interaction with *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* and the Annual Statement Instructions. We support improving clarity and consistency for modified coinsurance ("Modco") and funds withheld ("FWH") reinsurance reporting using the Modco and Funds Withheld Reporting table as part of the Proposed Reporting Revisions. However, the table may be better located outside the IMR section (e.g., to Schedule S) to improve alignment and accessibility.

We also note that potential overlap with exposure SAPWG Ref #2026-02 and encourage consideration of these interdependencies. The table should include more precise line-item references and more clearly distinguish between Modco and FWH treatment. Given the complexity, we recommend continuing dialogue with ACLI, NAIC staff, and SAPWG to refine the guidance.

Issue Paper

The ACLI provides the following comments on key elements of the proposed changes to the IMR Issue Paper as part of SSAP No. 7. We have also attached a markup version of the exposed Issue Paper for SSAP No. 7 reflecting editorial revisions which have been discussed with NAIC staff.

- The editorial changes to the Issuer Paper should be consistent as is reflected in SSAP No. 7.
- The tables in paragraph 47 and the Appendices should be in the annual statement instructions as they are important to the implementation of changes to IMR.
- ACLI proposes a targeted adjustment to the proof of reinvestment to address known liquidity sale losses. Because these sales are reported in income, they should be excluded from the reinvestment requirement.

Revisions to Other SSAPs

The ACLI provides the following comments on key elements of the proposed changes to other SSAPs. We have also attached markup version of the exposed Revisions to Other SSAPs reflecting editorial revisions which were discussed with NAIC staff.

- We recommend revisions to SSAP No. 86, paragraph 24, and the related guidance in SSAP No. 86, Exhibit B, to clarify the application of the guidance in determining whether realized gains and losses on derivatives should be deferred in the IMR or reflected as an adjustment to the hedged item.

Proposed Reporting Changes

The ACLI provides the following comments on key elements of the Proposed Reporting Changes. We have also attached a markup version of the exposed Proposed Reporting Changes reflecting editorial revisions which have been discussed with NAIC staff.

- Incorporate tables from paragraph 47 and the Appendices in the Issue Paper into the annual statement instructions and modify the ‘Modco and Funds Withheld Reporting’ table as highlighted at the end of the proposal.

- We evaluated the Exhibit of Capital Gains and Losses as proposed and noted inconsistencies with other Annual Statement exhibits. While we support the Exhibit’s intent, refinements are needed to the columns and descriptions. ACLI will continue to work with NAIC staff to create clarifications prior to this item being sent to the Blanks Working Group for exposure.

- We support the new “Form for Calculating the Interest Maintenance Reserve” and related instructions and respectfully suggest a few adjustments to ensure a complete rollforward and consistent reporting across all components.

Other comments

As ACLI has evaluated the proposed above changes to the accounting and reporting of IMR, our members have begun addressing the necessary system and process changes needed to comply with the updates to statutory reporting requirements. Based on discussions with investment accounting vendors, to comply with the ‘Designation Change Guidance’ located in the proposed SSAP No. 7, paragraph 31a, it will take significant effort to get certain investments held prior to 2020 to be tagged with the appropriate NAIC Designation Category. Vendors will also need to implement broader enhancements, including updates to calculation methodologies, reinvestment tracking, reporting outputs, and related controls.

Implementation will require coordination across multiple insurer systems, data sources, and control environments, including internal processes and reporting frameworks, along with sufficient time for integration, testing, and validation. To the extent these capabilities are not fully developed and deployed by vendors, the burden will shift to insurers to build interim solutions, increasing operational complexity and risk.

Since the effective date needs to be at the beginning of a calendar year, we believe consideration should be given to when is an optimal time to implement the changes, including delaying the implementation by one year to support orderly adoption and mitigate operational and reporting risks.

Recommendation:

NAIC staff recommend that the Working Group provide direction on two key issues related to admittance and the effective date and then consider exposure of revised IMR guidance. If the Jan. 1, 2027, effective date is retained, NAIC staff recommends an exposure period ending September 18, 2026, to allow for an interim meeting early October for adoption consideration. If a Jan. 1, 2028, effective date is incorporated, then NAIC staff recommends an exposure period ending October 2, 2026, consistent with other Summer National Meeting exposures.

1) **Admittance Limit – The interim guidance in *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve* incorporated a 10% admittance limit based on adjusted capital and surplus from the most recently filed financial statements (3rd quarter). Adjustments reduce the 3rd quarter capital and surplus for admitted positive goodwill, EDP equipment/software, net DTAs and net negative IMR. This admittance limit is further capped by a 10% limit for unadjusted capital and surplus as of the current (year-end) financial statements.**

   Comments received from Nationwide, MetLife, Everlake Life, the RGA, and the ALCI recommend eliminating the admittance limit for net negative IMR. The letters cite the premise of IMR, concerns about the asymmetric treatment with deferred gains, disincentivizing prudent risk management actions, unintended consequences for reinsurance transactions and various safeguards, including the proof of reinvestment, established in the revised SSAP No. 7 guidance as support for the elimination of the admittance cap.

   To assist with this admittance discussion, aggregate information on the 2025 YE reported IMR in both the GA and SA is shown. This data shows that net negative IMR has increased significantly since 2023, while net positive IMR has decreased:

Year	GA & SA Net Negative IMR	% Change from Prior Year	GA & SA Net Positive IMR	% Change from Prior Year
2025	(21,523,069,337)	28.41%	8,832,697,007	-17.08%
2024	(16,761,648,267)	48.44%	10,635,683,759	-32.49%
2023	(11,292,084,687)		15,754,833,951	

   Further, admittance of net negative IMR has also increased significantly since 2023. The following details what NAIC staff identified as admittance in the general account only since admittance was permitted under INT 23-01: *(Qualified as this is an accumulation of the aggregate write-in.)*

Year	IMR Position	# of Companies	Aggregate Amount
2025	Admitted IMR	220	(14,568,400,233)
2024	Admitted IMR	220	(12,599,508,904)
2023	Admitted IMR	167	(8,351,203,108)

   From a review of the statutory financial statements, most companies have an overall net negative IMR position that is less than 10% of their reported adjusted capital and surplus. However, from a review of the YE 2025 financial statements, there are companies that would exceed this threshold if all negative IMR was permitted to be admitted. These companies have net negative IMR balances that range from 10-50% of adjusted capital and surplus. **Unless the Working Group was to restrict**

admittance in some manner for these companies, an action to increase the admittance limit would allow those companies to admit net negative IMR from sales that occurred before the SSAP No. 7 safeguards were in place.

<u>NAIC staff requests discussion from the Working Group on the appropriate admittance limit, and whether it should be increased or eliminated</u>. The ongoing discussion has highlighted that neither IMR nor AVR (positive or negative) meet the definition of assets and liabilities under SAP but are required to be recognized as statutory assets and liabilities. The discussion has focused on the intent of IMR as a valuation adjustment, which defers realized gains and losses from the sale of fixed-income instruments to accommodate the amortized cost measurement method utilized under statutory accounting. The sale of such items results in temporary recognition (cash in/out the door) from the change in fair value as realized gains or losses, which are being deferred in IMR. However, the reinvestment of these proceeds, in new fixed income investments with higher yields, causes the realized losses to reverse in future periods. **NAIC staff agrees with the commenters that the safeguards, including the proof of reinvestment and PBR / Cash Flow testing provisions are key to ensuring that the proceeds from such assets are properly reinvested and that asset adequacy assessments properly include IMR. The proof intends to identify whether acquisitions of fixed income investments are greater than the proceeds from fixed-income sales and investable premium. The proof focuses on sales and acquisitions of bonds and mortgage loans as those two categories make up the bulk of sales that are captured in IMR. The calculation is considered conservative, as If a company sells a bond or mortgage loan and then invests the proceeds into another IMR-qualifying fixed income investment that is not a bond or mortgage loan, then they do not get credit for that reinvestment within the proof.**

<u>With that, NAIC staff highlight the application concerns with the proof of reinvestment (also noted by MetLife) due to overall complexities and specificity of the disclosure, and further notes that the review of recent statutory reporting results have shown a high number of company noncompliance issues within the first reporting period of new requirements</u>. <u>As the proof of reinvestment is a key safeguard cited as support to eliminate the IMR admittance limit, NAIC staff recommends that the admittance limit should not be increased or eliminated until reporting entities have demonstrated proper completion and compliance with the proof, along with the proper removal of excess losses from IMR when a company has not passed the proof of reinvestment tests</u>.

Although the MetLife letter indicates concern with the year-end application of the proof of reinvestment, <u>the year-end completion is the only possible timeframe that works if the proof is going to be verifiable with company reported data as it utilizes (purposely) reported amounts in year-end schedules and disclosures</u>. Further, completing the proof at a timeframe earlier than year-end (for example, as of 3rd quarter) would provide an open 4th quarter window for companies to liquidate investments, take the losses to IMR, and not provide validation for reinvestment. If a company has properly reinvested the proceeds from sold qualifying fixed-income investments into new qualifying fixed income investments at higher yields (which is the fundamental premise supporting the recognition and admittance of net negative IMR), then companies should pass the proof and not have year-end adjustments to IMR. If a company has failed to recognize immediate capital losses for known liquidity sales that occurred throughout the year, and they fail the proof, then they will be subject to an IMR reclassification at year-end. <u>If the proof of reinvestment is not incorporated as a year-end validation, then it raises concern on whether it provides the verification needed for regulators to support admittance of net negative IMR. The verification that a company has properly reinvested proceeds from sold investments into new qualifying fixed income instruments was a key discussion</u>

point of the IMR Ad Hoc Group, and the proof of reinvestment – including the timing and overall calculation – was heavily discussed and supported by the accounting, actuarial and industry representatives of the IMR Ad Hoc Group.

A pause before considering a change in the IMR admittance limit, in order to verify proper completion of the proof, is supported by a review of recent reporting results, which has shown a high number of reporting entity noncompliance issues within the first reporting period for new reporting and disclosure requirements. (NAIC staff notes that these issues cross all levels of insurance companies and include large life insurance companies.) These include:

- Significant percentage of companies misreporting SVO-Assigned Designations on Schedule BA. This includes reporting investments on these lines to obtain favorable RBC when the investment did not have an SVO-Assigned Designation, or reporting a more-favorable designation than what was provided as SVO-Assigned. (In some cases, even reporting investments as an NAIC 1, when the AVS+ system identified the investment as an NAIC 6.) The percentage of noncompliant reporting exceeded the percentage of companies correctly reporting a true SVO-Assigned Designation.

- Companies failing to comply with the new restricted asset disclosures. This includes companies detailing Modco/FWH assets on the new Schedule S, Part 8, but failing to include those assets in the new restricted asset reporting lines for Modco/FWH assets.

- Companies failing to comply with the new residual reporting requirements that require companies to cap the BACV at the cost of residuals acquired after Jan. 1, 2025.

- Although the reporting of the IMR note improved significantly from year-end 2024 (likely due to the INT revisions that mandated completion for admittance), there are still companies that continue to misreport IMR amounts as contra-liabilities (forgoing the disclosures), companies that do not fully complete the disclosures, and companies that admitted more IMR as an asset on the balance sheet than what they had as reported as overall IMR.

