Date 10/28/2026

2026 Fall National Meeting
Dallas, TX

Statutory Accounting Principles (E) Working Group
Sunday, November 15, 2026
9:00 AM - 11:00 AM CT
Convention Center—Texas AB—Level 3

OVERVIEW AGENDA

HEARING AGENDA

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	• Ref #2026-14: Updates to INT 18-03 for OBBBA	1	3
3.	**SAPWG Hearing – Review of Comments on Exposed Items—*Kevin Clark (IA)***		
	• Ref #2023-14: AVR & IMR	3	4-6
	• Ref #2024-15: ALM Derivatives	10	7, 8
	• Ref #2026-06: Fair Value Disclosures	12	9
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	• Ref #2026-04: ASU 2025-10, Accounting for Government Grants Received by Business Entities	20	11
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OVERVIEW AGENDA

MEETING AGENDA

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5. SAPWG Meeting – Maintenance Agenda – Pending List—*Kevin Clark (IA)*		
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• Ref #2026-20: Tax Credits Project Accounting and Reporting Improvements	6	F
• Ref #2026-21: Disclosure Review	7	G
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6. SAPWG Meeting – Maintenance Agenda – Active Listing—*Kevin Clark (IA)*		
• Ref #2025-24: Commitments and Contingencies Disclosures	11	L, M
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• Invested Asset (E) Working Group Referral	13	N
• Update on SSAP No. 48 Discussions & Revisions	14	None
• Review of U.S. GAAP Exposures	14	O
• Kerper and Bowron Comments on the Unearned Premium Tests in SSAP No. 65	14	P

➢ **Comment Deadline for all other items – Friday, February 12, 2027**

Statutory Accounting Principles (E) Working Group
Hearing Agenda
November 15, 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 Nov. 10, 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 Fall National Meeting agenda.

REVIEW AND ADOPTION OF MINUTES

1. Summer National Meeting **(Attachment 1)**
2. October 7, 2026 **(Attachment 2)**

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 #2026-14: Updates to INT 18-03 for OBBBA

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-14 (Jake)	**Updates to INT 18-03 for OBBBA**	**3 – Agenda Item**	**Comments Received**	**Att. 21 IP – 25**

Summary:
On August 12, 2026, the Working Group exposed revisions to nullify INT 18-03, effective Jan. 1, 2027, and to add language in *SSAP No. 101—Income Taxes* for Net Controlled Foreign Corporation Tested Income (NCTI). These revisions provide updates to guidance that was originally created by the Tax Cuts and Jobs

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Act (TCJA) and subsequently updated by the One Big Beautiful Bill Act (OBBBA), or for guidance from the TCJA that included an ending date for the provisions. With nullification of the INT, it will move to the Appendix H – Superseded SSAPs and Nullified Interpretations of the Accounting Practices and Procedures Manual for historical purposes. Appendix H is available on the Working Group website.

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

Recommendation:
NAIC staff recommend that the Working Group adopt this agenda item, which nullifies INT 18-03, effective Jan. 1, 2027, and adds language in SSAP No. 101 for Net Controlled Foreign Corporation Tested Income. These revisions update guidance that was originally created by the TCJA, and subsequently updated by the OBBBA, and eliminate guidance from the TCJA that have expired, or will expire in 2026.

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REVIEW of COMMENTS on EXPOSED ITEMS

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

1. Ref #2023-14: AVR & IMR
2. Ref #2024-15: ALM Derivatives
3. Ref #2026-06: Fair Value Disclosures
4. Ref #2026-02: Valuation of Funds Withheld
5. Ref #2026-04: ASU 2025-10, Accounting for Government Grants Received by Business Entities
6. Ref #2026-08: SSAP No. 21 – ICOLI
7. Ref #2026-09: SSAP No. 86 – RSATs
8. Ref #2026-10: SSAP No. 26 – Embedded ALM Risk
9. Ref #2026-11: Residential Mortgage Loan Definition
10. Ref #2026-12: Retroactive Reinsurance Exception
11. Ref #2026-13: Medicaid Updates
12. Ref #2026-15: SSAP No. 23 – Canadian Translations

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-14 (Julie)	**SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve**	**4 – SSAP No. 7 5 – Issue Paper 6 – Other SSAP Revisions**	**Comments Received**	**Att. 21 ACLI – 1**

Summary:
On August 12, 2026, the Working Group exposed revised IMR documents, reflecting the revisions proposed by NAIC staff, with an updated January 1, 2028, effective date. Revisions were not incorporated to revise the admittance limit, as the Working Group concluded that the 10% admittance cap, pursuant to the provisions in INT 23-01, would remain for 2026 and 2027. Subsequently, the Working Group may consider increasing the admittance limit after verification of compliance with established guardrails for the application and recognition of IMR.

Exposed revised IMR documents included a summary of revisions, a revised S*SAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*, a corresponding issue paper, proposed revisions to other SSAPs, and reporting revisions.

ACLI Comments:
The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on SAPWG Ref #2023-14 – Interest Maintenance Reserve (IMR) from the Statutory Accounting Principles (E) Working Group (Working Group), which re-exposes the comprehensive revisions to SSAP No. 7, the related Issue Paper, revisions to other SSAPs, and proposed annual statement reporting changes. ACLI appreciates the continued constructive engagement among the Working Group, NAIC staff, regulators, and industry throughout the development of the long-term IMR framework.

ACLI supports the continued effort to establish durable guidance that appropriately distinguishes non-economic interest-rate-related gains and losses from credit-related and liquidity-driven losses. We also

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appreciate that many revisions in the current exposures reflect industry feedback and improve alignment among SSAP No. 7, the Issue Paper, other affected SSAPs, and the Annual Statement Instructions.

Our comments below focus on the technical, operational, and reporting provisions in the current re-exposure. ACLI is separately engaged with SAPWG regarding the requested industry plan for compliance and reporting accuracy associated with admission of net negative IMR and does not address that issue in this letter.

Revised SSAP No. 7

ACLI offers the following comments on specific provisions of the revised SSAP No. 7:

- Asset Valuation Reserve. ACLI supports the clarifications regarding realized losses on sales of fixed income investments and derivatives. We suggest the following edit for additional clarification (i.e., that derivative counterparties, which may have an NAIC designation, are not allocated to AVR per this paragraph).

  - 9. Realized losses on sales of fixed income investments and derivatives that otherwise would qualify for the IMR under paragraph 10 are allocated to AVR if the investment or derivative counterparty has experienced credit deterioration, as defined as one of the following: (IP 21)

    i. For those with NAIC designations[3] (excluding derivative counterparties), if the NAIC designation has declined by more than 3 designation changes and does not have an ending NAIC 1 designation.

- Known liquidity sale losses. ACLI supports immediate recognition of known liquidity sale losses and the related controls and attestation framework. However, ACLI's goal is to ensure the guidance is drafted in a manner that clearly conveys its intended application and minimizes ambiguity for reporting entities. ACLI believes this can be accomplished by further aligning the language in paragraphs 13 and 29 and providing additional specificity where appropriate. To support this objective, ACLI worked with NAIC staff to develop the following proposed revisions.

  - 13. ~~Known l~~Liquidity sale losses are realized losses that occur when an IMR qualifying fixed income investments are sold and the proceeds are not reinvested into other IMR qualifying fixed income investments. While it is impractical to track sales and reinvestment on an asset-by-asset basis, reporting entities shall not defer losses from sales for which it is known that proceeds will not be reinvested into other IMR qualifying fixed income investments. ~~These include s~~ Situations in which reinvestment may be known to not occur include, ~~such as,~~ but are not limited to, sales used to fund surrenders/withdrawals, derivative collateral calls, or other needs that lead to a decision to sell investments. ~~as well as any other situation (e.g., derivative collateral calls or any other business entity expenses).~~ Additionally, ~~R~~reporting entities shall implement control procedures designed to identify material known liquidity sale losses. The reporting entity ~~and~~ shall attest to having identified and recognized all material known liquidity sales losses in the quarterly and annual financial statement disclosures. (IP 25)

  - 29. Reporting entities are required to complete the following disclosures in the annual and quarterly financial statements: (IP P 102)

- b. Reporting entities shall include an attestation regarding know liquidity sales losses: (IP 103)

    i. The reporting entity has a documented process to identify material known liquidity sales losses, as addressed in paragraph 13. ~~Including but not limited to sales used to fund surrenders/withdrawals as well as other liquidity needs (e.g., derivative collateral calls or other business entity expenses).~~

- Treatment when the proof is not completed or passed. Paragraph 19 should expressly distinguish entities that are not required to complete the proof from entities that are required to complete it but do not do so or do not pass both tests. This distinction will avoid an unintended implication that all entities are subject to the same adjustment.

    - 19. Reporting entities (other than those described in paragraphs 17a and 17b) that do not pass both tests within the proof of reinvestment disclosure are only permitted to defer current year realized losses to the IMR that can be offset by current year IMR realized gains. Any realized losses in excess of realized gains must be recognized as realized capital losses. This guidance shall be followed regardless of whether a reporting entity admits net negative IMR. If a reporting entity does not complete or pass the proof of reinvestment, the reporting entity is permitted to recognize current year IMR losses beyond what is offset by current year IMR realized gains resulting from the following two exceptions only. These exceptions are permitted ~~as~~ because the net negative losses are not from the sale of fixed-income investments~~, such as~~; therefore, these IMR impacts are outside the parameters of the proof of reinvestment calculations. (IP P. 28)

Issue Paper for SSAP No. 7

ACLI appreciates the expanded historical discussion and the revisions made to conform the Issue Paper to SSAP No. 7. Because the Issue Paper will provide the supporting rationale and implementation history for the new framework, its terminology and examples should closely track the final authoritative guidance.

ACLI offers the following comments on specific provisions of the revised Issue Paper:

- Realized gains on liquidity sales should be allocated to IMR.

    - 104. Pursuant to the discussion involving excess withdrawals and the elimination of the excess withdrawal calculation, reporting entities shall include an attestation regarding known liquidity sale losses: (SSAP P.29b)

        - b. The reporting entity has not allocated any ~~gains or~~ losses to IMR from known liquidity sales. Realized losses allocated to the IMR are attributable to investment activity related to a block of recognized insurance liabilities, whereby the proceeds have been reinvested in fixed income investments.

- Appendix B & C – Proof of Reinvestment for both general and separate account: The proceeds of a liquidity sale are the transaction cash flows that are no longer available for reinvestment by the

insurance company. The realized capital loss recognized on the disposal of the investment is an accounting value, not a cash flow.

- **Line 6 of Proof of Reinvestment:** Proceeds of ~~K~~known liquidity sales where a realized capital loss was recognized

- We also suggest paragraph 108c have the following changes:

  - c. Proceeds from Investments: Include the proceeds from sales of bonds and mortgage loans. As of year-end 2025, there was no data-captured disclosure that identified the proceeds from bond sales specifically, as available information aggregated proceeds from both sales and maturities. Revisions for year-end 2026 will include new data-captured disclosures for bonds to separately detail proceeds from sales and maturities. Upon implementation of the new disclosure, the proof of reinvestment calculation will refer to the location of that specific disclosure. Company internal records will be used for mortgage loans, which are not activity traded and have limited sales occurrences. The proceeds from the sales of bonds and mortgage loans in the proof is then adjusted to remove ~~realized capital losses that were recognized directly to capital losses due to known~~ the proceeds of all known liquidity sales in which a realized capital loss was recognized, where the proceeds were not reinvested into new qualifying fixed-income investments.

- Additionally, ACLI recommends adding a checkbox to both the General Account and Separate Account proof of reinvestment forms that would allow a company to indicate whether it was eligible to defer losses but elected not to complete the proof, versus completed the proof and did not satisfy the requirements. While the practical outcome is the same in both cases, namely that losses cannot be deferred, this distinction would provide regulators with additional compliance information and greater transparency regarding whether a company chose not to perform the proof or was not eligible to defer losses because it did not meet the applicable requirements.

- Suggestions for Separate Account Proof of Reinvestment:

  - **Line 7:** The Data Source should read "Sum of lines 4 + 5 – 6" to properly remove known liquidity losses in Line 6.

  - **Line 11:** The Description should read as follows to ensure the proper value is carried over from the Green Book - Bonds (General Account Basis Only) - Net Admitted

  - **Line 12:** The Description should read as follows to ensure the proper value is carried over from the Green Book - Mortgages (General Account Basis Only) - Net Admitted

Revisions to Other SSAPs

ACLI generally supports the related revisions intended to align other SSAPs with the revised SSAP No. 7. We recommend a final consistency review of all cross-references, defined terms, and transition provisions before adoption.

Proposed Reporting Changes

ACLI supports enhanced transparency by way of the included IMR rollforward. ACLI proposes the tracked changes included in Appendix I to improve the clarity, readability, and usability of the instructions. The proposed edits are intended to make the guidance more concise and user-friendly while preserving the underlying intent. Brief explanations accompanying the tracked changes provide the rationale for each proposed revision.

- ACLI has also worked closely with NAIC staff to review and provide input on the proposed Exhibit of Capital Gains and Losses. The discussions have been constructive and focused on maintaining consistency with other statutory exhibits, appropriately addressing the treatment of taxes, and reflecting both IMR and AVR in a manner that supports the objectives of regulators while preserving the integrity of statutory reporting. ACLI appreciates the opportunity to provide feedback and looks forward to the revised exposure.

Implementation and Transition

ACLI appreciates the adopted January 1, 2028, effective date. The revisions will require coordinated changes across investment accounting, actuarial, reinsurance, financial reporting, data governance, and control environments. Vendors and reporting entities will need sufficient time to develop, integrate, test, and validate the required calculations, data flows, disclosures, attestations, and reconciliations.

To support orderly implementation, ACLI recommends that the Working Group:

- Finalize the accounting guidance, Annual Statement Instructions, forms, note disclosures, and interrogatories as a coordinated package sufficiently in advance of the effective date.

- Coordinate the final IMR guidance with the related ALM derivatives, replications, reinsurance, actuarial, and blanks projects to avoid conflicting effective dates or reporting requirements.

ACLI welcomes the opportunity to continue working with NAIC staff and SAPWG to resolve the remaining technical and implementation matters and to support a clear, durable, and operational long-term IMR framework.

Interested Parties' Comments:

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

Recommendation:

NAIC staff recommend that the Working Group adopt the exposed S*SAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*, corresponding issue paper and "revisions to other SSAPs" with the SSAP and issue paper edits suggested by the ACLI, as well as a few additional items noted, for a January 1, 2028, effective date. These revisions are shown within the ACLI comment letter summary, included in the revised attachments, and summarized as follows: (Revisions were made to both the SSAP and Issue Paper as appropriate.)

- SSAP No. 7, Paragraph 9: Revisions exclude NAIC designations from counterparties from being considered within the threshold for designation changes in allocating to IMR or AVR.

- SSAP No. 7, Paragraph 13 & 29: Revised guidance to clarify known liquidity sales in one location.

- SSAP No. 7, paragraph 19: Reference prior paragraph with exclusions for when the proof of reinvestment is not required.

- SSAP No. 7, paragraph 29e, includes disclosure requirement for the reconciliation of admitted negative IMR to the reported IMR for PBR and AAT. (This reconciliation is required already per paragraph 25c, and the disclosure is being drafted by industry to allow for compliance verification.) Revisions were also incorporated to remove references to cash flow testing (CFT) in paragraphs 24b, 25c and 29e as CFT is a form of asset adequacy testing (AAT).

- Issue Paper, paragraph 104a-b: Eliminate the word "gain" when referring to known liquidity sales allocated to the IMR and incorporate the term "material" to match the SSAP.

- Issue Paper, paragraph 108.d (iv): Added a reference to "YRT-Mortality Risk Only" business as premiums that shall be removed from the proof of reinvestment. (This edit was received from the ACLI after submission of the comment letter but supported by NAIC staff and regulators.)

- Issue Paper, Proof of Reinvestment: Incorporate clarifying reference and guidance for known liquidity sales and to clarify that the separate account calculation includes items accounted for under the general account basis only. Revisions also reference the YRT – Mortality Risk Only business noted in the bullet above. In Line 4 for the general account proof, the proceeds from financial instruments sold will include sales from debt securities (including non-bond debt securities). This will cross-check to the new disclosure in Note 5D(6) – Column 1 Total. The cost of investments acquired will only include bonds as previously drafted, which agrees with the cash flow statement Row 13.1.

(Note: The SSAP and Issue Paper tracked changes from the Summer National Meeting have been accepted in the attachments with only the newly proposed revisions shown as tracked changes.)

With this adoption, the "revisions to other SSAPs" will be incorporated into the Issue Paper as an exhibit for historical reference. There were no revisions proposed to these edits from the Summer National Meeting exposure.

With adoption, the revised SSAP No. 7 and issue paper will be posted publicly on the SAPWG webpage for reference prior to the effective date. This revised SSAP, issue paper and the corresponding edits to other SSAPs, will be captured in the "As of 2028" AP&P Manual. This will prevent confusion on the guidance that is applicable through year-end 2027. Notice will be detailed in SSAP No. 7 captured in the 2027 publication on the revised guidance and availability on the SAPWG webpage.

With adoption, NAIC staff recommend that the Working Group sponsor blanks proposals to incorporate corresponding reporting revisions. Illustrations of the proposed reporting revisions have not been included in the SAPWG materials; however, the broad concepts are consistent with the prior exposure. The blanks proposals, which consider the recent comments received from ACLI, will be presented for exposure at the Blanks (E) Working Group during their Dec. 3, 2026, interim meeting. Reporting revisions include the following:

- New balance sheet reporting lines for negative IMR and deferred derivative assets and liabilities.

- Revised exhibit of capital gains and losses, which includes amounts allocated to IMR and AVR.

- Revised IMR Form with expanded lines and instructions for clarity on adjustments in/out of IMR.

- Revised IMR Amortization schedule and instructions. Revisions eliminate guidance reflected within SSAP No. 7, update amortization timeframes, and eliminate hypothetical IMR example.

- Revised and new disclosures to reflect the guidance in SSAP No. 7. These include attestations on determining and recognizing known liquidity sales, note disclosure on admitted IMR to adjusted capital and surplus, new disclosures for the proof of reinvestment, remaining unamortized balances for gains and losses from non-accounting effective hedging derivatives previously reflected in IMR, and disclosure for the reconciliation of PRB and AAT along with indication on whether entities nonadmitted more net negative IMR due to year-end threshold limitations than what was reflected in the actuarial projections.

Note – The SSAP and issue paper included in the Hearing materials include reference pointers between the two documents. (For example, references link the SSAP paragraph to the corresponding issue paper paragraph. These references are for development purposes and paragraph verification only and will be removed once adopted and included in the publication materials.

Industry Compliance Proposal: As discussed at the Summer National Meeting, the revised SSAP No. 7 does not increase the admittance limit for net negative IMR. The admittance guidance mirrors the provisions in *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve*. Industry has developed a compliance verification proposal which was presented and exposed during the Working Group's Oct. 7 interim meeting.

Comments on Industry Compliance Proposal – Due November 6, 2026:

NAIC staff will review completed disclosures related to IMR and provide assessments to the Working Group. New agenda items are planned for subsequent discussions and are expected at future Summer National Meetings to detail findings from the prior year financial statements (received March 1 of each year). As discussed by the Working Group on Aug. 12 and Oct. 7, there are no automatic admittance increases planned. Working Group members will vote to incorporate revisions to SSAP No. 7 when increases to the admittance limit are considered.

Note – Revisions were considered to paragraph 97 of the issue paper to detail the industry compliance proposal. However, additional revisions were not considered necessary. Separate agenda items will be drafted to consider each IMR admittance increase, illustrating the proposed revisions to SSAP No. 7, when supported by the Working Group after compliance assessments are completed.

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Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-15 (Julie)	**Asset Liability Management Derivatives**	**7 - SSAP No. 109 8 - Issue Paper**	**Comments Received**	**Att. 21 ACLI – 10 IP – 16**

Summary:
On August 12, 2026, the Working Group exposed a revised *SSAP No. 109—Asset and Liability Management Derivatives* and corresponding issue paper with an updated January 1, 2028, effective date. With the exposure, the Working Group sent a referral to the Life Actuarial (A) Task Force to review and assess the guidance, and to consider facilitating a pilot review in early 2027. The 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. Additionally, with the exposure, the Working Group directed a blanks proposal to incorporate new reporting lines for these derivatives.

ACLI Comments:
The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the Statutory Accounting Principles (E) Working Group (SAPWG) exposure draft, Ref #2024-15: Asset Liability Management (ALM) Derivatives, released for comment at the Summer National Meeting. We strongly support the proposed statutory accounting guidance for interest-rate hedging derivatives used for ALM.

We appreciate SAPWG's continued engagement with stakeholders and offer the following comments for consideration:

We support the revisions included in the latest exposure draft, including the treatment of deferred gains and losses upon derecognition of a hedged liability portfolio due to reinsurance, the inclusion of deferred gains and losses in principles-based reserving (PBR), aet adequacy testing (AAT), cash flow testing (CFT), and the elimination of accelerated amortization.

During prior discussions, regulators indicated that "Effective Duration" could serve as an appropriate effectiveness testing methodology. ACLI would support explicitly identifying Effective Duration in paragraph 13 as an acceptable method.

The mechanics included in the exposure draft are essential to ensuring SSAP No. 109 operates as intended and are consistent with the framework established under SSAP No. 86. Importantly, the exposure draft permits admission of deferred gains and losses associated with highly effective hedges recognized under the ALM derivative standard, thereby avoiding unintended disincentives to prudent risk management activities. This is consistent with the entire purpose of the hedge (i.e., shielding surplus from interest rate impacts).

1) Upon maturity or termination, admission of the deferred asset or liability results in an initially surplus-neutral outcome, as the deferred offsets the cash received or paid upon settlement. The deferred amount is subsequently amortized over the life of the hedged liabilities, causing the hedge's ultimate surplus impact to align with that of the hedged items. This treatment appropriately reflects the economics of a highly effective hedge because amortization of the

deferred derivative balance offsets changes in credited interest, product liabilities, and bond net investment income over time.

2) ALM derivatives are used as part of a prudent risk management framework and mitigate surplus volatility arising from asset-liability mismatches. These derivatives incorporate extensive safeguards in the form of effectiveness tests and other limitations on eligible derivative types. Failure to admit deferred gains and losses upon termination or maturity would create a timing mismatch between the hedge and the underlying risk exposure it is intended to offset. Such a result would undermine the purpose of the proposed accounting framework by disconnecting recognition of the hedge from recognition of the associated liability cash flows.