With the history of noncompliance of new reporting aspects, the complexity of the IMR proof of reinvestment disclosure, and the reliance that is being placed on the proof to advocate for a greater admittance limit, NAIC staff recommend that the Working Group consider delaying or phasing in any increase or elimination of the IMR admittance limit until compliance with the applicable safeguards can be verified. This delay would allow NAIC staff to review and share details on company compliance, including whether companies are completing the proof of reinvestment disclosure as intended, and if companies that do not complete, or that fail the proof of reinvestment, are properly removing realized losses from the IMR and not increasing their IMR net negative position. (Removing realized losses from the IMR based on the proof of reinvestment is not impacted by the admittance limit.)

Additionally, industry has cited actuarial provisions, including deducting IMR from beginning invested assets used in cash-flow testing, and the reconciliation of admitted IMR for PBR as additional support to eliminate the admittance limit. Unfortunately, there is no current ability for NAIC staff (or on an aggregate basis by regulators) to easily verify compliance with these adjustments, as these reconciliations are not required submissions with the actuarial opinion. Although it is possible that compliance has improved, the reviews that were completed after the year end 2024 financials showed that companies often did not properly complete these reconciliations, either by failing to include admitted IMR, or including the admitted IMR in the wrong way (e.g., as an increase to beginning assets instead of a decrease). Since this information is not filed with the NAIC, obtaining the reconciliations and data to complete a current-year assessment would require a data call with state requests. **With these provisions being used as safeguards to support admittance of IMR, NAIC staff recommends for industry to propose a new disclosure or reporting component that would be included in the statutory financial statements that would allow on-going verification of these provisions. NAIC staff recommend that this disclosure be incorporated and initial reviews to be completed before an IMR admittance increase is considered.**

Additionally, the new IMR guidance requires companies to establish governance and controls to support an attestation that IMR has not been recognized for known liquidity sales. NAIC Staff recommend a referral to be sent to the Financial Examiners Handbook (E) Technical Group to consider adding substantive and/or control testing procedures regarding this process. A delayed implementation of increasing or removing the admittance cap would also provide an opportunity to receive any observations from states collected through examinations.

Admittance Discussion Summary Recommendation:
With regards to the admittance limit, NAIC staff recommend discussion and direction from the Working Group members on whether the existing INT 23-01 admittance limits should be increased or eliminated in the revised SSAP No. 7 guidance. As noted above, NAIC staff defer to the Working Group on the admittance limit but suggests a delay in this admittance decision (or, if a decision is supported, in the admittance implementation) to ensure that compliance with the designed safeguards is verified. Further, NAIC staff suggests additional disclosure, to be captured in statutory financial statements, to verify proper inclusion of net negative IMR in PBR and cash flow testing. If a pause is supported by the Working Group in this decision, NAIC staff would recommend direction to complete an assessment of the new disclosures after the initial application of the guidance (e.g., YE 2028 if effective Jan. 1, 2028) and introduce this admittance topic with a summary of the disclosure compliance in 2029.

2) **Effective Date – The exposed SSAP No. 7 proposed an effective date of Jan. 1, 2027. The existing INT 23-01 is effective through Dec. 31, 2026, with nullification to occur on Jan. 1, 2027. Comments received have noted concern with the Jan. 1, 2027, effective date, due to the timing of adoption and the coordination that is required across insurer systems and vendor data systems, which require integration, testing and validation. These comments request consideration of a one-year implementation delay to support orderly adoption and mitigate operational and reporting risks.**

   If the effective date is extended to Jan. 1, 2028, the following two additional benefits are noted:

   a. The reporting revisions will have time to be adopted and implemented before the effective date of the guidance. Although it has been noted that the effective date is not contingent on the reporting revisions, it would allow for all revisions to be put in place simultaneously. (For example, with an effective date of Jan. 1, 2027, the reporting revisions will be in place for year end 2027 reporting, but not earlier in 2027. However, with an effective date of Jan. 1, 2028, the reporting revisions can be in place as of Jan. 1, 2028, when the guidance goes into effect.)

   b. The exposed revisions from this Summer National Meeting will not need a shortened comment deadline. Rather, the exposure could follow the timeline of other exposures, with final adoption considered at the 2026 Fall National Meeting. (The Fall NM is early this year – and scheduled for Nov. 14-17.) If the effective date of Jan. 1, 2027, is retained, NAIC staff recommend a shortened exposure period, with an interim meeting in October to allow for adoption consideration as early as possible before Jan. 1, 2027.

Effective Date Summary Recommendation:
NAIC staff requests direction from the Working Group on whether the effective date should be revised to Jan. 1, 2028, with an extension of INT 23-01 through Dec. 31, 2027.

Overall IMR Recommendation:
NAIC staff recommend the Working Group expose revised IMR documents (reflecting the revisions proposed by NAIC staff in attachments 1-4), along with edits to incorporate any admittance or effective date changes as directed by the Working Group. The exposure period can be either September 18, 2026 (if a Jan. 1, 2027 effective date is retained) or October 2, 2026 (if a Jan. 1, 2028 effective date is incorporated). The exposed documents will include:

- ***SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve.*** **Tracked edits within.**
- **Issue Paper – Revisions from original exposure (tracked within) predominantly mirror edits in the SSAP, with additional elements on the definition and proof of reinvestment.**
- **Proposed Revisions to Other SSAPs – Revisions from original exposure (shaded) mostly reflected in *SSAP No. 86—Derivatives* and the allocation to IMR for accounting-effective hedges.**
- **Reporting Revisions – Revisions from original exposure (shaded) mostly to the IMR Form and with the inclusion of AVR edits. NAIC staff will work with industry on edits to the Exhibit of Capital Gains & Losses.**

Note: Documents illustrating the ACLI proposed edits are shown in Attachment 9.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-15 (Julie)	**Asset Liability Management Derivatives**	**2.6 – SSAP No. 109 2.7 – Issue Paper**	**Comments Received**	**ACLI – 20**

Summary:
During the May 18 interim call, the Working Group exposed the proposed SSAP guidance and issue paper for interest-rate hedging derivatives used for asset-liability management. This exposure was modified from the 2026 Spring National Meeting exposure to revise the transition guidance and incorporate a surplus-neutral approach (where the unrealized gains/losses from the fair value fluctuations are recognized as realized gains/losses at transition) and clarify amortization of the derivative asset or liability with transition. The guidance was supported by the ACLI, but the exposure was intended to provide regulators with additional time to assess the new derivative concepts prior to adoption, particularly on the broad concepts, transition, reporting and admitted asset classification.

- Transition: Transition guidance for reporting entities with open derivatives in an existing approved program as of the effective date allows a one-time adjustment to reclassify recognized unrealized gains and losses from derivative fair value changes to realized gains and losses in the statement of operations. This classification would occur even though the derivative is still open. The reported derivative asset or liability BACV at the date of transition would then be amortized over the remaining life of the derivative instrument over a period not to exceed 10 years. Subsequent to transition, the derivative would follow the provisions of the new SSAP guidance, and fair value fluctuations would not be recognized as unrealized gains or losses unless the derivative no longer was to qualify in scope of the new statement.

- Reporting: The proposal would incorporate new reporting lines to Schedule DB to separately capture these derivative structures. This would be consistent with past approaches when derivative categories are added. These proposed reporting lines would be captured in a subsequent blanks proposal.

- Admittance: The proposed SSAP guidance permits admittance of all deferred losses recognized under the ALM derivative standard. This is proposed to not disincentivize prudent hedging activities. Comments were requested on this guidance and if further disclosure (e.g., accumulated IMR, deferred derivatives, other “soft” assets) should occur to provide regulators with the aggregated amounts.

ACLI Comments:
ACLI is very appreciative of the on-going dialogue with SAPWG and offers the following additional comment on this topic:

ALM derivatives are an extremely important part of insurance company risk management, as they are often necessitated by portfolios containing product liabilities with long durations (e.g., 30+ years) and shorter duration bonds (e.g., 5-10 years, which are more readily available in the market). This mismatch creates duration/reinvestment risk which could be filled with longer term/duration bonds; but longer-term bonds that match typical product liabilities (e.g., 30+ years) are limited in supply in the market, so ALM derivatives are used to mitigate or eliminate this risk.

Ultimately (and most importantly), ALM derivatives are hedging the duration difference between assets/liabilities to eliminate deficits in liquidation value and preserve surplus (highlighted appropriately in the example below from the exposure draft issue paper where asset duration=9 and liability duration=10).

Liquidation Value *(amounts rounded for simplicity)*			
Liquidation Value *(fair value realization via asset sales, derivative settlement, reinsurance)* :			
	Assets	Liabilities	
BOP Fair Value (Liquidation Value)	100	100	*Net Flat Liquidation Value*
Value Change *(ex-derivatives)*	9	10	*Interest rates decrease 1%*
EOP Fair Value (Liquidation Value) *(ex-derivatives)*	109	110	*Net Liquidation Value changes due to duration difference (pre-hedging); also, bond reinvestment interest rates may not cover liabilities*
ALM Derivatives	1		*ALM derivatives (e.g., receive-fixed swaps in this scenario) will increase in value when rates fall (which offsets the above difference)*
EOP Liquidation Value *(w/derivatives)*	110	110	*BOP net flat Liquidation Value remains intact due to highly effective hedges*

Highly effective ALM derivatives protect surplus by shielding insurance companies from negative impacts of interest rate changes. This preserves insurance company solvency and ensures policyowner benefits can be fulfilled (thereby benefitting policy holders, insurance companies and regulators).

We fully agree with this exposure draft, as it will significantly enhance the alignment of each company's reported surplus with its actual solvency/liquidation value and avoid situations where financials contain inappropriate portrayals of surplus and illusory financial strength.

Importantly, the exposure draft permits admittance of all deferred gains/losses of highly effective hedges recognized under the ALM derivative standard to not disincentivize prudent hedging activities. This is a critical component of the exposure draft that ensures the aforementioned surplus reporting benefits; and therefore, we completely support it. Additional reasons for symmetrical admission include:

1) Upon maturity/termination, the derivative fair value will initially be surplus neutral (when admitted) with the deferred asset/liability offset by cash received/paid at maturity/termination and subsequently will amortize over the life of the hedged liabilities. Therefore, the hedge's ultimate surplus impact follows that of the hedged items (appropriate for highly effective hedges); as the derivative amortization will offset product liabilities interest credited/etc. and bond NII over the amortization period.

2) ALM derivatives are hedges of surplus that incorporate extensive safeguards in the form of effectiveness tests and other limitations on eligible derivative types. Not admitting the derivative fair value at termination/maturity impacts surplus at different timing than the hedged item, which defeats the entire purpose of the hedge.

3) Presenting companies with a scenario of asymmetrically deferring gains and recognizing losses will limit (or eliminate) companies' use of this SSAP, thereby limiting (or eliminating) the SSAP's reporting benefits of aligning surplus with actual solvency/liquidation value.

Once again, we support this exposure draft in its entirety and appreciate the opportunity to provide comments on this important topic. If you have any questions regarding this letter, please contact us.

Interested Parties
Interested parties support the comment letter submitted by the ACLI on this exposure.

Informal Regulator Comments
NAIC staff received a number of inquiries from regulators about the proposed *SSAP No. 109—Asset Liability Management (ALM) Derivatives* during the last exposure. These inquiries are summarized as follows:

- Recommendation to remove the elective accelerated amortization provision to avoid potential manipulation of surplus.
- Recommendation to address derecognition of deferred balances relating to liabilities that have been reinsured.
- Recommendation to specify the treatment of deferred balances in cash flow testing.
- Questions around the specifics of effectiveness testing.

Recommendation:
NAIC staff recommends the Working Group confirm a revised January 1, 2028, effective date and consider exposure of a revised *SSAP No. 109—Asset Liability Management (ALM) Derivatives* and corresponding Issue Paper. Revisions from the prior exposure include:

- Elimination of accelerated amortization.
- Revisions to require derivative deferred gains and losses to be recognized as immediate capital gains and losses upon derecognition of the hedged liability portfolio due to a reinsurance arrangement.
- Revisions to ensure that derivative deferred gains and losses are included in cash flow testing (CFT) and principles-based reserving (PBR) calculations in the same manner as IMR.

With exposure, a referral is proposed to the Life Actuarial (E) Task Force to review and assess the guidance, and to consider facilitating a pilot review in early 2027. This pilot review is proposed to ensure regulatory life actuaries understand and are comfortable with the specific hedge effectiveness tests proposed to be used by industry and to consider any additional specifications that should be included in the SSAP around how effectiveness testing should be performed.

Also, with exposure, NAIC staff requests direction to proceed with a blanks proposal to incorporate new reporting lines for these derivatives on Schedule DB. Lastly, NAIC staff request Working Group comments on the admittance provisions and if NAIC staff should proceed with a separate agenda item that incorporates aggregate admittance limits for certain assets (These assets could include admitted goodwill, EDP Equipment and software, net DTAs, net negative IMR and deferred derivative losses.)
Effective Date: The exposed SSAP and Issue Paper included a proposed effective date of Jan. 1, 2027. With the proposed revisions, as well as the proposed referral to LATF it is recommended that the effective date be revised to January 1, 2028. This is also supported if the SSAP No. 7 guidance is revised with a January 1, 2028, effective date. With the proposed *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance*

Reserve, the revised guidance will prohibit allocation to IMR for realized gains and losses resulting from non-accounting effective derivatives. As such, to prevent a gap in accounting guidance, the ALM guidance would need to be adopted with an effective date that occurs before or in conjunction with the revised SSAP No. 7.

Revisions from Exposure: Although industry support was received from the most recent exposure, regulator comments and questions have resulted with the following proposed edits:

- **Accelerated Amortization - (Reflected with deletion of paragraphs 18b-18d):** Regulator comments have questioned the accelerated amortization provisions included within the draft SSAP. The acceleration guidance mirrors provisions from *SSAP No. 108—Derivatives Hedged Variable Annuity Guarantees* and allows companies to accelerate amortization of deferred gains and losses in advance of the scheduled amortization timeframe provided that the company is consistent with accelerating both deferred gains and losses consistently, even if more than one hedging strategy is utilized. These provisions were included to prevent a company from electing an approach that would permit the recognition of deferred gains earlier than deferred losses. The original ability was incorporated as neither deferred gains nor losses represent assets or liabilities, and the guidance in SSAP No. 108 is not required. As such, companies that choose not to follow SSAP No. 108 would follow SSAP No. 86 for the non-accounting effective derivatives and would recognize the gains and losses immediately upon derivative termination. The accelerated amortization permitted a company the ability to remove these deferred gains and losses from their financial statements as if they had followed SSAP No. 86.

  With the regulator comments received, concerns have been raised that the acceleration provisions, even with the incorporated safeguards, do not provide adequate protections as a company could still elect to accelerate balances anytime there were in a net liability position (even if it mean recognizing both deferred assets and liabilities), resulting in a surplus benefit. Whereas companies could elect not to accelerate amortization when in a net asset position, allowing these losses to continue deferral. **These comments have resulted in removal of the accelerated amortization provisions from the proposed SSAP No. 109.**

- **Reinsurance Derecognition - (Revisions in paragraph 18):** Revisions have been incorporated to ensure that derivative deferred gains and losses are eliminated and recognized as immediate capital gains and losses upon derecognition of the hedged liability portfolio due to a reinsurance arrangement.

- **PBR / CFT Inclusion – (New Paragraph 18c):** Revisions have been incorporated to require that derivative deferred gains and losses are included in cash flow testing (CFT) and principles-based reserving (PBR) in the same manner as IMR.

Comment Letters

- **IMR and ALM comment letters are included in Attachment 2.8 -** (23 pages)
- **ACLI proposed edits to exposed documents are included in Attachment 2.9** - (92 pages)

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Statutory Accounting Principles (E) Working Group
Meeting Agenda
August 12, 2026

A. Consideration of Maintenance Agenda – Pending List

1. Ref #2026-08: SSAP No. 21 – ICOLI
2. Ref #2026-09: SSAP No. 86 – RSATs
3. Ref #2026-10: SSAP No. 26 – Embedded ALM Risk
4. Ref #2026-11: Residential Mortgage Loan Definition
5. Ref #2026-12: Retroactive Reinsurance Exception
6. Ref #2026-13: Medicaid Updates
7. Ref #2026-14: Updates to INT 18-03 for OBBBA
8. Ref #2026-15: SSAP No. 23 – Canadian Translations

Ref #	Title	Attachment #
2026-08 (Julie)	**Insurer Company Owned Life Insurance - ICOLI**	**A – Agenda Item**

<u>*Summary:*</u>
This agenda item has been prepared to reconsider the reporting guidance in *SSAP No. 21—Other Admitted Assets*, paragraph 9, for the amounts that could be realized on life insurance where the reporting entity is owner and beneficiary or otherwise has obtained rights to control the policy, (often referred to as Company Owned Life Insurance (COLI) or Insurance Company Owned Life Insurance (ICOLI)). Under existing guidance, the amount that can be realized from life insurance policies in compliance with Internal Revenue Code (IRC) §7702 where the reporting owner is the owner and beneficiary or otherwise has rights to control the policy, is considered similar to a cash deposit that is realizable on demand. These amounts are reported under the following provisions:

- Policies in scope of SSAP No. 21, paragraph 9, are to be acquired with the primary consideration of costs related to employee benefit obligations or the loss of a key person.
- Amounts realizable are reported as admitted "other-than-invested" assets.
- The cash surrender value (CSV), adjusted for contractual terms that limit or provide for additional amounts, is the realizable value. If the amount is realizable beyond one year, discounting is required.
- Disclosure is required of the CSV that is within an investment vehicle, by broad investment category. These categories include:
    - Cash and Short-Term Investments
    - Bonds
    - Stocks
    - Mortgages
    - Real Estate
    - Derivatives
    - Other Invested Assets (e.g., Schedule BA-type assets)

With the reporting as an "other-than-invested" asset, the amounts captured under SSAP No. 21, paragraph 9 are reported outside of the balance sheet investment categories and are reported on line 25 of the asset page as an "aggregate write-in." The description of the aggregate write-in varies by company but is often detailed as

Insurance Company Owned Life Insurance (abbreviated often as ICOLI) or "Company Owned Life Insurance (abbreviated often as COLI). By reporting as an "other-than-invested" asset, the amount is excluded fully from RBC for life entities. This occurs for all amounts reported, even if the company has identified an amount that is held within an investment vehicle. For P/C and health entities, there is an existing 5% RBC charge for all amounts reported as "other than invested assets." This charge falls into the R3 component, which is the smallest component of the covariance calculation, so it carries considerably less weight than other asset types.

From a review of the 2025 year-end disclosure of the CSV within an investment vehicle, of the 143 entities that completed the disclosure, 59 entities reported that over 40% of the CSV was captured in an investment vehicle holding other-invested assets (e.g., investments that would be captured on Schedule BA if held directly). Of these 59 entities, 35 entities reported that over 70% of the investment vehicle amount was in a Schedule BA type investment, and 21 entities reported over 90%. Additionally, it has been observed that there has been a rapid increase in ICOLI holdings over the past several years. Individual companies indicate that ICOLI assets make up a significant portion of surplus assets (with one company over 100% and others over 50%). Footnote 6 of SSAP 21 effectively precludes the use of ICOLI to back policyholder reserves.

Aggregate Data Increase – Amounts in Millions:
The amount of CSV in investment vehicles has more than doubled in 4 years since 2021.

	2025	2024	2023	2022	2021
Life	$29,557	$23,066	$15,152	$16,415	$14,336
Property/Casualty	$9,223	$6,508	$6,262	$8,232	$2,460
Health	$1,831	$1,731	$1,400	$1,247	$1,194
Total	**$40,611**	**$31,305**	**$22,814**	**$25,894**	**$17,990**
% Change from P/Y	29.73%	37.22%	(11.90%)	43.93%	

It has also been observed that the marketing of ICOLI products has featured them as a way for insurers to invest in private markets without holding RBC. One manager of ICOLI funds noted in a recent publication that, "Capital efficiency is the core value proposition: ICOLI assets carry RBC charges of just 0–5% versus 20%+ for direct private fund holdings."

Accounting and reporting of ICOLI products were previously raised in agenda item 2018-18, at which time the working group adopted the IRC §7702 criteria for determining whether a product qualifies to be in scope of SSAP 21. Also adopted at that time were the disclosures that were used to derive the above data. At the time of the previous working group discussion, both NAIC staff and working group members expressed concern that ICOLI premiums could be invested into underlying investment products that would expose the insurer to investment risk. Since ICOLI receives no RBC charge, this could be used to circumvent RBC requirements that would otherwise apply to such investments. The Working Group did consider whether to exclude ICOLI containing investment risk from the scope of SSAP 21. However, the working group ultimately decided against such an exclusion.

With the increase in the use of these products and the significant allocations to Schedule BA-type investment vehicles, NAIC staff have received a regulator request to reconsider the reporting of these amounts recognized under SSAP No. 21, paragraph 9. This item is not intended to revisit the scope of SSAP No. 21 as concluded upon in 2018 and it is recognized that ICOLI products are a common tool used to manage employee benefit costs and key man risk with material tax advantages. Specifically, the question is whether ICOLI products, particularly those containing investment risk, should be reported as invested assets, which would in turn result in assessment of appropriate risk-based capital requirements. Accordingly, **this agenda item requests regulator comments on whether the amounts reported under SSAP No. 21, paragraph 9, should be captured on Schedule BA with a new reporting category for "Realizable Amounts Under ICOLI Policies", with reporting lines to capture the amount outside of an investment vehicle, and the amounts within an investment vehicle, divided by investment**

category. Including all amounts would capture those that were not identified to be in an investment vehicle. The Working Group could also consider only including those ICOLI that contain investment risk.

NAIC staff have completed a life-entity comparison to the data-captured disclosure to the amount reported as an aggregate "other-than invested asset" write-in and have identified that the majority of companies have amounts that agree in both reporting locations. Meaning, the full CSV reported as an aggregate write-in is reported as in an investment vehicle. For the life companies that reported amounts which did not match, in most cases, the variations between the disclosure and the amount reported on the balance sheet are not significantly different. (As the disclosure only captured companies that use an investment vehicle for the CSV, the population of impacted companies could be greater, as they are not currently completing the disclosure.)

Recommendation:

NAIC staff recommend that the Working Group expose this agenda item with a request for comment on whether the amounts reported under SSAP No. 21, paragraph 9, should be captured on Schedule BA with a new reporting category for "Realizable Amounts Under ICOLI Policies," with reporting lines to capture the amount outside of an investment vehicle, and the amounts within an investment vehicle, divided by investment category.