Admitting deferred gains and losses with qualifying ALM hedges promotes sound asset-liability management practices and helps ensure that statutory accounting appropriately reflects insurers' long-term risk management objectives rather than introducing artificial surplus volatility.

ACLI strongly supports the exposure draft and appreciates SAPWG's efforts to develop a practical and effective accounting framework for ALM derivatives. Thank you for the opportunity to provide comments on this important proposal.

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

Recommendation:
NAIC staff recommend that the Working Group expose the proposed *SSAP No. 109—Asset and Liability Management Derivatives* and corresponding issue paper. This exposure is proposed as the Life Actuarial (A) Task Force is currently working with companies to conduct pilot projects to ensure life regulatory life actuaries understand and are comfortable with the specific hedge effectiveness tests to be used with industry. (The exposed documents will eliminate the tracked changes from the Summer National Meeting to show the current version of the SSAP and issue paper.)

Pursuant to the ACLI comments on considering the inclusion of an "Effective Duration" hedge effectiveness method, the ACLI has provided suggested language for consideration. The following proposed ACLI language has been included as a new paragraph 13d in the draft SSAP No. 109 (and in paragraph 19d of the issue paper) for review and comment during the exposure period:

13. The term "highly effective" describes a reduction of the duration difference between the asset and liability portfolios that is accomplished by the hedging derivatives with between an 80%-125% effective rate. One of the following methods shall be designated as the approach for each hedging program to determine whether the program is highly effective:

d. "Effective Duration" measures the effect that a 100-basis-point (1%) change in interest rates will have on the price of an instrument, where expected cashflows change as interest rates change when applicable (e.g., if an instrument has an effective duration of 5, a 1% change in interest rates would be expected to cause an approximately 5% change in the instrument's price in the opposite direction); so if an asset portfolio has an effective duration of 9 and a liability portfolio has an effective duration of 10, a highly effective derivative portfolio hedging this difference would place the effective duration of the assets with derivatives at between 9.8 and 10.25 (80%-125% of the effective duration difference). Alternatively, if asset portfolio duration is 9 and liability portfolio duration is 11, an entity

can elect to hedge only half the difference (between 9 and 11, i.e., 10), in which case a duration of the assets with derivatives of between 9.8 and 10.25 would be highly effective.

Pursuant to the prior direction by the Working Group, a blanks proposal is planned for exposure during the Blank's (E) Working Group Dec. 3 call to capture SSAP No. 109 reporting lines in Schedule DB along with new notes for the disclosures required in the proposed SSAP. These items will be exposed with a January 1, 2028, effective date. NAIC staff notes that the IMR reporting revisions already include new balance sheet reporting categories for deferred derivative assets and liabilities, also with a January 1, 2028, effective date.

The ACLI comments reiterate support for admittance of the deferred losses recognized under the proposed SSAP No. 109. These comments are spurred from an ongoing note in the proposed guidance to confirm admitted asset treatment with the Working Group, and whether there should be a broad assessment of individual or aggregate admittance limits. **NAIC staff request comments from regulators on whether the current "admitted asset" classification in SSAP No. 109 should be retained without limit, and whether a separate agenda item should be drafted to consider aggregate admittance limits. (Deferred derivative losses previously captured in IMR were nonadmitted before 2023 and limited as part of the IMR 10% of capital and surplus threshold under INT 23-01.) Rather than making this decision at the 2026 Fall National Meeting, if preferred, NAIC staff can provide a regulator-only report detailing admittance of these categories as of year-end 2026 for future assessment. (Such report would likely be presented mid-year 2027.) NAIC staff has removed the admitted asset question from the draft SSAP to not solicit future comments.**

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-06 (Julie)	**Fair Value Disclosures**	**9 – Agenda Item**	**Comments Received**	**Att. 21 IP – 18 Vulcan - 28**

Summary:

On August 12, 2026, the Working Group received a referral from the Investment Analysis (E) Working Group on the Note 20C fair value disclosure and re-exposed 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").

This agenda item was originally 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). The comments received from interested parties during the Summer National Meeting noted concerns with reporting fair value for operating entities measured at the equity method.

Interested Parties' Comments:
Interested parties note that the term "operating entity" is currently used in SSAP No. 22, *Leases*, to distinguish entities in a service concession arrangement and in SSAP No. 26, *Bonds*, in the context of distinguishing entities that provide credit support. Additionally, investments in real estate are frequently structured as operating entities as described in the proposed wording below rather than just holding real estate for the purpose of generating investment income and/or capital appreciation. In order to avoid confusion with the use of the same term in SSAP No. 100, we recommend the following wording:

> For purposes of this SSAP, an operating entity is any business entity that conducts business operations other than holding investments for the purpose of generating investment income and/or capital appreciation. This is distinguished from a holding entity which is an entity that does not conduct business operations and holds investments for the purpose of generating investment income and/or capital appreciation.
>
> Insurers' investments in real estate are frequently structured as operating entities that acquire, develop, and/or manage the real estate.
>
> Operating entities include, but are not limited to, investments in scope of paragraphs 8.b.i, 8.b.ii and 8.b.iv. of SSAP No. 97 - *Investments in Subsidiary, Controlled and Affiliated Entities*. In addition, operating entities may include certain 8.b.iii. SCAs that conduct business operations other than holding investments for the purpose of generating investment income and or capital appreciation.
>
> Investments in scope of SSAP No. 93 – *Investments in Tax Credit Structures* are not considered investments for the purpose of generating investment income and or capital appreciation.

Jordan Davis, Vulcan Consulting Group Comments:
I write in response to the Working Group's August 12, 2026 re-exposure of Ref #2026-06, which requested that industry propose guidance and reporting categories to differentiate equity-method investments by operating entities and by structures that hold investments. I offer a single, narrow suggestion on the categorization question.

My background is in valuation of assets that lack observable market prices, including intellectual property and intangible assets — work performed at Aon on engagements up to $226.5 million in subject value. I have no client interest in the outcome of this exposure and represent no reporting entity.

The categorization problem
The difficulty the re-exposure identifies is real, and it is a valuation problem before it is a reporting problem. The two categories require different methodologies:

- **An investment-holding structure** is valued by reference to the assets it holds. Fair value is derived by look-through, and the hierarchy tier of the interest is largely a function of the tiers of the underlying holdings.

- **An operating entity** is valued as a going concern. Fair value derives from earnings capacity, market comparables, or discounted cash flows, and is a Level 3 measurement in substantially all cases.

A single classification cannot serve both. Requiring look-through of an operating business produces a meaningless number, and applying going-concern methodology to a holding vehicle obscures the underlying asset risk the disclosure exists to reveal.

Proposed test
I suggest the distinction be drawn from the composition of the investee's own balance sheet, rather than from its legal form, its name, or the reporting entity's stated intent. Specifically:

1. Classify an equity-method investee as an **investment-holding structure** where financial instruments held for investment return constitute a majority of its total assets, measured at the investee's most recent audited balance sheet date. Classify it as an **operating entity** otherwise.
2. Where the classification is not determinable from available financial statements, require the reporting entity to disclose the investee as an operating entity and to state that the classification could not be determined. Absence of information should default to the more conservative and less informative category, so that the reporting entity bears the cost of opacity rather than the user of the statement.
3. Require disclosure of which category was applied to each aggregated line, so a user can see how much of the reported fair value rests on look-through and how much on going-concern methodology.

I suggest a majority threshold rather than a higher one because a bright line is more auditable than a facts-and-circumstances judgment, and because a threshold near 50% is difficult to manipulate through incidental balance sheet composition. If the Working Group prefers to reduce reclassification between periods, a persistence condition — that the threshold be breached for two consecutive annual periods before the classification changes — would achieve that without reintroducing judgment.

Why this test is operable with information already collected
The principal practical objection to this exposure, raised in industry comment on the related Blanks proposal, is that significant issues must be resolved before the reporting change can be effective. I take that concern seriously. The test proposed above is intended to be answerable from documents reporting entities already obtain.

Under SSAP No. 97, an entity carrying a subsidiary, controlled or affiliated investment already obtains audited financial statements of the investee, or is subject to specific limitations where it does not. The asset composition test requires nothing beyond that same balance sheet. It introduces no new data collection, no new counterparty request, and no new audit procedure — only the reading of a statement the reporting entity already holds.

That property matters more than the precise threshold. A categorization rule that requires new information from general partners or portfolio companies will not be operable by the first reporting period, whatever its conceptual merits. A rule answerable from existing audited statements can be.

On measurements that are not practicable
For interests where fair value is genuinely not practicable to estimate, I suggest the Working Group consider permitting disclosure of a **range** with a stated basis, rather than requiring either a point estimate or the "not practicable" category alone. A defensible range accompanied by its methodology is more informative to a regulator than a point estimate carrying false precision, and more informative than a blank.

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I note this approach has precedent in the Working Group's adjacent work: in the collateral loan discussions supporting Proposal 2025-16-L, industry commenters suggested a range of valuations rather than a single figure. The same reasoning applies here, and consistency between the two disclosures would reduce implementation cost for entities subject to both.

A closing observation
Whatever categorization is adopted, the evidence supporting these measurements will sit in unstructured documents — audited investee financial statements, partnership capital account statements, operating agreements, and Schedule K-1s — rather than in a general ledger. The durable question is therefore not only how the categories are defined but how a reporting entity substantiates a figure to a specific source, and how an examiner or auditor later retraces it.

To the extent the Working Group finds it useful, requiring that reporting entities retain the document and page underlying each reported fair value — without prescribing a format — would materially improve examinability at very low incremental cost, because the documents are already in hand. I raise it only as a consideration for the instructions, not as a proposed amendment to this exposure.

Thank you for the opportunity to comment, and for the Working Group's decision to seek input on the categorization question before finalizing the reporting change. I am happy to expand on any of the above if it would be helpful.

Recommendation:
NAIC staff recommend that the Working Group consider an updated recommendation as detailed in the agenda item and summarized within, with consideration of the following two actions:

1) **Expose a revised agenda item with an updated recommendation for an improved disclosure of Note 20C (fair value of financial instruments) in response to the Investment Analysis (E) Working Group referral along with the proposed deletion of guidance and disclosure from paragraphs 56 and 58 of *SSAP No. 100—Fair Value* for when it is not practicable to estimate fair value. (This disclosure was originally incorporated to mirror U.S. GAAP but the U.S. GAAP disclosure was deleted in *ASU 2016-01: Recognition and Measurement of Financial Assets and Financial Liabilities*.) With exposure, it is recommended that the Working Group direct NAIC staff to sponsor a corresponding blanks proposal for exposure during the Blanks (E) Working Group's upcoming Dec 3, 2026, interim meeting. This blanks proposal will illustrate the prescribed format of Note 20C and delete Note 20D – Not Practicable to Estimate Fair Value.**

2) **Direct NAIC staff to consider distinctions of "operating entities" and "investment entities" (and the comments received) as part of the *SSAP No. 48—Joint Ventures, Partnerships and Limited Liabilities Companies* project. This project is ongoing and is expected to be presented to the Working Group in 2027.**

Updated Recommendation for the Note 20C Disclosure:
In response to the Investment Analysis (E) Working Group referral on the format and contents of Note 20C, and comments received on the deletion of the fair value financial instrument equity method investment exclusion, the recommendation has been revised to address the equity method exclusion within the SSAP No. 48 equity project and incorporate a prescribed format for Note 20C. Additionally, revisions have been proposed to paragraphs 56 and 58 of S*SAP No. 100—Fair Value* to remove guidance and disclosure for when it is not practicable to estimate fair value. This disclosure, reflected in Note

20D, was originally included to mirror U.S. GAAP, but it was deleted in *ASU 2016-01: Recognition and Measurement of Financial Assets and Financial Liabilities*.