Consideration of comments is proposed before formally moving this item to the SAPWG active agenda.

With initial exposure of this agenda item, NAIC staff recommend that the Working Group send a referral to the Capital Adequacy (E) Task Force to inform them of this exposure and request initial feedback on the potential inclusion of these items as an invested asset, with assessment of RBC factors.

Ref #	Title	Attachment #
2026-09 (Julie)	**SSAP No. 86 - RSATs**	**B – Agenda Item**

Summary:

This agenda item has been prepared to review and consider revisions to the accounting and reporting of Replication Synthetic Asset Transactions (RSATs) in *SSAP No. 86—Derivatives*. This agenda item originated from information received from the NAIC's Securities Valuation Office (SVO) on a noted increase in RSAT filings, questions on whether there are parameters for when an RSAT is permitted or should be restricted, and from the review of SSAP No. 86 that occurred with the IMR project. The IMR project resulted in proposed revisions to SSAP No. 86 to clarify when realized gains and losses can be allocated to IMR from the RSAT derivative and the cash component, but the review resulted in questions on RSAT arrangements that would results in a fair value measurement method (resulting in AVR reporting) and whether the SSAP No. 86 RSAT guidance is clear to ensure consistent application.

The guidance in SSAP No. 86 for RSATs is limited to a broad definition and then guidance for reporting in the financial statements, with provisions for determining whether the derivative shall be reported at amortized cost or fair value. The guidance in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) provides more detail describing RSATs, including transactions that are within "safe harbor" parameters (which always involve a bond) and the documentation required for RSATs that are not structured as a "safe harbor." The P&P Manual includes the requirements to be "effective" and includes a basic definition on the cash component, with further details when the cash component is satisfied through a basket (grouping of instruments). All RSATs, including those considered to be safe harbored and those that are not, are required to be filed with the SVO for an NAIC designation.

In terms of reporting, the detail of open RSATs is required to be reported in Schedule DB, Part C – Section 1, for annual and quarterly statutory filings. Additionally, in the annual filing, there is also a roll-forward that shows the number of positions and statement value for RSATS in each quarter, with a year-to-date accumulation.

For RBC reporting, the replicated asset value is included in the formula with an RBC factor calculated based on the corresponding NAIC designation to increase the RBC impact. Then, for situations in which the transaction reduces the risk exposure to the associated cash component, the determined RBC from the cash components are reflected as a decrease to the RBC. In reviewing specific company filings, instances have been noted in which a singular RSAT may result in a reduction of RBC for that particular transaction (negative impact for a particular RSAT, but positive increase to RBC for all RSAT transactions), as well as instances in which the overall net RBC impact from all RSAT transactions results in a reduction to RBC.

Pursuant to the SVO and the P&P Manual, the RBC impact depends on the type of RSAT. For certain RSATs, such as those involving interest rate swaps or currency swaps, the NAIC designation assigned to the RSAT is based on the designation assigned to the cash component. In contrast, for RSATs involving credit default swaps, the RSAT designation is based on the designation attributed to the referenced entity or referenced credit risk. In other words, if a company is entering an RSAT to replicate a 30-year Ford Bond, the assigned designation would be the credit rating attributed to Ford. NAIC has noted that a specific entity may not be named in such designs, and the designation instead reflects what would occur for a long-term bond with a specific investment / credit profile (e.g., replicating an investment that has an NAIC designation of 1.f). If the reference entity was an index or a basket of entities, then the SVO would assign a designation based on a weighted-average rating factor (WARF) methodology of the constituent entities or credit risks. As a result, an RSAT involving a credit default swap for a referenced entity that has a higher NAIC designation than its cash component could currently result with an RBC benefit. (The derivative is still included in the formula with a separate RBC impact.) It's important to highlight that there are no current provisions that limit the "cash component" that can be used for RSAT transactions. Although discussions most often refer to the use of treasuries as an example cash component, **the guidance currently allows for any investment, or portfolio of investments, to be identified as the cash component.**

References in SSAP No. 86, the P&P Manual and historical minutes identify that RSATs are only permitted to replicate "permissible investments." This term is not well-defined in existing guidance, but the historical minutes indicate that the replicated investment would be one that would qualify as an admitted invested asset according to the state of domicile. NAIC staff presumes this to mean that the replicated asset would qualify within an investment SSAP as an admitted asset, and be within the state's investment limits, if it was held directly.

In accordance with NAIC staff's review of RSAT transactions, NAIC staff proposes revisions as well as the incorporation of key guidance into *SSAP No. 86—Derivatives* as summarized below. A key theme in the proposed edits is that the dedicated cash component shall reflect a high-quality, liquid asset as support towards a replicated asset that has investment-grade characteristics.

1. **Inclusion in SSAP No. 86 of key definitions and the requirements for an RSAT to be effective**. These edits propose to clarify the effectiveness test involving the RSAT assessment of maximum potential loss to detail that this is satisfied through a comparison of the derivative notional to the BACV of the cash components. The effectiveness test would be met if the derivative notional (as an indicator of the risk of loss) does not exceed the BACV of the cash components.

2. **New guidance that restricts cash components used in RSATs to high-quality securities reported as U.S. Government investments, municipals, or corporate bonds on Schedule D-1-1: Issuer Credit Obligations with an overall NAIC 1 or NAIC 2 designation**. (This provision will allow NAIC investments with an 1A through 1G or 2A through 2C designation to be used as cash components.) This change will require an RSAT to be backed by a high-quality ICO bond and eliminate the possibility to use lower-quality bonds, an asset-backed security

(ABS), or other invested assets as cash components supporting the replication. The guidance will also specify that if the cash component is downgraded below an NAIC 2 or has experienced an other-than-temporary impairment, then the cash component is no longer permitted in the transaction. In such instances, companies shall designate a new, qualifying cash component. Whenever there is a change in a cash component, the reporting entity would need to file a material change with the SVO for assessment on whether the RSAT arrangement with the revised cash component still qualifies as effective, whether the maturity of the cash component exceeds the maturity of the derivative, and to confirm the prior NAIC designation or obtain a revised NAIC designation for the RSAT transaction.

3. **New guidance that requires RSATs to replicate investment grade (NAIC 1-2) long-term Schedule D-1-1: Issuer Credit Obligation bonds as the "permissible investment."** NAIC staff believe this is the most common use of RSATs but the explicit restriction would prevent the use of RSAT transactions that would replicate non-investment grade bonds, and non-bond structures that could be subject to state investment limits or other statutory accounting provisions that may hinder qualification as a "permissible investment." As previously noted, all the safe-harbor provisions within the P&P Manual reference bond replications.

4. **Revisions to assess, and potentially eliminate, the accounting guidance from SSAP No. 86 for situations that result with the fair value measurement of the derivative.** With the edits to restrict cash components and replicated assets, the prior fair value measurement guidance will not be applicable. Based on the provisions, the default accounting for a derivative using an investment grade ICO bond as the cash component and an investment-grade replicated asset will be amortized cost, which is believed to be consistent with common operations. The option to report the derivative at fair value will be retained.

5. **Lastly, guidance is recommended to prescribe how the RSAT and RBC reporting schedule should be completed, particularly for situations in which the CUSIP for the RSAT has yet to be received and/or when a single derivative is used with a basket of cash components or that covers many RSAT credit profiles.** Although it is common for transactions to be grouped together (e.g., cash component and RSAT) in reporting, instances have been noted where all RSATs increasing RBC have been reported, followed by all cash components decreasing RBC. This reporting eliminates the ability to match the cash component to the specific RSAT or to tie back the RBC reporting to Schedule DB-Part C. These edits are proposed to include a referral to the Capital Adequacy (E) Task Force requesting this guidance be incorporated and to prohibit net reduction of RBC from RSAT transactions. ***(Meaning, the overall RBC impact from replicated assets and the cash component should be either a net increase to RBC or floored at zero.)*** The intent of RSAT transactions is to provide reporting entities exposure to other investments with specific characteristics. The intent is not to enable a reduction of RBC by allocating higher-risk held assets as the cash component to an RSAT transaction. Although NAIC staff has observed those dynamics within RBC reporting (net reduction with RSAT and cash components), such situations are not expected to be the common impact of RSAT transactions, therefore unless this is more prevalent than expected in companies, the changes are not expected to cause significant company impacts.

Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing categorized as a new SAP concept and expose the proposed concept changes detailed within this agenda item for the accounting and reporting guidance for RSATs. In addition to the concept changes reflected, comments are requested from industry and state regulators on whether further clarifications or limitations to RSAT transactions should be incorporated. After consideration of the proposed revisions and comments received, NAIC staff would recommend a blanks proposal and referral to the Capital Adequacy (E) Task Force to clarify reporting components in Schedule DB-Part C and incorporate improved reporting instructions for the RBC formula, with a recommended restriction to floor the net RBC impact for cash components and RSATs at zero. Additionally,

after adoption, a referral is proposed to the Investment Designation (E) Working Group to incorporate comparable edits into the P&P Manual.

Proposed concept changes would include the following summarized changes as detailed in the agenda item:

1. Inclusion in SSAP No. 86 of key definitions and the requirements for an RSAT to be effective.

2. New guidance that restricts cash components used in RSATs to high-quality securities reported as U.S. Government investments, municipals, or corporate bonds on Schedule D-1-1: Issuer Credit Obligations with an overall NAIC 1 or NAIC 2 designation.

3. New guidance that requires RSATs to replicate investment grade (NAIC 1-2) long-term Schedule D-1-1: Issuer Credit Obligation bonds as the "permissible investment."

4. Revisions to assess and potentially eliminate the accounting guidance from SSAP No. 86 for situations that result with the fair value measurement of the derivative. (This guidance will not be applicable with the proposed edits restricting the cash component and replicated asset.) The option to report the derivative at fair value will be retained.

5. Lastly, guidance is recommended to prescribe how the RSAT and RBC reporting schedule should be completed, particularly for situations in which the CUSIP for the RSAT has yet to be received and/or when a single derivative is used with a basket of cash components or that covers many RSAT credit profiles. These edits are proposed to include a referral to the Capital Adequacy (E) Task Force requesting this guidance inclusion and to prohibit net reduction of RBC from RSAT transactions. *(Meaning, the overall RBC impact from replicated assets and the cash component should be either a net increase to RBC or floored at zero.)* The intent of RSAT transactions is to provide reporting entities exposure to other investments with specific characteristics. The intent is not to enable a reduction of RBC by allocating higher-risk held assets as the cash component to an RSAT transaction.

Ref #	Title	Attachment #
2026-10 (Julie)	**SSAP No. 26 – Embedded ALM Risk**	**C – Agenda Item**

Summary:
This agenda item has been prepared in response to regulator identification of an emerging asset class that is quickly growing among life insurers, referred to as multi-collateral structured credit investments. The primary difference between these structures and other common types of structured credit investments is that, while most structured credit investments are supported by a homogenous collateral type, multi-collateral structured credit investments contain a much more diverse array of underlying collateral. For example, RMBS are uniformly supported by residential mortgages, CLOs by corporate loans, and student loan ABS by student loans. Multi-collateral structured credit can be supported by effectively any asset class.

The structures that have been observed mostly contain a broad spectrum of fixed income investments, including allocations to both investment grade and non-investment grade bonds and direct loans, smaller allocations to unrated loans and debt securities, mortgage loans, as well as allocations to equity investments. Some also include tranches of other securitizations. These structures generally qualify under the Principles Based Bond Definition (PBBD), as the fixed income investments provide the cash flows to service and repay the debt and there is a residual tranche that provides substantive credit enhancement for the debt tranches.

A subset of these multi-collateral structures also contain a significant amount of asset-liability duration mismatch within the structure, whereby the duration of the debt tranches is significantly longer than the duration of the assets supporting them. While it is not uncommon for other types of structured credit to have reinvestment periods to accommodate prepayments, manage deployment of cash and other purposes prior to reaching the amortization phase, these periods are typically 5 years or less and contain provisions to end the reinvestment phase early if certain triggers are breached. In some of the noted multi-collateral structures, the duration of the debt tranches have been observed to be up to 40 years while the assets inside the structure are significantly shorter with a weighted average duration of 8 years or in some cases, significantly less. This can create significant reinvestment risk whereby the ability to pay contractual principal and interest is reliant upon the ability to reinvest at sufficient yields over several decades.

Regulators have raised several concerns as it relates to multi-collateral structured credit investments. The first concern is around complexity, transparency and interconnectedness. While it is often the case that the credit quality and diversity of the collateral as well as the capital structure of the vehicle support that the credit risk is comparable or even lower than that of equivalently rated structured finance, this diversity has greater potential to create interconnectedness between and within insurance company portfolios than structures that are limited to a single collateral type. For example, without a robust control framework to prevent it, it is possible that a multi-collateral structure could invest in an asset that in turn holds an investment in the multi-collateral structure, creating circular ownership. It also makes the tracking of economic exposures much more difficult, wherein an insurer may be exposed to the same asset both directly, as well as indirectly through the multi-collateral structure. To the extent that this asset class grows to be a significant insurer asset class being originated by multiple unaffiliated asset originators this complexity could be significantly compounded as independent vehicles invest in the same assets, or potentially in each other.

Additionally, for the subset of multi-collateral structures that contain significant asset-liability duration risk within the structure, regulators have raised several additional concerns. The appeal of this investment is that there is significant demand within the life insurance industry for longer-dated assets to match with the long duration of the insurance liabilities, thus the ability to produce more assets with durations up to 40 years is appealing. However, as the assets supporting the structure are far shorter, the structure produces more of an appearance of longer duration than is supported by substance. It moves an asset-liability management (ALM) risk that exists on the insurer's balance sheet and moves it inside an investment structure, but the risk is still present. There may also be certain mitigating structural features that reduce this risk. One example includes the use of hedging instruments within the structure, though it is unlikely to be able to fully hedge all components of ALM risk (i.e., rate and spread). There also may be accelerated amortization triggers, and importantly, there is typically a subordinated equity tranche. Any tightening of reinvestment yields is first absorbed by the equity tranche before it starts impacting the debt tranches, thus reducing the ALM risk to the debt holders. However, unmitigated ALM risk may remain a significant risk to the debt tranches.

Regulators have concerns about whether investors in these structures understand the ALM risk that they contain, whether they have the modeling capability to incorporate this embedded risk into their asset adequacy testing and stress testing frameworks and whether regulators have the transparency to identify structures that contain this degree of ALM risk. Additionally, the PBBD did not contemplate embedded ALM risk when it was developed. The substantive credit enhancement concept contemplates subordinated positions that absorb credit losses on the underlying assets to support the transformation of underlying risk to bond risk. However, it did not contemplate this subordination to also be used to absorb significant ALM risk. **Therefore, this agenda item proposes to add a provision to the PBBD in *SSAP No. 26—Bonds* that addresses embedded ALM risk and precludes structures containing significant embedded ALM risk from being classified as bonds.**

While this agenda item is limited to addressing the treatment of embedded ALM risk under the PBBD, a separate project to consider reporting refinements related to several asset classes that have gained prominence since the finalization of the PBBD will likely follow. These include but are not limited to multi-collateral credit structures, feeder funds and other forms of fund finance.

Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing categorized as a SAP change and expose revisions to *SSAP No. 26—Bonds* to expand on the requirements that asset-backed securities are required to meet to qualify for bond reporting.

NAIC staff has classified this revision as a SAP change as the proposed revisions reflect a change from the original PBBD concepts. However, due to the limited scope and focus of this change, a separate issue paper is not planned.

The revisions are proposed expansions to paragraph 9 of SSAP No. 26 and the requirements for ABS structures to qualify as bonds under the principles-based bond definition. The first new paragraph (9c) requires ABS that are not self-liquidating to be assessed under paragraphs 6a-6d of SSAP No. 26 and overcome the rebuttable presumption for debt instruments supported by equity instruments to meet the definition of a bond. The second paragraph (9d) requires assessment of whether a self-liquidating financial ABS includes significant embedded asset liability management (ALM) risk, determined based on whether the contractual cash flows could be impacted by changes in reinvestment interest rates or investment spreads. Debt securities with significant embedded ALM risk would not qualify under the principles-based bond definition.

NAIC staff has classified this revision as a New SAP Concept as the proposed revisions reflect a change from the original PBBD concepts. However, due to the limited scope and focus of this change, a separate issue paper is not planned.

Proposed revisions to SSAP No. 26: *(The complete paragraph 9 detailing the requirements for an ABS to qualify as a bond, as well as other cited sources are in the agenda item.)*

9.c Financial assets of an ABS issuer can either be self-liquidating or not. Self-liquidating means that the assets convert themselves to cash over a defined period in accordance with their contract terms, as is the case with most types of receivables. If the assets of the ABS issuer are not self-liquidating, the rebuttable presumption detailed in paragraphs 6.a.-6.d. must be overcome in order for the security to meet the definition of a bond.

9.d. If the financial assets are self-liquidating, they must produce cash flows that are sufficient to pay all contractual amounts due in order to be considered meaningful. To the extent that the contractual terms permit cash flows of the financial assets to be reinvested rather than used to repay the debt security, the reporting entity should evaluate whether the debt security is subject to significant embedded asset-liability management (ALM) risk. Embedded ALM risk is to be considered significant if the ability to pay contractual cash flows of the debt security as scheduled could be impacted by changes in reinvestment interest rates or investment spreads. Securities that include significant Embedded ALM risk do not meet the definition of a bond.

Ref #	Title	Attachment #
2026-11 (Wil)	**Residential Mortgage Loan Definition**	**D – Agenda Item E – INVAWG Referral**

Summary:
This agenda item is in response to a referral dated May 26, 2026, from the Investment Analysis (E) Working Group to consider whether additional clarification or refinement within *SSAP No. 37—Mortgage Loans* is warranted to better define residential mortgage loans and improve reporting consistency in application. As detailed in the referral, potential areas for consideration may include:

- Clarification of the characteristics that distinguish residential mortgage loans from commercial, commercial-like or other mortgage loan types, including consideration of property type, scale, and risk attributes.
- Consideration of whether certain large multi-unit, development-stage, or transitional properties should be subject to different classification or disclosure considerations.
- Evaluation of whether enhancements to reporting guidance or disclosures to identify more granular individual loan characteristics within Schedule B may improve transparency, comparability across reporting entities, and individual loan risk-assessment usability by state insurance regulators and users of statutory financial statements.
- Evaluation of whether aggregation of individual loans is appropriate for reporting purposes, including guidance on which loans can be aggregated to retain benefits of disclosure based on certain key risk characteristics.

In short, the Investment Analysis (E) Working Group noted a lack of a clearly defined boundary between traditional residential and other loan types currently being classified as residential mortgage loans by some reporting entities that may exhibit significantly different risk characteristics, introduces potential inconsistency in reporting and may result in classification outcomes that do not fully align with the underlying economic risk of the exposure. Certain large multi-unit or development-type properties, while potentially meeting informal or structural interpretations of residential mortgages, may exhibit risk characteristics more consistent with commercial real estate lending, including higher vacancy risk, reliance on projected cash flows, and sensitivity to market conditions.

These classification considerations have implications for risk-based capital (RBC), because residential mortgage loans are subject to materially lower RBC factors than commercial mortgage loans. Accordingly, classification as residential may result in lower capital requirements for exposures that may present elevated or differing risk profiles. This dynamic may introduce opportunities for inconsistent treatment or unintended capital outcomes if not addressed through refined guidance.

For loans that are clearly residential in nature, the current investing spectrum could introduce specific risks that may warrant additional disclosure and RBC considerations, including varying loan-to-value (LTV) levels, varying borrower credit quality (FICO scores), whether owner occupied or for investment purposes, non first-lien loans, construction loans, home equity line of credit (HELOCs), bridge loans, among others.

A secondary but related issue is whether residential mortgage reporting should identify and separately capture certain risk factors on residential mortgages, and whether additional guidance is needed on the types of debt that should be considered a residential mortgage loan. Potential risk factors could include lien position (1^{st} lien vs 2^{nd} lien), Loan-to-Value (LTV) ratios, etc. In addition, certain types of residential mortgage debt may warrant separate identification or exclusion from residential mortgage loan reporting for statutory accounting purposes, including mortgages backed by ADUs (Accessory Dwelling Units), constructions loans of individual one-to-four family properties, fix and flip loans, lines of credit, home equity loans, non-owner occupied one-to-four family properties (e.g., fixed term rentals, short-term rentals, etc.), and transitional properties (mortgages backed by intermediate stage property where the risk profile is driven more by a future business plan than by a stabilized residential use; for example undergoing major redevelopment or renovation, newly constructed multifamily properties still in lease-up, condominium projects, or similar development-stage properties).

NAIC staff recommend that incorporating a statutory accounting principles definition of residential mortgage loans would promote more consistent reporting. Though *SSAP No. 58—Mortgage Guaranty Insurance*, NAIC Model Law 280, and the annual statement instructions all include references that describe residential mortgage loans as one-to-four family properties, there is no explicit definition in SSAP No. 37, and the existing references do not go any farther in explaining what that "one-to-four family properties" means. This lack of clarity has led to inconsistent reporting of mortgages within the residential mortgage loan category on Schedule B. Research indicates that the "one-to-four family properties" term likely originated from Code of Federal Regulations (CFR) Title 12 and may have been relied indirectly by using this term, albeit at best this would be considered Level 5 guidance under the statutory hierarchy.

NAIC staff recommend that the one-to-four family property and multifamily property definitions from the CFR Definitions be utilized as the starting point for defining these terms in SSAP No. 37 to ensure that the definition is clear and falls within Level 1 of the statutory hierarchy. The term "one-to-four family property" is a widely utilized industry term, and as such NAIC staff recommend that the term be explicitly defined in SSAP No. 37. Based on regulator discussions, the intent of this project is not to redefine residential mortgage but to include the definition in SSAP No. 37 and formally define what constitutes a "one-to-four family property". Additionally, it should be noted that if use of the term "one-to-four family property" is replaced this would require updates to other existing statutory guidance, including Model Law 280.

Refer to the agenda item for further information and discussion.

Recommendation:

NAIC staff recommend that the Statutory Accounting Principles (E) Working Group receive the referral from the Investment Analysis (E) Working Group, and move this item to the active listing, initially categorized as a SAP clarification, and expose this Form A as a concept agenda item. This is considered a SAP clarification as the intent is only to clarify the existing definition of "one-to-four family properties" as the definition of a residential mortgage loan and then assess different characteristics and risk components of properties that meet that definition for more granular reporting and/or accounting guidance. Reconsideration of this item as a change in SAP concept may occur in response to regulator and industry comments.