As shown in the proposal for the prescribed Note 20C format, there are situations in which NAIC staff has proposed to consolidate investment schedule reported information, as well as situations in which the information is proposed to mirror the investment schedule reporting lines.

In addition to the proposed revisions related to the financial instrument fair value disclosure in Note 20C, the agenda item shows the current illustration for note 20D for when it is not practicable to obtain fair value with a proposal to delete the SSAP No. 100 reference, the note disclosure and the related column in Note 20C.

As shown in the agenda item, the updated recommendation includes a revised proposed illustration for Note 20C. This shows the proposed set illustration for which all companies will be required to follow to ensure consistent and comparable reporting. Notes are included with specific requests for comment. Tracked changes are not shown for the proposed blanks changes as the reporting lines have been completely revised.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-02 (Robin)	**Valuation of Funds Withheld**	**10 – Agenda Item**	**Comments Received**	**Att. 21 IP – 16**

Summary:
On August 12, 2026, the Working Group exposed modified revisions *to SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*, to clarify the reporting of the funds withheld liability under reinsurance contracts.

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 exposures. 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.

Interested Parties' Comments:
The Working Group exposed modified guidance for SSAP No. 61, as illustrated in the exposure draft. 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, however the modified exposed guidance recommends 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 from the prior exposure.) The Working Group directed that the Reinsurance Task Force be notified of the exposure. The effective date for the prior blanks proposal was changed to year-end 2027

and was deferred on May 28th. Additional modifications to the blanks proposal will be developed after finalizing the SSAP No. 61 guidance.

Interested parties appreciate the NAIC's collaboration and consideration of our feedback throughout the development of the proposed amendments to SSAP No. 61R. Interested parties are supportive of the proposed amendments to SSAP No. 61R and the objectives of the exposure. We do, however, have two minor editorial suggestions that we believe would further improve the clarity of the guidance:

1. Minor grammatical edits to paragraph 22(f)(ii):

   "*For purposes of determining ~~a~~ the collateral deficiency liability, if applicable, the ~~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.*

2. Paragraph 22(e)(ii) discusses reporting treatment where the funds withheld is underfunded (and a receivable is recorded) but is silent on the treatment where it is overfunded. As such, we are proposing a few edits to clarify how to report an overfunded arrangement where the overfunding is contractually due to the reinsurer:

   "*The ceding entity shall also establish a reinsurance receivable for the unfunded amount of collateral, or a reinsurance payable for the overfunded amount of collateral, contractually owed by/to the reinsurer as of the reporting date in accordance with the contract terms*."

With respect to 2026-10BWG, there were significant changes proposed to the related SAPWG exposure, Ref #2026-02, during the Summer National Meeting that have not yet been reflected in 2026-10BWG. Interested parties recommend that the NAIC and regulators revisit the proposed changes in the blanks exposure after the SSAP No. 61 guidance has been finalized to ensure that the annual statement instructions are not in conflict with SSAP No. 61.

Recommendation:
NAIC staff recommend that the Working Group adopt the exposed SSAP No. 61 guidance with the minor revisions to paragraphs 22.e.ii and 22.f.ii. as suggested by interested parties (illustrated below). NAIC staff recommend that the SSAP No. 61 revisions be effective immediately upon adoption. However, annual statement revisions will not be in effect prior to year-end 2027 and therefore NAIC staff requests confirmation of the SSAP No. 61 effective date. If the SSAP No. 61 revisions are supported with an immediate effective date, NAIC staff will provide the Blanks (E) Working Group a memo detailing the reporting impact for posting on their webpage.

NAIC staff will submit a revised annual statement blanks proposal for exposure on the Dec. 3, 2026, Blanks (E) Working Group interim meeting.

The SSAP No. 61 revisions illustrated below are recommended for adoption. The gray shaded revisions reflect modification from the prior exposure to show the minor revisions suggested by interested parties.

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, or a reinsurance payable for the overfunded amount of collateral, contractually owed by/to 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.

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ii. For purposes of determining ~~a~~the collateral deficiency liability, if applicable, the ~~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**	**11 – Agenda Item**	**Agreement**	**Att. 21 IP – 17**

Summary:
On August 12, 2026, this agenda item was exposed with additional proposed revisions to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items* to address comments from interested parties that gain contingency guidance did not adequately address the recognition of grant income conditioned on the acquisition or construction of an asset (grants related to assets). This agenda item was originally exposed at the May 18, 2026, interim meeting and was drafted to address *Accounting Standards Update (ASU) 2025-10, Accounting for Government Grants Received by Business Entities* which was issued by the Financial Accounting Standards Board (FASB) 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).

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 recommend that the Working Group adopt revisions, with modifications from the exposure as shown below, to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items* to reject *ASU 2025-10, Accounting for Government Grants Received by Business Entities* and revisions to *SSAP No. 67—Other Liabilities* to clarify the statutory treatment of *FASB Statement No. 116, Accounting for Contributions Received and Contributions Made*.

Recommended adoption includes the following additional revisions:

- Minor revisions to guidance to reflect recommendations made by interested parties during interim meetings.
- Revisions include changes to clearly reject FAS No. 116 and SOP No. 96-1 as the accounting guidance detailed in these statements were not adopted and incorporated into statutory accounting when originally addressed.
- Revisions do not incorporate interested parties' recommendations to allow insurers to use either the deferred income or cost accumulation approach.

The current exposure draft reflect additional changes made in response to interim discussions with interested parties; delete gain contingency reference language for grants to clarify the recognition criteria for grants related to assets, and that deferred grant income is intended to be amortized in a manner which matches the depreciation, gain or loss on sale, or impairment of the acquired asset. NAIC staff has not incorporated the interested parties' recommendation to allow insurers to use either the deferred income or cost accumulation approach. Whenever feasible, statutory accounting generally does not allow optionality in the application of accounting guidance. NAIC staff recommend the deferred income approach, which requires gross presentation, because it would more clearly present government grants balances and allow regulators to more easily easier identify and assess deferred assets related to grants. NAIC staff also noted that ASU 2025-10 intends the net effect of grant income recognition to be the same under either approach. As such, whether reported gross through deferred grant income or net as a reduction of the acquired asset, grant income should be recognized in earnings over the same periods in tandem with depreciation expense.

Separate from discussions with interested parties, NAIC staff have also proposed an additional clarification that the prior adoption by reference in *SSAP No. 67—Other Liabilities of FASB Statement (FAS) No. 116, Accounting for Contributions Received and Contributions Made* was only intended to establish that donations and grants made by the reporting entity were Other Liabilities within the scope of SSAP No. 67, and no other aspects of FAS No 116 were adopted by reference or incorporated for statutory accounting purposes. To avoid confusion, rejection of both FAS No 116 and SOP No. 96-1 is recommended as no aspect of the accounting guidance in either statement was intended to be incorporated into statutory accounting. The guidance already provided in SSAP No. 5 is sufficient for determination of whether a promise to give or environmental remediation meets the definition of a liability.

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 (e.g. depreciation, gain or loss on sale, or impairment of the acquired asset). 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

26. 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*.

Recommended Revisions to SSAP No. 67—*Other Liabilities:*
Relevant Literature

~~13. This statement adopts FASB Statement No. 116, Accounting for Contributions Received and Contributions Made and AICPA Statement of Position 96-1, Environmental Remediation Liabilities. This statement is consistent with FASB Statement No. 5, Accounting for Contingencies as discussed in SSAP No. 5.~~

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-08 (Julie)	**Insurer Company Owned Life Insurance - ICOLI**	**12 – Agenda Item**	**Comments Received**	**Att. 19 ACLI –1 IP – 6 Nationwide –10 IIG – 14 Finseca – 31 Blocher – 37**

Summary:
On August 12, 2026, the Working Group exposed this as a concept agenda item with a request for comments on whether the amounts reported under *SSAP No. 21—Other Admitted Assets*, paragraph 9, should be captured on Schedule BA: Other Long-Term Invested Assets 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. The exposure identified that consideration of comments will occur before formally moving this item to the Working Group's active agenda. The Working Group also directed a referral to the Capital Adequacy (E) Task Force to notify of this exposure and request initial feedback on the potential inclusion of these items as an invested asset, with assessment of RBC factors.

ACLI Comments:
The American Council of Life Insurers (ACLI) appreciates the opportunity to provide additional information about insurance company-owned life insurance (ICOLI). The discussion below provides further detail regarding ICOLI's business purposes, product structures, risk characteristics, existing safeguards, and potential approaches to enhanced regulatory transparency.

Executive Summary
Growth in reported ICOLI balances has increased regulatory interest in the transparency, concentration, oversight, and capital treatment of these life insurance purchases. As a threshold matter, ICOLI is an insurance product, not an investment. Its statutory reporting should reflect the nature of the insurance product and should not be classified as an invested asset on Schedule BA.

ICOLI is life insurance that is purchased by insurers to meet legitimate, long-term business needs, including offsetting the costs of employee-benefit obligations, key-person risk, and business continuity. The policyholder owns an insurance policy, not the assets supporting it. ICOLI's statutory and capital treatment should reflect the reporting insurer's actual exposure under the particular contract, including consideration of the relevant counterparty, investment, concentration, liquidity, and guarantee risks, rather than treating the policyholder as if it directly owned the underlying assets.

ACLI supports reporting that gives regulators the transparency needed to assess ICOLI's use, materiality, structure, risk mitigants, counterparty exposures, and governance and stands ready to work with regulators to provide the information needed. Any additional measures should avoid duplication, distinguish among product structures, and remain focused on the particular contract and the reporting entity's actual exposure.

ICOLI's Business Purpose and Governance
ICOLI helps companies offset the cost of long-term retirement and employee-benefit obligations, manage key-person risk, and support succession and business continuity. Policyholders pay premiums, including mortality and expense, and administrative charges, for this coverage.

ICOLI is intended to meet long-term insurance needs, often through coverage maintained for decades until benefits are paid. Although purchasers evaluate policy values and investment-related features, they acquire insurance to address identified business needs—not the underlying investments or short-term returns.

An ICOLI program is subject to pre-purchase analysis, management or board approval, and ongoing oversight. That review typically considers the program's purpose and size, expected benefit costs, capital, liquidity, policy performance, counterparty exposure, and the issuer's financial strength.

The Policyholder Owns the Policy, Not the Underlying Assets
The policy defines the policyholder's legal and economic rights. The issuing insurer owns the assets supporting the contract through its general or separate account. A policyholder may allocate values among available separate account investment options, but it does not own the underlying assets as a direct investor would.

Accordingly, ICOLI's investment-related features should be evaluated within the policy framework, including the issuer's obligations, insurance benefits and guarantees, contractual rights, and limits on policyholder authority.