As detailed in the agenda item, the items requested for comment include:

1. Are there other industry definitions other than 12 CFR § 1266.1 for one-to-four family property and multifamily property which should be considered?
2. The following are possible modifications to the 12 CFR § 1266.1 definitions:
    a. Establish a threshold for determining when a mixed-use property with both residential and commercial units can be considered either a one-to-four family or multifamily property. (e.g., 70% residential to commercial square footage or some other appropriate measure.) Additionally, how should mixed use properties be reported: as a separate category, by allocating and reporting the residential and commercial portions separately, or by reporting the entire mortgage balance as either one-to-four family or multifamily property

b. Should one-to-four family properties and multifamily properties both be classified as residential mortgage loans with separate reporting, or should multifamily properties be included as a component of commercial mortgage reporting?

c. Clarify that a mortgage loan, including a construction loan, secured by a project involving multiple one-to-four family properties cannot be reported as a single residential loan when the collateral is the project or development as a whole. Each individual one-to-four family property, including condominium dwelling units within the scope of one-to-four family property definition, may qualify for residential mortgage loan reporting if each property is reported individually and the mortgage is legally separate and divisible from other properties in the project, development, or condominium.

d. Consider whether there should be loan value limits on individual residential mortgage loans.

e. Provide specific guidance on residential mortgage loans secured by ADUs or non-owner occupied one-to-four family properties, residential construction loans, fix and flip loans, lines of credit, home equity loans, and transitional properties.

3. Should residential loan risk factors be incorporated into Schedule B reporting, whether through new columns, reporting codes, or separate loan reporting per those risk factors? Are there any other risk characteristics that should be considered for reporting purposes in addition to those already mentioned previously? (lien position and LTV ratio)

4. Should an alternative reporting approach be considered for residential mortgage loans, in which they are carved out from the traditional Schedule B reporting and instead reported in predefined aggregated categories?

Ref #	Title	Attachment #
2026-12 (Robin)	**Retroactive Reinsurance Exception**	**F – Agenda Item**

Summary:
Regulators have requested this agenda item consider potential concerns with the exception to retroactive reinsurance accounting in SSAP No. 62, paragraph 36.d. This exception allows retroactive reinsurance contracts between insurers 100% owned by a common parent or ultimate controlling person, to be treated as prospective reinsurance, provided there is no gain in surplus as a result of the transaction. If there is a gain to the ceding entity because of the transaction, SSAP No. 62, paragraph 37 requires a punitive method of accounting, which is similar to deposit accounting, with the addition of requiring the deposit to be nonadmitted.

SSAP No. 62—Property and Casualty Reinsurance provides different accounting for reinsurance contracts that are prospective and retroactive. The distinction between prospective and retroactive reinsurance agreements is based on whether the agreement reinsures future (prospective) or past insured events (retroactive) covered by the underlying insurance policies. Prospective reinsurance contracts that transfer risk and meet other contractual requirements apply prospective reinsurance accounting. Retroactive reinsurance contracts covering risks that occurred prior to the effective date that also transfer risk are subject to retroactive reinsurance accounting. Under retroactive reinsurance accounting, all reserves remain on the ceding company's balance sheet and in annual statement Schedule P with a write-in contra-liability established for the retroactive reinsurance. The consideration paid is not recognized as ceded premiums, and therefore net premiums written is also not reduced.

The intercompany reinsurance exception detailed in SSAP No. 62, paragraph 36.d. existed prior to statutory codification, in the *Property and Casualty Accounting Practices and Procedures Manual*, Chapter 22, Reinsurance. The guidance for retroactive reinsurance contracts was adopted by the Property Casualty Reinsurance Study Group on December 13, 1995. Most of the reinsurance guidance in SSAP No. 62 was adopted as part of the review of *FASB Statement No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* (FAS 113) and a related *Emerging Issues Task Force Issue No. 93-6, Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises* (EITF 93-6). The exception guidance in SSAP No. 62, paragraph 36.d. was adopted by the membership of the NAIC at the March 1996 Plenary Session. This same wording was incorporated into SSAP No. 62 with initial statutory codification (see Issue Paper No. 75). The wording has consistently noted 100% common ownership since adoption.

This exception allows retroactive intercompany reinsurance contracts covering prior years to be treated as prospective contracts. Allowing prospective accounting can result in shifting large blocks of prior year business within an insurance group with 100% common control. NAIC staff's perception is that this exception is commonly used both for amendments to intercompany pooling, including when new members of a group are added to a pooling agreement; and to reallocate blocks of prior years' reserves and premiums within a group. Working Group members have informally indicated that while this exception is more permissive than U.S. GAAP, the intercompany reinsurance contracts are subject to regulatory review pursuant to *Insurance Holding Company System Regulatory Act* (Model #440). Furthermore, if there is a gain to the ceding entity, SSAP No. 62 paragraph 37 requires a conservative method of accounting. Current informal discussions with Working Group members indicated a willingness to have a public discussion of this overall topic.

Risk Transfer Logic

Current discussion by regulators have noted that to apply retroactive reinsurance accounting, retroactive reinsurance agreements must transfer risk. If a retroactive reinsurance agreement meets risk-transfer, there must be both a reasonable possibility of a loss to the reinsurer—and therefore a reasonable possibility of a gain to the ceding company. It is unclear how a ceding company can simultaneously assert that the retroactive reinsurance transfers risk and that no surplus gain will result from the agreement to qualify for the paragraph 36.d. exception. These two positions appear inconsistent.

Regulators have also noted that it seems contrary to the stated purpose of retroactive accounting treatment to allow a broad exception for affiliated transactions, which are inherently more susceptible to potential abuse. With retroactive accounting the ceding company must also complete Note 23F for the life of the agreement while reserves remain outstanding. This provides regulators with greater transparency, including annual fluctuations in development, recoverables on paid losses, over-90-day balances, and collateral levels (since retroactive reinsurance does not flow through Schedule F). However, there is not a disclosure of retroactive contact which apply this intercompany reinsurance exception. Hence, it is currently difficult to identify use of this reinsurance exception in the annual statement.

Regulators also noted that limiting applicability of the SSAP No. 62, paragraph 36.d. exception to only surplus gain at inception puts the focus on the timing of gain recognition, not on whether a transaction will ultimately result in a gain to the ceding company (putting form over substance).

Implications of Paragraph 36.d. Exception

Allowing prospective accounting treatment to intercompany reinsurance transactions also can impact operational and risk-based capital (RBC) ratios of the entities within the group. If companies are permitted to apply the paragraph 36.d. exception to treat affiliated loss portfolio transfers and other retroactive agreements as prospective, they could immediately shift significant amounts of premiums and reserves off the ceding entity's statutory financials and Schedule P. This in turn would make it harder to track reserve development over time, since Schedule P Part 2 is presented net of prospective reinsurance. More importantly, it can sharply reduce reserves held, lowering the total RBC requirement instantly.

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, initially categorized as a SAP clarification, and expose the disclosures described below with a request for comment on regarding whether the existing exception to retroactive accounting in SSAP No. 62, paragraph 36.d, should remain unchanged, be considered for elimination, or be narrowed. Subsequent consideration of this agenda item as a SAP concept change will occur if revisions to the existing exception are supported.

Disclosure Discussion – Most of the SSAP No. 62, the paragraph 36 exceptions to retroactive reinsurance accounting have an existing disclosure, however there is not a specific disclosure for the exception for intercompany reinsurance as described in paragraph 36.d. While continued discussions occur on the exception, NAIC staff recommend exposure of the following SSAP No. 62 proposed new disclosures to allow for better transparency. If the exception is eliminated or revised, corresponding disclosure revisions will be considered.

SSAP No. 62 proposed new disclosures:

> 126. Disclose each contract that was entered into during the reporting period that applied the exception to retroactive reinsurance accounting for intercompany reinsurance contracts meeting the requirements of paragraph 36d., which allows such contracts to be reported as prospective reinsurance. Describe the parties and general terms of the contract including the amount of reserves reinsured, the aggregate consideration paid, the amount of ceded premiums recorded by line of business, the amount of any gain or loss in surplus from the transaction and if the contract received domiciliary approval.

Ref #	Title	Attachment #
2026-13 (Robin)	**Medicaid Updates**	**G – Agenda Item**

Summary:

This agenda item is to address questions received from industry and regulators regarding statutory accounting for state directed payments (SDP) in Medicaid managed care and for separate payment terms. The primary question is regarding whether the statutory reporting guidance classifies such payments as "at risk" under *SSAP No. 54—Individual and Group Accident and Health Contracts*. Key points are described below:

> **State directed payments** - are based on the utilization and delivery of services and are further detailed in in 42 Code of Federal Regulations (CFR) § 438.6(c). These payments are also tied to quality goals.
>
> **Separate Payment Terms** – are a mechanism used by states to send supplemental funding to providers through managed care organizations (MCO) for state directed payments that were separate from the per member per month payments. A 2024 final rule for Medicaid MCO contracts, prohibits the use of separate payment terms on or after July 9, 2027 per CMS-2439-F regulation. It requires that all state directed payments be included in actuarially sound capitation rates. It requires SDP separate payment terms (SPTs) must be moved into the base capitation rates paid to plans.
>
> **State directed payments are not pass throughs** - 42 CFR 438.6(a) defines a pass-through payment as an amount required by the state to be added to contracted payment rates and considered in the actuarially sound capitation rate, that is not tied to a specific service or benefit, and not a permitted 438.6(c) payment

methodology (i.e., SDP). CMS treats 438.6(c) SDPs as distinct from 438.6(d) pass-throughs: SDPs are service-specific and tied to utilization.

State directed payments are "at risk" - As provided for in the 2024 Medicaid and CHIP Managed Care Final Rule, CMS amended 438.8 (Medicaid MLRs) to clarify that SDPs and SDP SPTs are to be included in both the medical loss ratio (MLR) numerator and denominator. The inclusion of SDPs and SDP SPTs in both the MLR numerator and denominator indicates that CMS views these dollars as "at risk" to the MCO despite being embedded in the capitation rate with state direction on where the money flows.

However, some MCOs view some state directed payments and state directed payments from separate payment terms as low- to near-zero-risk because the state directs the payment to specified providers, and historically some MCOs exclude state directed payments from MLR reporting on a pass-through analogy.

Note that the HRBC formula removes pass through payments from the underwriting risk charges and assigns a lower charge that is more akin to an administrative services contract to pass through payments. NAIC staff also received questions regarding whether the amounts should receive a risk charge similar to pass through payments in health risk-based capital (RBC) reporting, but defers to the Health Risk-based Capital (E) Working Group for this conclusion. The current health RBC (HRBC) guidance for XR-0013 underwriting risk and XR-0015 other underwriting risk defers to state treatment on whether pass through payments are in premium. (See Authoritative Literature). However, it appears to defer to the Medicaid classification of pass-throughs.

SSAP No. 47—Uninsured Plans and *SSAP No. 54—Individual and Group Accident and Health Contracts* discuss uninsured plans, insured plans and partially insured plans. If a reporting entity is not at risk and is only acting as an administrator for a third party that is not at risk, then the plan is uninsured. The guidance in SSAP No. 47 provides that arrangements where the reporting entity receives a capitated payment for providing medical services to a third party do not qualify the arrangement as an uninsured plan.