Investor-control requirements imposed by federal court and IRS rulings reinforce this distinction: the issuer selects the available investment options, and the policyholder may allocate values only among those options—not select or control their individual assets.

Product Structures and Risk Characteristics
The chart below provides a simplified comparison of common ICOLI product structures and selected risk characteristics. ICOLI products may use a general account structure or a separate account structure, and some policies may permit allocation between general account and separate account options within a single contract. The specific features, risks, guarantees, and policyholder exposures associated with any particular policy will depend on the terms of the contract. No structure should be viewed as inherently preferable. Each presents different contract features and risk characteristics that should be understood on their own terms.

Feature	General Account Product	Separate Account Product
Policy structure	A fixed life insurance policy supported by the issuer's general account. Policy value is credited based on a declared rate or an index-related rate.	A variable life insurance policy using a separate account. The policy permits allocation among investment options available under the policy.

Feature	General Account Product	Separate Account Product
Nature of exposure	Benefits and policy values depend on the terms of the policy and the issuer's contractual performance and claims-paying ability.	Policy values respond to selected investment options. Any guarantees and insurance benefits are subject to the terms of the policy and the issuer's ability to perform.
Risk exposure	Exposure reflects contractual obligations and claims-paying ability including applicable guarantees, crediting provisions, and other policy terms.	Exposure reflects investment-option performance together with diversification and investor-control requirements, policy features, issuer obligations and the existence (if any) of a stable value wrap or other risk mitigants.
Ownership and control	The policyholder owns the insurance policy, not the assets in the issuer's general account.	The policyholder owns the policy, not the separate account assets, and has the allocation rights provided by the policy.
Death benefits	The issuer pays the death benefit according to the policy terms, including any applicable guarantees.	The issuer pays the death benefit according to the policy terms, including any applicable guarantees.
Guarantees and wraps	The issuer may provide minimum crediting, policy-value, or death-benefit guarantees under the policy.	If included, a stable value wrap may provide minimum crediting and amortize market-value fluctuations, subject to the wrap provider's financial strength.

The structures differ in how policy values are determined and the mix of issuer, investment-performance, guarantee, and other contractual risks they present. Some policies may permit allocations to both general account and separate account options, in which case the policyholder's exposure reflects the contractual features, guarantees, risk mitigants, and other terms applicable to each allocation. These features should be evaluated together under the terms of the particular contract rather than viewed in isolation. Across all structures, the policyholder owns an insurance policy rather than the underlying assets, and its exposure is governed by the terms of that policy and the issuing insurer's contractual obligations.

Existing Safeguards Inform the Regulatory Analysis

ICOLI operates within established legal, regulatory, and governance safeguards that shape how it is designed, acquired, maintained, and overseen. Issuers are regulated insurers subject to licensing, examination, reserve, and risk-based capital requirements. Federal tax rules, including the notice-and-consent requirements, state insurable-interest requirements, investment diversification and investor-control limits, and internal governance processes impose additional conditions on coverage and oversight.

Together, these safeguards tie coverage to an eligible insured population, constrain the amount and design of coverage, limit concentration and policyholder control over separate account investments, and support disciplined approval and monitoring.

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Building on these safeguards, ACLI supports additional disclosure or targeted governance measures where needed to address identified risks, provided that any response is informed by the existing framework and remains proportionate.

Understanding Growth and Materiality
Growth in ICOLI balances has increased interest in product use, policy-structure risks, and regulatory reporting. Balances may rise for a number of reasons including additional premiums, growth in existing policy values, or changes in the obligations the programs support.

ICOLI growth is subject to practical, legal, financial and governance constraints. Specifically, ICOLI programs are constrained by the underlying business need, the eligible insured population, state insurable-interest and federal notice-and-consent requirements, federal tax rules, issuer underwriting and product limits, and the purchaser's governance and risk-management processes. Program size is also considered in relation to the purchaser's capital, surplus, liquidity, expected obligations, risk appetite, and overall financial condition.

Capital Treatment Should Reflect the Risk Exposure
Any analysis of capital treatment should begin with the nature and location of risk under the particular ICOLI contract, including the extent to which existing reserves, capital, disclosure, governance, or other requirements already address the risk under consideration. Accounting presentation, disclosure, and capital treatment serve different purposes and should be considered separately, even when they are informed by the same facts. Separate account performance may affect policy values, but the policyholder's exposure is also shaped by the issuer's ability to pay death benefits according to the terms of the insurance contract, including limited allocation rights, issuer obligations and financial strength, guarantees, and the absence of direct ownership or control of the underlying assets.

A Proportionate Path Forward: Targeted Disclosure and Risk-Based Oversight
ACLI supports a proportionate, principle-based, and risk-focused approach that preserves ICOLI's treatment as a life insurance policy while giving regulators meaningful information about its use and risk characteristics.

Enhanced reporting could provide regulators with information about the amount and materiality of ICOLI held; the program's business purpose; the use of a general account or separate account structure, including policies that permit allocations between both; the general nature of the separate account investment options; relevant guarantees and risk mitigants; issuer and wrap-provider exposure; and the governance supporting approval and ongoing monitoring.

Any new reporting should be designed to improve regulatory risk assessment, avoid duplication, distinguish among product structures, and focus on the risks of the particular contract and the reporting entity's exposure.

Conclusion
ICOLI should be reported and evaluated as an insurance policy based on the terms of the particular contract, the reporting insurer's actual exposure, and the safeguards and oversight that apply. ACLI supports enhanced disclosure that results in a proportionate, risk-focused approach.

Thank you for considering our comments, ACLI looks forward to working collaboratively with regulators on this issue.

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Interested Parties' Comments:
Interested parties held several conference calls to discuss this item to ensure that we had input from all parties involved, including the life companies that issue ICOLI contracts, the organizations that market ICOLIs, and the insurers that purchase ICOLIs. From those discussions, we offer the following comments:

Overview
Insurance company-owned life insurance, or ICOLI, is an insurance product where an insurance company is the purchaser (and policyholder), beneficiary, and owner of life insurance policies placed on selected senior executives and other key officers or employees to offset the cost of long-term employee benefit and risk management objectives. Like other life insurance products, ICOLI contracts are acquired through the payment of premiums for insurance coverage, and the purchaser does not have direct ownership of investments. Instead, the policyholder's rights arise from the insurance contract itself, including cash surrender value, death benefits, guarantees, and other contractual features.

Qualifying ICOLI operates within a framework of federal tax requirements and state insurance laws and regulations, including IRC §7702 requirements, insurable-interest standards, employee notice and consent requirements, investor-control limitations, and diversification requirements. As part of the governance over the purchase of ICOLI, management provides an assertion that, at acquisition, the reported amount that could be realized from the life insurance policies did not exceed the present value of expected costs related to employee benefit obligations or the loss of key persons.

Included in the state insurance requirements is the accounting guidance contained in SSAP No. 21 – *Other Admitted Assets*, which measures qualifying ICOLI on the statutory balance sheet at the cash surrender value, i.e., the amount realizable under the insurance contract as of the reporting date.

Cash surrender value is an objective reporting measure but is not a representation of the contract's overall economic value that is paid at maturity, i.e., the amount of the death benefit. Because ICOLI is generally acquired to support long-term employee benefit and risk management objectives, the contracts are expected to be maintained through maturity rather than surrendered in the ordinary course of business.

ICOLI Contract Structures
ICOLI products span a range of structures that allocate investment risk differently between the issuing insurer and the policyholder. Some products place substantially all investment risk on the issuing insurer, while others provide the policyholder with exposure to the performance of particular asset classes based on the contractual features offered by the issuer and selected by the policyholder. Contractual guarantees, stable-value features, surrender provisions, and other policy terms can materially influence the economic relationship between the insurer and policyholder, and ultimately the amount paid at maturity.

As noted above, the cash surrender value of a policy does not necessarily reflect the policyholder's economic exposure over the expected duration of the contract.

The Purchasers' Financial Statement Disclosures
The life insurance companies that issue ICOLI already report the associated liability for the contracts on their balance sheet with the required disclosure in their notes to financial statements and have a prescribed risk charge in their risk-based capital (RBC) requirements. Accordingly, the risks to the issuing company are already reflected in their RBC calculation.

From the purchaser's perspective, enhanced disclosures in the notes to financial statements may provide regulators with greater transparency. Since the purchaser acquires an insurance contract and not the underlying reserve assets, we do not believe it would be appropriate for the cash surrender value of the insurance policy to be reported in the purchaser's Schedule BA.

We believe the following additional disclosures would be helpful in providing increased transparency into the risks associated with an insurer owning ICOLI, and would also support the consideration of appropriate risk-based capital charges:

- Risk characteristics of underlying investments, if applicable
- Affiliated investment manager relationships, if any
- Whether there are contract guarantees and/or stable-value features that materially reduce volatility

Risk-Based Capital Treatment

Although not explicitly requested in the exposure, interested parties understand that one of the regulators' key concerns relates to the risk-based capital treatment of ICOLI balances reported by insurers that own ICOLI. As noted above, the ICOLI assets are reported at cash surrender value by the purchaser with changes to the cash surrender value recognized in earnings (surplus). If the value of the underlying investments decreases, the cash surrender value, and therefore surplus will decrease. This is in contrast to many other assets on the statutory balance sheet which are carried at amortized cost.

As noted above, the risks to the issuing company are already reflected in their RBC calculation. From the purchaser's perspective, there is a wide range of contractual features that impact the economics and risks to the purchaser. As a result, interested parties considered a couple of approaches that could be used for incorporation of the risk into the purchaser's RBC.

The first approach would be to develop and implement a single RBC charge that would be applied to the owned ICOLI asset for contracts that expose the reporting entity to investment risk, regardless of the features included in the ICOLI insurance contract. Interested parties believe it would be difficult to identify a single charge that would encompass the range of features currently offered in ICOLI insurance contracts and believe this approach would not capture the diversity and complexity of risks present in the contracts.

The second approach would be to apply a range of RBC charges based on the risks associated with the range of features currently offered and that are calibrated to the associated risk. We believe this approach is more consistent with the risks resulting from the contracts but realize it would take additional work to identify the range of features and identify the appropriate RBC factors. Interested parties are willing to work with staff to develop a data-captured disclosure that would provide sufficient information about the risks in the contracts and, if desired, provide a basis for the development of appropriate RBC factors to be applied in the purchaser's RBC calculation. The data points described above would provide an appropriate starting point for this discussion.

Alternatively, if regulators prefer a different approach, we also offer to work with staff on the appropriate disclosure needed to capture the relevant information.

<u>Nationwide Comments:</u>

Nationwide is one of the largest insurance and financial services companies in the United States, operating both property and casualty and life insurance businesses. As both a policyholder and leading issuer of ICOLI, Nationwide values the opportunity to provide its perspective on the structure, purpose, and risk characteristics of these products.

Nationwide supports the American Council of Life Insurers' ("ACLI") proposal to preserve the accounting treatment of ICOLI as a life insurance contract rather than an investment. Nationwide also supports enhanced disclosures and targeted safeguards that provide regulators with greater transparency into ICOLI products and address the concerns identified by SAPWG. To the extent regulators ultimately determine that risk-based capital ("RBC") requirements are appropriate for certain ICOLI products, Nationwide believes any such RBC framework should be appropriately tailored to the risk profiles of different products.

Overview of ICOLI

ICOLI is a life insurance contract with rights and obligations governed by the terms of the insurance policy. Pursuant to SSAP No. 21 – *Other Admitted Assets*, ICOLI must satisfy the definition of life insurance under Internal Revenue Code ("IRC") §7702 and be acquired primarily in connection with employee benefit obligations or key person risks. As such, qualifying ICOLI operates within a framework of federal tax requirements and state insurance laws, including insurable-interest standards, employee notice and consent requirements, investor-control limitations, and diversification requirements. Collectively, these safeguards help ensure that ICOLI retains its character as a life insurance product and is used in a manner consistent with its intended insurance and business purposes.

A fundamental characteristic of ICOLI is that the policyholder owns a life insurance contract rather than interests in the underlying assets supporting the insurer's obligations under the contract. The policyholder's payment of premium secures its rights as defined by the insurance policy and its contractual provisions, including rights to cash surrender value, death benefits, guarantees, rights to allocate cash value among the separate account if applicable, and other policy benefits. Although the assets supporting the policy are invested by the issuing insurer and may influence policy performance, the policyholder does not possess the rights, control, or economic interests associated with direct ownership of those assets. Instead, the policyholder's relationship is with the insurer through the life insurance contract, and the insurer remains responsible for fulfilling its contractual obligations under that policy. The economic value associated with an ICOLI policy is not determined solely by the assets supporting the contract. Contractual features such as stable-value structures, contract guarantees, cash surrender and loan provisions, and other policy terms provide meaningful value by providing stability, liquidity, flexibility and other benefits to policyholders.

Consistent with this framework, SSAP No. 21 requires policyholders of qualifying ICOLI products to measure the asset based on the amount realizable under the insurance contract rather than the underlying assets themselves. The use of cash surrender value as the reported amount reflects a practical and objective measurement convention for financial reporting purposes, not a conclusion that cash surrender value represents the full economic value or risk profile of the contract. In practice, ICOLI is generally acquired to support long-term employee benefit and risk management objectives and is expected to be maintained through maturity rather than surrendered in the ordinary course of business. As a result, policyholders typically expect to realize value through the long-term operation of the contract and the associated death benefits, rather than through surrender of the policy for cash value.

Cash surrender value incorporates contractual provisions such as surrender charges and other adjustments that are relevant to determining a realizable amount for reporting purposes but do not fully reflect the broader economics of the insurance contract. Likewise, changes in the value of the underlying investments can affect reported cash surrender value while having a materially different effect on the overall economics of the policy due to contractual guarantees, stable-value features, and other contractual provisions. Accordingly, the reported amount under SSAP No. 21 should be understood as an

objective measure of the policy's realizable value rather than a proxy for direct ownership of the underlying investments.

ICOLI Contract Structures

ICOLI products span a range of structures, each of which allocates investment risk differently between the issuing insurer and the policyholder. At one end of the spectrum are general account products, in which the insurer bears substantially all investment risk and remains responsible for delivering the contractual benefits promised under the policy. At the other end are policyholder-directed or separate account arrangements, where the policyholder assumes the risk of exposure to investment performance. Many ICOLI products incorporate contractual guarantees, stable-value features, surrender provisions, and other terms that influence the economic relationship between the policyholder and insurer.

As a result, two ICOLI policies with identical reported cash surrender values may present materially different economic exposures depending on their contractual design and the degree of investment risk retained by the insurer. Any evaluation of an ICOLI arrangement requires consideration of the insurance contract as a whole, including the allocation of risk between the parties and the effect of contractual features that modify the economic outcomes of the policy.

Recommended Path Forward

Nationwide supports targeted enhancements to the existing disclosure framework to provide regulators with greater transparency regarding the nature of ICOLI products and the economic exposures associated with those products. Such disclosures could include information regarding the risk characteristics of underlying investments, material concentrations by underlying asset category, allocations to affiliated investments/investment managers, the extent to which contractual guarantees or stable-value features modify investment risk, and the relative significance of ICOLI holdings to the reporting entity's capital position. Enhanced disclosures would improve regulatory visibility while preserving the distinction between ownership of a life insurance contract and ownership of the assets supporting that contract. Nationwide also acknowledges that additional disclosure alone may not fully address the concerns identified by regulators. Accordingly, Nationwide supports targeted safeguards that directly address the specific concerns identified by regulators.

To the extent regulators are considering refining the RBC requirements applicable to certain ICOLI products, Nationwide believes any resulting RBC framework should be based on the economic exposure of the policyholder and the extent to which investment risk has been retained by the issuing insurer or assumed by the policyholder. This could be accomplished through a framework that distinguishes among product structures, such as general account products, in which the insurer retains substantially all investment risk and separate account structures where the policyholder bears the investment risk, while taking into consideration products that incorporate stable-value features, minimum death benefit protections, or other contractual provisions that serve to stabilize that risk. Furthermore, an aligned regulatory approach should contemplate the potential overlap of risk coverage between the issuing carrier's liability-side C-3 capital charges and the investing carrier's asset-side RBC treatment. Ultimately, Nationwide would support a RBC framework that results in a materially equivalent capital outcome for economically analogous risk exposures while recognizing the distinct contractual features and risk profiles of different ICOLI products.

Taken together, enhanced disclosures, targeted safeguards, and any appropriately tailored RBC requirements would directly address concerns regarding transparency, concentration risk, and the use of ICOLI structures without requiring the fundamental recharacterization of qualifying ICOLI as a direct

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investment. Accordingly, Nationwide does not believe reporting qualifying ICOLI on Schedule BA would be appropriate. Schedule BA is intended to capture invested assets, whereas ICOLI remains a life insurance contract governed by its contractual rights and obligations. This approach would acknowledge the differences among ICOLI product structures and allow regulators to focus on the economic characteristics of a particular arrangement rather than applying a single framework to all ICOLI products.

Conclusion

For these reasons, Nationwide recommends that the existing statutory accounting framework for qualifying ICOLI policies be maintained. Nationwide believes regulator concerns can be addressed through enhanced disclosures, targeted safeguards, and, if necessary, appropriately tailored RBC requirements without recharacterizing ICOLI as an invested asset.

Institutional Insurance Group Comments:

Institutional Insurance Group, LLC (IIG) appreciates the opportunity to comment on Agenda Item Ref #2026-08. IIG specializes in the design, implementation, and ongoing administration of corporate owned life insurance (COLI) programs for institutional purchasers, including insurance companies (ICOLI)[1]. IIG is a market leader in the ICOLI market, advising clients with more than $22 billion of existing ICOLI assets. That experience provides IIG with a practical perspective spanning these programs' purpose, product design, carrier and investment structure, implementation, governance, accounting, and long-term administration.

IIG supports the rational recommendations advanced by Interested Parties (IPs) led by Keith Bell and Rose Albrizio as well as the American Council of Life Insurers (ACLI): qualifying insurance company owned life insurance (ICOLI) should continue to be accounted for and reported separately as a life insurance policy under SSAP No. 21, rather than reported as an invested asset on Schedule BA.

Executive Summary

IIG recommends that qualifying policies under the current SSAP No. 21 remain classified and reported as a life insurance policy under SSAP No. 21 rather than as an invested asset on Schedule BA.

Accounting Classification and Reporting

- This treatment reflects the asset legally owned by the reporting entity (policyholder): an insurance policy providing death benefits, contractual guarantees, cash surrender value, mortality protection, and a claim against the issuing life insurer and not direct ownership or control of the assets supporting the policy.
- IIG proposes expanded Note 21 reporting that categorizes ICOLI by the degree of investment-performance exposure and contractual protection, with progressively higher capital factors for

[1] Corporate or company owned life insurance (COLI) that is owned by insurance companies is sometimes referred to as ICOLI (insurance company owned life insurance). ICOLI is primarily a marketing term used to distinguish insurance company owned programs from other forms of COLI. In addition to being subject to the legal, tax, and regulatory requirements applicable to all COLI arrangements, ICOLI programs must also address statutory accounting, regulatory, rating agency, and other considerations unique to insurance company operations. As a result, ICOLI programs typically require significant specialization and customization to meet the needs and requirements of insurance company owners. For clarity, the term ICOLI is used throughout this document to distinguish these arrangements from COLI generally and to align with the agenda item usage. **We believe that any accounting text should continue to refer to it as corporate or company owned life insurance, COLI, or as a life insurance asset**.

General Account, Declared Rate Separate Account, and Variable Separate Account policies. Non-qualifying policies would remain non-admitted.

Amendments to SSAP No. 21 to Add Additional Targeted Guardrails

- Require documentation supporting employee benefit or key-person purposes.
- Demonstrable ability and intent to hold policies to maturity.
- Restrictions addressing affiliated investment management.
- Periodic board or senior management review.
- Regulatory examination of program purpose, size, governance, and compliance.

Together, these measures would improve transparency and oversight while preserving the established distinction between a qualifying life insurance policy and a direct investment.

Accounting Classification and Reporting

By incorporating IRC §7702 within SSAP No. 21 in 2018, regulators created a clear, established bright line between a qualifying life insurance policy and an investment contract. IIG appreciates the Working Group's thoughtful resolution of this issue at that time and the durable framework it established.

COLI is a qualifying life insurance policy, not a direct investment in assets held and legally owned and controlled by the issuing carrier. The reporting entity owns contractual rights to death benefits, cash surrender value, and guarantees; it does not obtain the governance, voting, disposition, or portfolio management rights of a direct investor. Reporting ICOLI on Schedule BA would therefore focus on assets supporting the policy rather than the insurance asset actually owned. Reporting as a direct exposure would be inconsistent with the policy's mortality and insurance protections, and blur distinctions recognized in insurance, tax, and GAAP and statutory accounting frameworks. It would also conflict with the industry's longstanding prohibition against describing life insurance as an "investment" (e.g., NAIC Model Law 570).

ICOLI's treatment as an "other-than-invested" asset is substantive, not merely a reporting convention. IRC §7702 requires a meaningful quantitative relationship between cash value and death benefit, with death benefit exceeding current cash value. A policy that fails the two-prong test under IRC §7702 is not life insurance for federal tax purposes, and its cash value is taxed as an investment contract under §7702(g). Section 7702 thus provides an objective dividing line between qualifying life insurance and an investment account.

In addition, Schedule BA implies that the reporting entity (policyholder) directly bears the risks of the underlying investments. That framework would not fully recognize the substantial risk mitigation provided by:

- The death benefit, which always exceeds the cash value of the policy.
- General account obligations of the issuing insurance company.
- Contractual policy features that determine the cash surrender value.
- Other contractual protections embedded in the policy.
- Regulatory oversight of the issuing life insurer.
- The policyholder's creditor claims against a regulated life insurance company rather than direct ownership of investment assets.

We recognize the concerns prompting this agenda item: ICOLI balances have become more visible, product structures transfer differing degrees of performance exposure, and misconceptions about SSAP No. 21 that persist. Although qualifying ICOLI remains a limited exposure for most reporting entities, these concerns warrant enhanced transparency and disciplined oversight, not reclassification as an invested asset. Accounting classification, regulatory reporting, market conduct, and risk-based capital are related but distinct questions that should be addressed according to their specific objectives and risks. Enhanced reporting and principles-based guidance can provide visibility into program purpose, size, structure, contractual protections, and risk without treating the policyholder as the owner of assets legally owned and controlled by the issuer.