<u>*Recommendation:*</u>

NAIC staff recommend that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *SSAP No. 47—Uninsured Plans SSAP No. 54—Individual and Group Accident and Health Contracts* to add a principles-based statement that Medicaid contracts payments classified as capitated payments are included in insured plans. This should cover the Medicaid revisions regarding state directed payment and separate payment terms without having to become too detailed regarding program terminology. In addition, Health Risk-Based Capital (E) Working Group should be notified of the exposure to allow that group to determine if the amounts should receive a risk similar to pass through payments.

***SSAP No. 47—Uninsured Plans**:*

3. Uninsured accident and health plans also include Federal, state or other government department funded programs such as Medicare cost contracts where there is no underwriting risk to the reporting entity. Under Medicare cost contracts, service provided to recipients includes the direct delivery of health care for which the reporting entity is reimbursed based on costs incurred as provided for in regulations governing the administration of such contracts. Other such programs may include some Medicaid contracts for which administration or other non-underwriting services are provided.

4. Partially insured or combination plans exist, under which the reporting entity issues an insurance policy for some of the risks related to the claims (e.g., minimum premium and stop loss coverage), but acts as an administrator for some, or all, of the claims paid by the plan. Such plans shall be treated as two plans: an insured plan (the part for which the reporting entity has issued

a policy) and an uninsured plan (the part that meets the definition in paragraph 2 of this statement). The components related to uninsured plans shall be accounted for using the accounting principles established in this statement; the components related to insured plans shall be accounted for as insurance. Medicaid contract payments classified as capitated payments are included in insured plans.

SSAP No. 54—Individual and Group Accident and Health Contracts:

Premium Income Recognition

2. Premiums shall be recognized as income on the gross basis (amount charged to the policyholder or subscriber exclusive of copayments or other charges related to the receipt of health care services) when due from policyholders or subscribers, but no earlier than the effective date of coverage, under the terms of the contract. Due and uncollected premiums shall follow the guidance in *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers*, to determine the admissibility of premiums and related receivables. Premiums waived by the reporting entity under disability provisions contained in its policies and contracts, and reported in operations as a disability benefit, are included in premium income.

7. As discussed in *SSAP No. 47—Uninsured Plans*, amounts received on behalf of uninsured plans or the uninsured portion of partially insured plans shall not be reported as premium income. Administrative fees for servicing the uninsured plans shall be deducted from general expenses. Conversely, income relating to the insured portion of any plan shall be reported as premium income. Medicaid contract payments classified as capitated payments are included in insured plans.

Ref #	Title	Attachment #
2026-14 (Jake)	**Updates to INT 18-03 for OBBBA**	**H – Agenda Item**

Summary:

In 2018, the Working Group adopted *INT 18-03: Additional Elements Under the Tax Cuts and Jobs Act* (TCJA), which provided guidance for three specific provisions of the TCJA, which were Repatriation Transition Tax (RTT), Alternative Minimum Tax (AMT) credit, and Global Intangible Low-Taxed Income (GILTI), all of which were addressed by the INT. In 2025, congress passed the One Big Beautiful Bill Act (OBBBA), which further addressed some of the prior tax provisions. This agenda intends to address the three provisions of INT 18-03.

RTT was a one-time transition tax on untaxed foreign earnings of foreign subsidiaries of U.S. companies. This guidance had an eight-year period under which the liability could be paid in accordance with Internal Revenue Code (IRC) 965. This guidance was originally applicable for 2018, so year-end 2026 would be the last year where balances would exist. This agenda item recommends this guidance be nullified in 2027 and the Blanks (E) Working Group be directed to remove the disclosure from the annual statements.

The final year AMT credits were to be used was in the 2021 reporting years or prior, so these balances do not exist anymore. This agenda item recommends that the Blanks (E) Working Group be directed to remove these disclosures from Note 9.

Net Controlled Foreign Corporation Tested Income (NCTI), formerly known as the Global Intangible Low-Taxed Income (GILTI), was originally created by the TCJA, and was further developed and made permanent by the OBBBA. This agenda item recommends that the guidance from INT 18-03 for NCTI be added to SSAP No. 101, which will allow the INT to be nullified in full once the RTT guidance is no longer needed in 2027.

Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions as illustrated in the agenda item to nullify INT 18-03, effective Jan. 1, 2027, and to add language in SSAP No. 101 for NCTI. These revisions provide updates to guidance that was originally created by the TCJA, and subsequently updated by the OBBBA, or for guidance from the TCJA that included an ending date for the provisions.

The three provisions of INT 18-03 will each have a slightly different outcome in this agenda item. RTT will be allowed to expire as the liabilities were to be paid over an eight-year period, ending in 2026, so this guidance is no longer needed, and the disclosures can be removed in 2027. AMT credits would have been used in 2021 or prior, so this agenda item recommends that the Blanks (E) Working Group be directed to remove that reporting upon adoption. NCTI (formerly known as GILTI) was made permanent under the OBBBA, so this is recommended to be added to SSAP No. 101. On Jan. 1, 2027, INT 18-03 can be nullified in full once the RTT provisions have expired, since the NCTI guidance will be included in SSAP No. 101 and the AMT guidance will have already expired.

Ref #	Title	Attachment #
2026-15 (Julie)	**SSAP No. 23 – Canadian Translations**	**I – Agenda Item**

Summary:

This agenda item has been prepared to review and potentially eliminate the guidance in *SSAP No. 23—Foreign Currency Transactions and Translations* for Canadian Insurance Operations that qualify for exception reporting as detailed in paragraph 5.a. With elimination of the Canadian exception, all foreign currency impacts would be required to be translated to U.S. dollars within each financial statement line. The gains and losses due to translating foreign operations to U.S. dollars would be recorded as unrealized capital gains or losses.

Under existing guidance, which has been a long-standing provision, Canadian insurance operations resulting in less than 10% of a reporting entity's admitted assets, less than 10% of the reporting entity's liabilities and less than 10% of the reporting entity's net premium, can be translated to U.S. dollars by making an adjustment to the net assets of the foreign operation. (This is not a translation to each financial statement line item.) Pursuant to SSAP No. 23 paragraph 5a., the adjustment is calculated by summarizing the assets and liabilities in the foreign currency and in U.S. dollars. The net value is converted to U.S. dollars at the current rate of exchange and compared with the net value in U.S. dollars recorded by the reporting entity. Any difference in the net value to current exchange rates is recorded as a separate asset or liability and the change in the foreign exchange adjustment is recorded as an unrealized capital gain or loss. If a reporting entity does not meet the requirements of paragraph 5a., or elects to translate each financial statement line item, then the reporting entity is to follow the accounting guidance for all other foreign currency impacts, with translation to U.S. dollars within each financial statement line.

From initial research, it was noted that the Canadian insurance operation exception was incorporated when the Canadian and U.S. dollars were a close equivalent, and the cost of translating each item for immaterial operations was not worth the benefit for the financial statement line reporting. At that time, the impact to RBC and AVR was noted to be immaterial. With current conversion rates, the U.S. and Canadian rates are no longer close to equivalent, and with 1 Canadian dollar representing 0.70 U.S. dollar (as of July 7, 2026), the conversion could be considered significant.

The Canadian exception creates a U.S. GAAP to SAP difference. Under U.S. GAAP, all asset and liability accounts are to be adjusted, which is consistent with SSAP No. 23 excluding the Canadian exception.

As one more point, by eliminating the Canadian exception, it will reduce data quality issues that must be addressed in the system (as it causes mismatches to financial statement line items) that must be explained by companies and addressed by the NAIC Quality Assurance analysts.

Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing categorized as a new SAP concept and expose revisions to *SSAP No. 23—Foreign Currency Transactions and Translations* to remove the Canadian exception for foreign currency translation. With this change, all foreign currency operations will be required to be translated to U.S. dollars within each financial statement reporting line.

With this exposure, comments are requested on the impact of this change, whether the Canadian exception should be retained, and (if applicable) rationale supporting retention of the exception approach. (This is considered a new SAP concept as it eliminates a long-standing provision, but due to the limited focus, a separate issue paper will not be drafted.) Subsequent to initial exposure, NAIC staff will coordinate with the blanks team to determine any necessary annual statement instructions / blanks revisions as a result of this change and sponsor a blanks proposal accordingly.

B. Consideration of Maintenance Agenda – Active Listing

1. Ref #2025-22: IMR Impact to Reinsurance Collateral

Ref #	Title	Attachment #
2025-22 (Julie)	**IMR Impact to Reinsurance Collateral**	**J – Agenda Item** **K – Referral Response**

Summary:
On December 9, 2025, the Working Group exposed revisions to SSAP No. 61 to clarify how IMR that has been derecognized as part of a reinsurance transaction should impact the reinsurance collateral required to receive credit for reinsurance. The exposed revisions reflect the asymmetrical proposal, in which derecognized positive IMR increases collateral requirements, but that derecognized negative IMR does not decrease collateral requirements. Comments on the symmetrical and asymmetrical approaches as well as the proposed revisions were requested.

On March 23, 2026, the Working Group heard public comments on this agenda item received from interested parties and the ACLI, which supported symmetrical treatment, and deferred action, pending a response from the Reinsurance (E) Task Force.

On June 22, 2026, the Reinsurance (E) Task Force provided a referral response. This response noted that the treatment of derecognized net negative IMR rests with the Statutory Accounting Principles (E) Working Group, as this topic is a highly technical issue dealing with reserves and is outside the charges of the Task Force. However, given the existing admittance limit on net negative IMR, the Task Force responded that at this time, the asymmetrical approach is the best approach.

Although the referral response did not go into detail, comments provided during the Task Force discussion noted that the collateral application will only impact reinsurers in jurisdictions for which collateral is required, and that over the past years multiple offshore reinsurers have obtained Reciprocal Jurisdiction status. Therefore, the impact is only on reinsurers that have not been vetted by the NAIC. It was also noted that the admittance IMR cap makes it difficult to implement the symmetrical approach. The discussion noted that with the negative IMR admittance cap, anything that attempts to reflect the admittance aspects into the collateral calculation may unintentionally either encourage or discourage the use of reinsurance. It was stated that the symmetrical approach is a better approach than having unintended consequences, so from an actuarial perspective, although the symmetrical approach makes conceptional sense, when combined with the admittance cap the asymmetrical approach is the better option.

Although this item was not currently exposed for comment, the comments previously received and discussed from the 2026 Spring National Meeting have been included:

2026 Spring NM - Interested Parties' Comments:
Interested parties recommend symmetrical treatment of IMR in collateral calculations as it is consistent with the prudent use of reinsurance as a risk-management tool as discussed in the comment letter from the American Council of Life Insurers.

2026 Spring NM - American Academy of Actuaries' Comments:
In response to the SAPWG 2025-22 exposure, we offer the following commentary in an effort to help balance the posting of collateral, based on the economics of a transaction, with the regulators' need to ensure that policyholder interests are protected.

Reinsurance that meets all regulatory requirements passes risk from the insurer to the reinsurer. As a result, the risk remaining on the cedent's balance sheet is reduced. Under those circumstances, we consider it appropriate that a cedent's surplus could be enhanced using such a reinsurance agreement.

Further, we recognize that reinsurance has proved to be an effective risk mitigation tool and believe that any changes to collateral requirements should avoid disincentivizing insurance companies from implementing appropriate reinsurance solutions.