We recognize that the framework we recommend may impose additional reporting, governance, or compliance requirements. Nevertheless, these measures are appropriate to address legitimate regulatory concerns, preserve confidence in the ICOLI market, and ensure that qualifying ICOLI programs continue to serve their intended insurance and employee benefit purposes.

ICOLI Background

Employee Benefit Financing

Corporate-owned life insurance has existed for more than a century. For roughly the past six decades, corporations, banks, and insurance companies have used COLI as a long-term tool to finance or recover the cost of employee benefits and to address key-person risks. Its development reflects a U.S. system in which employers play a substantial role in providing employees with retirement, health, welfare, and other benefits in addition to their compensation.

COLI may support benefits directly, including non-qualified deferred compensation or split-dollar arrangements, or may be used on an aggregate basis to offset or recover employee benefit costs. In a cost recovery structure, expected death benefits are evaluated against long-duration benefit costs. In a cost offset structure, policy performance helps offset current or projected benefit expense. In either case, the economic logic is long-term alignment: long duration employee benefit-related obligations are paired with long duration life insurance cash flows.

Tax law has defined the guardrails that make COLI life insurance and not an investment. A life insurance policy must operate within a substantial legal and regulatory framework:

- IRC §7702 defines the federal tax requirements for a life insurance policy.
- IRC §7702A restricts early distributions from policies to ensure life insurance is used for long-term needs.
- IRC §817(h) imposes diversification requirements on variable policies.
- Treas. Reg. §1.817-5 establishes rules regarding “insurance dedicated funds”.
- IRC §101(j) establishes employer-owned life insurance notice, consent, insured status, and reporting requirements where applicable.
- IRC §264 restricts the deductibility of interest on funds that may be used to buy COLI.
- The Investor Control Doctrine restricts policyholder control of the strategies and investments underlying the policies to only the ability to make allocations among carrier provided options.

State law adds insurable interest, policy form, licensing, and employee protection requirements.

Given the tax and legal characteristics of COLI, the best economic outcome is derived from long-term ownership and receipt of death benefits, since non-death distributions may produce less favorable tax and economic results.

The Investor Control Doctrine reinforces this ownership distinction. A policyholder may allocate among carrier-provided options but may not contribute assets in kind, own supporting assets, direct strategy or security selection, require a particular manager or asset, or exercise direct or indirect control over portfolio management, including through affiliates. This substance-over-form doctrine cannot be avoided through creative structuring. The issuing insurer owns and controls the supporting assets and remains responsible for the policy's cash value, death benefits, guarantees, and other obligations; a violation of this tax doctrine can cause the policyholder to be treated as owning the underlying assets for federal tax purposes, undermining the intended tax treatment of the policy.

Policy Ownership
The accounting for COLI focuses on realizable policy surrender value. GAAP and statutory accounting both use the amount realizable under the insurance policy, while statutory guidance adds purpose and qualification conditions. This balance sheet accounting value for the policy relies on the consistent and conservative measure of the contractual net realizable cash surrender value. Although accounting measures the policy at its realizable cash surrender value, the policy's broader and more important economics include its expected death benefits.

Agenda Item 2018-08 confirmed qualifying ICOLI as an admitted asset subject to two guardrails: qualification as life insurance under federal tax law and acquisition primarily to finance employee benefit obligations or address key-person loss. It also contemplated documentation available to examiners and disclosure by broad investment category. This framework remains conceptually sound because it ties admission to insurance qualification, legitimate business purpose, and regulatory transparency.

At the same time, classification as an other-than-invested asset should not be used to avoid transparency. Regulators should be able to identify material ICOLI exposures, understand the program's purpose and structure, and distinguish among policies with different allocations of risk. IIG therefore recommends preserving SSAP No. 21 while materially improving the reporting framework around it.

ICOLI Products
Product Structures
COLI policies allocate performance risk differently. General Account policies generally place the risk with the issuer. Declared Rate Separate Account policies, including stable value and hybrid designs, combine separate account assets with contractual general account support and determine cash value through a crediting rate set by the issuing carrier. Variable Separate Account policies expose cash value more directly to market performance, subject to mortality benefits, guarantees, charges, and other terms. Across all structures, mortality remains an insurance function and portfolio management remains with the issuing carrier or its designated managers.

Fundamentally, a COLI policy provides a death benefit established at issuance that remains in force for the life of the policy. While the death benefit may increase over time, including as necessary to satisfy IRC §7702 corridor requirements, it is not generally reduced below the contractual minimum established at inception. Consequently, the insurer maintains a net amount at risk and remains obligated to pay a death benefit that, by definition, exceeds policy cash values. This ongoing mortality risk and death benefit obligation are fundamental elements of the policy's economic substance. The issuing carrier must have

ownership and control of the underlying invested assets to assure its ability to pay death benefits. The value provided to the policyholder is derived from an integrated insurance policy that combines both insurance protection and cash value accumulation.

The ICOLI market encompasses a remarkably diverse range of product structures. No two policies are necessarily alike even from the same issuer, especially considering an institutional context where some elements of the policy may be negotiated between issuing carrier and policyholder. Products carrying the same label may differ materially in their crediting mechanics, guarantees, death benefit design, surrender provisions, and charges.

Broad categories should therefore be practical risk groupings, not claims that every policy is identical, and should distinguish economically relevant features rather than rely on labels. Intended use may also come into play: an ICOLI policy matched to a non-qualified deferred-compensation liability may produce negligible net economic exposure because changes in policy performance are offset by changes in participant benefit liability obligations.

Stable Value Features
Stable value structures combine separate account assets with contractual guarantees or other general account support that limit the effects of the underlying assets on realizable policy value. Cash surrender value is determined by a crediting rate with a guaranteed minimum provided by the issuing carrier's general account. These protections reduce downside risk and provide a more predictable cash surrender value than an otherwise comparable variable life insurance policy without these features.

Stable value compresses the distribution of realizable returns around its mean, reducing volatility, downside dispersion, and the probability and severity of adverse tail events. This effect is particularly relevant to risk-based capital frameworks calibrated to market stress. Based on IIG's analysis, stable value structures typically reduce volatility by 50-80% or more and reduce the absolute magnitude of tail events by at least 15-20% (e.g., tail losses reduced from 20% to 0%), depending on product structure and the scenarios and periods tested.

The economic significance of this risk reduction depends on the source and substance of the stable value protection. Where an insurer contractually guarantees book value and is obligated to absorb book-to-market differences, the risk is not eliminated but transferred to the issuing insurance company. In such cases, the insurer providing the guarantee remains subject to statutory reserving requirements, risk-based capital requirements, and ongoing regulatory oversight.

The economic value of that protection therefore depends on the guarantor's ability to perform during periods of market stress. Accordingly, consideration of the guarantor's capital position and creditworthiness may be more relevant than a sole focus on the underlying assets. Where similar protections are provided by entities outside the NAIC regulatory framework, regulators may reasonably consider whether additional capital requirements are warranted to reflect the differing oversight, capital, and solvency regimes applicable to the guarantor. The extent of any capital recognition should depend on whether the protection is legally enforceable and transfers risk to a financially responsible guarantor.

Proposed Reporting and Potential Capital Framework
Note 21 Reporting
SAPWG should retain COLI as a Line 25 write-in and expand Note 21 data fields rather than move qualifying policies to Schedule BA. The note should reconcile to total COLI on Line 25 and classify amounts by product

type, investment performance exposure, contractual protection, and risks retained by the reporting entity. This would provide the requested visibility, address current reporting inconsistencies, and reflect that assets within a policy vehicle do not by themselves give the policyholder the risk or ownership of a direct investor.

Risk Categorization
The categories should function as a practical risk-clustering framework: use the fewest groups that capture meaningful differences in how investment performance affects realizable policy value and in the contractual protection provided by the insurer. Each category is intended to contain products that are more similar to one another than they are to products in the other categories. Some variation within each group is inevitable, but a small number of reasonably homogeneous categories supports simple, consistent, and administrable capital treatment without false precision.

Product Categories and RBC Treatment
All categories retain issuing carrier credit risk, which should be reflected in the applicable factors.

For IRC §7702 compliant COLI policies:

Category 1 — General Account COLI

- With a cash surrender value that is held entirely in the issuing insurer's general account and for which there cannot be policyholder-directed investment exposure.

The capital charges that could apply to Category 1 are very low. The nominal level of these factors may be different by filer type and should be calibrated to produce the desired results by filer type. The essential risk exposure to the reporting entity can be captured by basing the factor on the claims-paying ability of the issuing life insurance company and the priority that policyholder claims have over the issuing life insurance company's debt obligations.

Category 2 — Declared Rate Separate Account COLI
With a cash surrender value that is held in a separate account of the issuing carrier for which the reporting entity has reasonably determined that the volatility of the cash surrender value is not expected to be material for the following reasons:

1. the cash surrender value is contractually determined by a crediting rate with a guaranteed minimum provided by the issuing carrier's general account such that the policies do not directly bear the mark-to-market performance of the underlying separate account (including, for the avoidance of doubt, both stable value and hybrid products); or
2. used as a bona fide direct hedge for deferred compensation or similar plans if there is a matched liability that results in negligible net economic exposure to the reporting entity.

The capital charges that could apply to Category 2 are commensurate with the claims-paying ability of the issuing life insurance company. With these structures the volatility of the realizable value is expected to be immaterial and therefore the primary risk is credit risk to the issuer for the stream of future death benefits. There should be a very modest increase from the prior product category to reflect a small increase in uncertainty that (1) the economic value of that protection depends on the guarantor's ability to perform during periods of market stress, or (2) the direct hedge may not perfectly offset the matched benefit liability. The nominal level of these

factors may be different by filer type and should be calibrated to produce the desired results by filer type.

Category 3 — Variable Separate Account COLI

- With a cash surrender value that is directly exposed to the mark-to-market performance of the underlying separate accounts.

The capital charges that could apply to Category 3 are higher than the prior categories. The nominal level of these factors may be different by filer type and should be calibrated to produce the desired results by filer type. Alternatively, the policyholder could elect to look through to the underlying separate accounts for the purposes of RBC, at their discretion.

This fixed charge captures that there may be significant risk mitigants in most programs (such as minimum death benefits or specific, direct employee benefit funding obligations).

Non-Qualifying Policies

- COLI policies that do not comply with IRC §7702 will continue to be non-admitted under SSAP No. 21.

RBC Factors and Counterparty Risk

The capital framework should normalize comparable risks across life, P&C, and health insurers while reflecting each category's contractual protections. The product categories should reflect increasing policyholder exposure to investment performance, while every category continues to reflect carrier counterparty risk because death benefits, guarantees, and cash surrender value remain obligations of the issuing life insurer. Existing calibrated factors may be preferable to fixed charges that may affect filer types differently after covariance.

IIG is not wedded to these specific categories or factor levels. We offer them as a practical starting point and look forward to constructive dialogue regarding the framework's design and calibration.

Benefits of the Proposed Framework

This approach would:

- Preserve the distinction between a life insurance policy and a direct investment without implying ownership of underlying invested assets.
- Provide regulators with enhanced transparency regarding policy characteristics and the types of risks retained by the reporting entity.
- Allow the NAIC to consider appropriate RBC factors based on the risks retained by the policyholder, based on COLI product type.