At the same time, we appreciate the concern about negative IMR being used to reduce collateral below the level of policy reserves. Rather than an all-or-nothing approach to negative IMR, we would propose the following:

1. Allow negative IMR as part of the collateral calculation.

2. In order to allow collateral to be less than policy reserves, require the ceding company actuary to demonstrate, such as by using asset adequacy analysis (AAA), that the level of collateral would be sufficient to mature the reinsurer's liabilities under moderately adverse scenarios. This tested level of collateral would be floored at the policy reserves minus the absolute value of the negative IMR. The AAA could be done on a standalone basis at the treaty level. The results may be aggregated with those of other reinsurance agreements if the collateral may be used to meet the reinsurer's obligations under the other reinsurance agreements.

3. If no testing is performed, then the collateral would be floored at the policy reserves.

4. Posted collateral less than that developed by the cedent's actuary would result in a reduction in the reserve credit equal to the difference between the test collateral amount and the amount actually held.

In the case of Certified Reinsurers, where collateral is required for less than 100% of the ceded policy reserves, the calculations would be done based upon 100% of the ceded policy reserves and then the appropriate percentage would be applied.

2026 Spring NM - ACLI Comments:
ACLI recommends symmetrical treatment of IMR in collateral calculations because it supports the prudent use of reinsurance as a risk-management tool. Under this approach IMR can both increase and decrease required collateral, which has several important benefits:

- The symmetrical approach better aligns the market value of assets and liabilities.
- The symmetrical approach stabilizes collateral requirements through economic cycles.
- The symmetrical approach prevents collateral implications from distracting from prudent and timely asset-liability management.

We also suggest SAPWG consider the risk that asymmetrical treatment of IMR in collateral calculations could exacerbate the impact of market cycles. By only allowing IMR to increase collateral, the asymmetrical approach would make reinsurance comparatively more expensive when interest rates increase. By introducing conditions that make certain periods more or less favorable for reinsurance transactions, an asymmetrical approach could unintentionally encourage non-economic decision-making. These potential effects do not appear to be addressed in the exposure document.

On the balance, ACLI expects the symmetrical approach to create more capital stability and more competitive pricing for consumers. We recognize regulators' focus on ensuring the sufficiency of collateral supporting reinsurance recoverables. ACLI fully supports collateral sufficiency, and we welcome continued dialogue on the treatment of IMR within reinsurance collateral determinations.

ACLI appreciates SAPWG's thoughtful consideration of this issue. We support SAPWG's continued efforts to ensure that the statutory treatment of IMR remains economically grounded, promotes sound risk management, and reflects the practical realities of life insurer investment portfolios.

Recommendation:
NAIC staff highlights that the previously exposed revisions to *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* reflect the asymmetrical method. With the proposed asymmetrical revisions for certified reinsurers and unauthorized reinsurers for which collateral is required, the calculation to determine the obligations subject to collateral would require an entity to:

- **Include all net positive IMR derecognized as a result of the reinsurance transaction.**
- **Exclude net negative IMR derecognized as a result of the reinsurance transaction.**

NAIC staff recommend that the Working Group take the following actions:

1) **Receive the Reinsurance (E) Task Force referral response.**
2) **Confirm support for the asymmetrical approach.**
3) **If support for the asymmetrical approach is confirmed, either adopt the previously exposed revisions or re-expose the exposed revisions.**

If the Working Group does not support the asymmetrical method, then direction can be provided to NAIC staff to modify the proposed guidance for exposure consideration in the interim or Fall National Meeting.

NAIC staff does not believe additional exposure is necessary, as the comments received have already communicated support at the Working Group and the Reinsurance (E) Task Force for the symmetrical approach, and an exposure will likely just reiterate these previously provided positions. However, the Working Group could choose to re-expose the proposed SSAP No. 61 revisions for additional comments if preferred.

NAIC staff notes that the asymmetrical method is consistent with the existing SSAP No. 61 guidance, as the existing guidance requires net positive derecognized IMR to be added to the collateral calculation. As such, if the Working Group moves to adopt the exposed revisions with asymmetrical treatment, no effective date or transition guidance is needed. The revisions will continue historical guidance in SSAP No. 61, with clarification on the treatment of derecognized net negative IMR.

C. Any Other Matters

a. Errors / Noncompliance in Statutory Financial Statements

Annually, the SAPWG and interested regulators receive information from the filed statutory financial statements. This information includes both aggregate and company-specific details, often focusing on new disclosures or key topics as well as permitted/prescribed practices. These reports often identify errors or questions in company-specific reporting, and NAIC SAPWG staff provide details of these instances to the NAIC Quality Assurance (QA) team to follow up with companies on their reporting. Often, these responses indicate acknowledgement of the misreporting, with assertion that subsequent filings will be corrected. Unfortunately, it is not uncommon for mistakes to continue in subsequent years.

For the review of the 2025 statutory financial statements, there was noted to be an excessive amount of incorrect reporting for non-bond debt securities reported with SVO-Assigned Designations on Schedule BA. (As a reminder, for life companies, investments reported in these lines map to bond RBC factors through the AVR, whereas non-bond debt securities reported in other reporting lines receive the base 30% RBC charge for Schedule BA.) The confirmed investments with SVO-Assigned designations only reflected 43% of the reported investments, with 57% of the included investments either not having an SVO-Assigned Designation or the company misreported, in a more favorable way, the SVO-Assigned Designation.

Similar to past years, these items have been shared with the NAIC QA team for company follow-up. The company notices from the QA team are available to regulators via PICs alerts, but NAIC staff has been requested to also contact state departments directly on this issue. The SAPWG regulator discussion on this issue also requested that these details be shared broadly throughout various National Meeting groups to highlight the need for regulators to review these findings, follow up with companies for corrections, and work to ensure future company compliance with this Schedule BA reporting as well as other statutory reporting requirements. For clarity, only investments that have been directly filed with the SVO and for which an SVO-Assigned Designation has been received are permitted to be reported in the Schedule BA reporting lines for investments with SVO-Assigned Designations. This means that designations with the following AVS+ characteristics are not permitted for reporting at that location:

- FE – “Filing exempt” securities have an NAIC designation equivalent driven from a rating provided by credit rating provider (CRP) and not the SVO. These are not SVO-Assigned Designations.

- ND – A “not designated” security is one that was filed with the SVO and was not deemed appropriate to receive an NAIC designation as a fixed-income investment. These do not have a designation in AVS+ and should never be reported as holding an SVO-Assigned Designation. Any designation reported would be company determined or from a CRP that is no longer included in AVS+ as filing exempt.

- FMC/FMR – Financially modeled securities are not securities with an SVO-Assigned designation. When a reporting entity files the security with the SVO and the SVO provides an NAIC designation, the FMC/FMR (financial modeled CMBS / financial modeled RMBS) indicator will be removed from the AVS+ system.

- IF – An "initially filed" security does not qualify to be reported as an SVO-Assigned Designation. It is only after the SVO has reviewed and assigned the designation can an investment be included on the SVO-Assigned designation line. For such securities, it is possible that the SVO will determine that the investment does not qualify for a designation and it will then be coded as "ND" in AVS+.

- PL – This is a special version of "Filing Exempt" securities that have an NAIC designation equivalent driven from a private letter rating provided by credit rating provider (CRP) and not the SVO. These are not SVO-Assigned Designations.

- PLGI – This is another version of "Filing Exempt" securities that have an NAIC designation self-assigned by the insurer driven from a private letter rating provided by credit rating provider (CRP) that cannot be shared with the NAIC. These are not SVO-Assigned Designations.

- Z – This is an NAIC designation self-assigned by the insurer. These are not SVO-Assigned Designations.

In addition to ensuring that the security qualifies with an SVO-Assigned Designation, it is important for companies to properly report the assigned designation. Many instances were noted in which the reported designation did not match what was in AVS+. There were also many instances noted in which a security was not in AVS+ (meaning, there is no designation available either from the CRP or the SVO) but it was still reported as if it held an SVO-Assigned Designation.

NAIC staff will continue to monitor this reporting and track companies that continue a practice of not complying with the SVO-Assigned Designation reporting requirements.

b. Receive Life RBC (E) Working Group Referral – Collateral Loan Reporting (Julie - Attachment L)

On July 16, 2026, the Life RBC Working Group provided a referral to the Statutory Accounting Principles (E) Working Group on Collateral Loans Schedule BA Reporting. This referral informs that the Life RBC Working Group adopted RBC charges to be in effect for 2027 RBC filings, in response to a prior SAPWG referral based on overcollateralization percentage for collateral loans backed by interests in joint ventures, limited partnerships and limited liability companies and collateral loans backed by residual tranches. The referral identifies that to address regulator concerns over the valuation of collateral, the adopted methodology requires independent verification of the collateral's fair value and provided the ACLI suggestion that insurers disclose the valuation range associated with the independent valuation analysis. The ACLI comments noted that the proactive disclosure of a valuation range, rather than the single point estimate, which will be captured on Schedule BA for year-end 2025, would allow regulators to better assess the reasonableness of the fair value used in the loan-to-value (LTV) calculation and provide additional context around estimation uncertainty. The referral requests that the Statutory Accounting Principles (E) Working Group incorporate additional disclosures so that the following information is readily available for the collateral loans impacted by the RBC charges:

a) Whether or not independent verifications of collaterals' fair values are obtained.
b) Details of the verification, date of appraisal, name of entity performing verification etc.
c) Range of valuations.

The referral also identified that the Life RBC Working Group made permanent the interim solution for collateral loans backed by mortgage loans. As such, the Life RBC Working Group requests a refresh of the June 18, 2024, SAPWG memo provided to the Blanks (E) Working Group on the interim approach or for guidance to be incorporated into the annual statement instructions to effectuate the look-through of collateral loans backed by mortgage loans in the Asset Valuation Reserve.

NAIC staff recommend that the Statutory Accounting Principles (E) Working Group receive the referral and direct the development of an agenda item to incorporate these new collateral loan disclosures and annual statement instruction revisions for initial consideration at the 2026 Fall National Meeting.

c. Update on the SSAP No. 48 Discussions – (Julie)
NAIC staff have continued to meet regularly with industry representatives on clarifications to *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*. Proposed edits for exposure consideration are expected at the 2026 Fall National Meeting.

d. Update on the Commitments and Contingencies Disclosures – (Wil)
NAIC staff have continued to meet regularly with industry representatives on clarifications relating to commitments and contingencies in the SSAPs and annual statement instructions. Proposed edits for exposure consideration are expected at the 2026 Fall National Meeting.

e. Review of U.S. GAAP Exposures (Jason/Robin – Attachment M)
The attachment details the items currently exposed by the FASB. Comments are not recommended at this time – NAIC staff recommend review of the final issued ASU under the SAP Maintenance Process as detailed in *Appendix F—Policy Statements.*

f. Receive LATF Coordination Memo (Robin – Attachment Pending)

g. IAIS Audit and Accounting Working Group (AAWG Update) – (Julie)
The next meeting of the AAWG is scheduled for Sept 16-17, 2026. An update will be provided at the 2026 Fall National Meeting.

Comment Deadline:

- **Comment Deadline: Friday, October 2, 2026**
- **Potential shortened deadline for IMR: Friday, September 18, 2026**

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/08-12-26 Summer National Meeting/Meeting/0 - 08-12-26 SAPWG Meeting Agenda.docx