A mockup of potential changes to Note 21 is attached as an exhibit for consideration. *(Staff Note: This exhibit is available in the comment letter packet.)*

Additional SSAP No. 21 Guardrails

IIG also recommends targeted enhancements to SSAP No. 21 to align ICOLI use with the spirit of the framework adopted in 2018.

Program Qualification and Governance
These guidelines should apply to all programs:

- The existing SSAP No. 21 employee benefit funding purpose must be demonstrated in an internal pre-purchase due diligence file at the time of purchase using the cost recovery method, the cost offset method, as a bona fide direct hedge for an employee benefit liability, or another commonly accepted practice. The provision of a supplemental death benefit to the COLI insureds does not, on its own, satisfy the funding of employee benefit obligations purpose.
- The reporting entity has the documented willingness and ability to hold the COLI policies for the full lifetime of all the insureds (hold-to-maturity). This will ensure that the company is holding the policies in order to receive a stream of future death benefits.
- Investment managers who are under common control (as broadly defined) with the reporting entity (policyholder) may not manage the investments (directly or indirectly) inside the separate account of a policyholder's COLI program. Noncompliance with this increases the risk of adverse tax outcomes which would increase the risk of surrender and lessen the likelihood of holding the COLI policies for its intended purpose.
- Periodic board or senior management review of existing or new COLI policies is required.

Program Size and Concentration
The employee benefit purpose requirement adopted in 2018 was intended, in part, to make program size self-limiting, but it may not constrain every case. The proposed guardrails regarding documentation, hold-to-maturity, affiliated managers, governance, examination, and appropriately calibrated capital requirements should better align program size with intended uses and reduce the potential for misuse.
Although some individual insurance entities report substantial ICOLI balances as a percentage of surplus or total adjusted capital, those concentrations may appear more proportionate when evaluated across the statutory balance sheets of the affiliated insurance group. ICOLI may be purchased by a particular legal entity for legitimate entity-specific purposes, including the location of employee benefit obligations, available capital, tax attributes, or administrative considerations. Where appropriate intercompany agreements exist, regulators should review both the exposure of the individual reporting entity and the aggregate exposure across affiliated statutory entities.

Examination and Compliance
Examiners should have clear authority to test the primary consideration analysis, sizing, governance, and compliance. A policy that fails IRC §7702 or was not acquired with the required employee benefit or key-person consideration should not receive qualifying ICOLI treatment. This targeted approach protects SSAP No. 21 without redefining compliant policies.

A mockup of potential changes to SSAP No. 21, paragraph 9, is attached as an exhibit for consideration. *(Staff Note: This exhibit is available in the comment letter packet.)*

Conclusion
ICOLI is a diverse product category with legitimate business purposes and varying degrees of policyholder performance exposure. Qualifying policies should remain within SSAP No. 21 and outside Schedule BA, paired with transparent Note 21 reporting, documented purpose, disciplined governance, stronger examination tools, appropriately calibrated capital treatment, and continued recognition of the policyholder's contractual insurance asset.

Thank you for considering our comments. IIG would welcome the opportunity to assist the Working Group in developing a practical reporting framework and principles-based guidance that provide regulators with meaningful visibility while preserving the established treatment of qualifying ICOLI as a life insurance policy.

Finseca's Comments:

On behalf of Finseca, we appreciate the opportunity to comment on Agenda Item Ref #2026-08, exposed by the Statutory Accounting Principles (E) Working Group ("the Working Group") for comment at its August 12, 2026 meeting. Finseca submits these comments in support of, and as a complement to, the comments submitted by the American Council of Life Insurers ("ACLI"), while offering the perspective of the brokerage and distribution community. The exposure asks whether amounts realizable under Insurance Company-Owned Life Insurance ("ICOLI") policies should be reclassified from an admitted other-than-invested asset under SSAP No. 21 to an invested asset reported on Schedule BA. Finseca represents the brokerage and distribution side of this market — the licensed insurance professionals who work directly with corporate clients to assess benefit-financing needs, design compliant insurance-based solutions with carriers, and place and administer those arrangements over time. That practical client-facing perspective informs our comments below.

Finseca, Financial Security for All, is a national trade association with nearly 15,000 members who serve hundreds of thousands of clients every day in communities across the country. Our membership includes licensed insurance agents and producers, agency leaders, and brokerage professionals, many of whom are also registered representatives of broker-dealers or representatives of registered investment advisers. A meaningful share of our institutional-markets membership consists of licensed insurance professionals who specialize in designing, placing, and administering insurance-based financing arrangements—including ICOLI—that help corporations manage the cost of employee-benefit, deferred-compensation, and key-person obligations. These members work with clients, life insurance carriers, and appropriate tax and legal advisers to ensure that an arrangement is appropriately designed, documented, marketed, and placed within the applicable insurance, tax, and state-law framework.

Executive Summary

Corporate clients engage our members because they need a way to cover the costs of financing current and future employee benefit obligations— and to protect against the financial disruption of losing a key executive. The client purchases life insurance with a regulated carrier, not an interest in the assets that carrier sets aside to back its life insurance obligations.

The insurance policy transaction structure is what should drive the Working Group's accounting analysis. Some policies our members place credit a declared or indexed rate out of the carrier's general account; others allocate premium among separate-account options with more variability in cash value. Either way, the client's legal position is the same: contractual rights against the carrier, not a claim on the underlying assets.

Placing an ICOLI policy means operating within a multi-layered compliance framework on every case. The policyholder's analysis and documentation must support the appropriate treatment under SSAP No. 21; the contract must qualify as life insurance for federal tax purposes under IRC §7702; if a separate account structure is used, it must comply with applicable diversification and investor-control principles; the policyowner must satisfy IRC §101(j)'s pre-issuance notice-and-consent requirements where applicable; the arrangement must satisfy state-law insurable-interest requirements; and the issuing carrier remains

subject to the prudential, contractual, and regulatory requirements applicable to its obligations under the policy.

While existing SSAP No. 21 guidance contemplates contemporaneous documentation of the analysis supporting an ICOLI purchase, including its relationship to key-person risk and employee-benefit obligations, it is not explicitly stated. To the extent regulators seek greater visibility into those judgments, Finseca supports appropriately tailored reporting or documentation that allows regulators to understand the program's business purpose, scale, and structure. Our membership strongly agrees that it is not appropriate to redefine, implicitly or explicitly, the policyholder's insurance contract as direct ownership of the assets supporting it.

Why Clients Buy ICOLI, and Where Our Members Fit In

Our members are engaged when a company has employee-benefit, deferred-compensation, or key-person-related obligations that create a continuing cost. They work directly with the client to understand those obligations, evaluate whether insurance-based financing is appropriate, and help design and place a compliant ICOLI arrangement with an issuing carrier. These are long-term policies by design and a core component of employee-benefit financing. Clients expect to hold them until all death benefits are paid—because the benefit liabilities they help offset are similarly long-lived. That is fundamentally different from acquiring an asset for short-term trading or liquidation. Our members design, place and administer these programs for as long as the policy remains in force.

Different Product Structures, One Underlying Placement

The policies our members place are not uniform. Some policies are backed by a carrier's general account and credit a declared or index-linked rate. Others use a separate account with negotiated guarantees or permit the client to allocate premiums across a menu of investment funds, and a single transaction will often blend more than one of these approaches. Our members' job is helping a client and carrier develop an appropriate structure for the client's objectives.

Policy size is not unlimited. The amount of coverage and premium must be grounded in the client's underlying benefit, compensation, retention, or other legitimate business obligations; the policy's insurance design; carrier underwriting and retention standards; and applicable tax and state-law requirements. Our members work with clients and carriers to calibrate the amount and design of each placement to those facts. The result is not an open-ended allocation to underlying investments, but an insurance arrangement sized and structured around identified obligations, the eligible insured population, carrier underwriting, and the client's broader governance and risk-management process.

Every transaction our members place still rests on the same foundation — a contract with the issuing carrier, not a claim on its underlying assets. The features that add market sensitivity typically come paired with an offsetting client benefit, or provide a stabilized crediting rate or a lower net cost of insurance, that a risk-only reading of the underlying assets would miss.

Compliance Work at Placement

For brokers and their institutional clients, ICOLI placement begins with a substantial compliance, diligence, and documentation process. Our members are licensed insurance professionals with experience designing and placing insurance-based financing arrangements. Working with the client, issuing carrier, and appropriate tax and legal advisers, they help determine whether the proposed arrangement serves a legitimate business purpose and can be structured within the applicable legal and regulatory framework.

Depending on the facts of the case, that process includes confirming that the proposed policy is structured to qualify as life insurance under IRC §7702; evaluating applicable investor-control and diversification limitations; satisfying relevant state insurance-law requirements; confirming that the employer has the necessary insurable interest; establishing an appropriate policy size in relation to the underlying obligations; and ensuring that covered employees receive required notice and provide appropriate consent before issuance.

Our members are essential to how our clients address these requirements, coordinate appropriate documentation, and explain the policy's intended role, material features, limitations, and risks. That includes helping clients assess whether the product design and available contract options are consistent with the stated benefit-financing purpose, risk tolerance, liquidity needs, and governance processes applicable to the program.

Finseca recognizes the Working Group's interest in ensuring that ICOLI is marketed, sold, and explained to institutional clients accurately and with appropriate attention to the product's long-term purpose, liquidity profile, guarantees, limitations, and risks. ICOLI transactions are specialized institutional arrangements that require product-specific expertise, careful due diligence, and clear communications regarding the nature of the insurance contract and the respective roles of the insurer, producer, policyholder, and other service providers.

To the extent the Working Group identifies concerns regarding sales practices, marketing materials, or communications by participants in the ICOLI marketplace, those concerns should be addressed directly through clear, appropriately tailored market-conduct, producer-licensing, and advertising expectations—not through an accounting change that neither regulates sales practices nor measures the risk of a particular contract. Finseca supports marketing that is accurate, complete, transparent, and appropriate to the client's circumstances; explains the policy's long-term purpose, relevant liquidity considerations, applicable guarantees, and material limitations; and makes clear that the client owns an insurance contract, not the underlying investment assets.

Brokers do not manage separate-account assets or direct the holdings of underlying investment funds, and neither does the policyholder. The carrier establishes the available contract options and engages the professionals responsible for managing those options. Accordingly, any regulatory response to identified conduct concerns should distinguish among the respective roles and responsibilities of the insurer, licensed producer, policyholder, investment manager, administrator, consultant, and other service providers.

Compliance and appropriate sales practices continue after placement. Changes in client circumstances, policy ownership, the insured population, applicable law, or the underlying obligations requires ongoing review and administration over the life of the arrangement. Finseca welcomes the opportunity to work with the Working Group, carriers, and other regulators on practical, market-informed guidance that advances these objectives without disturbing established accounting treatment.

Taken together, these compliance obligations, the client's limited rights with respect to underlying investments, and the broker's advisory role support treating ICOLI as an insurance contract for accounting purposes—not as direct ownership of investment assets.

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What's Actually Behind the Growth in ICOLI Balances

We understand why the size of ICOLI balances has drawn regulators' attention. A significant share of that growth is arithmetic rather than appetite: broad equity markets have more than doubled over the period regulators cite, and other assets held in ICOLI structures have appreciated substantially as well, increasing the resources available to support employee benefits broadly, including rising healthcare costs.[1] New sales and additional premium on existing policies account for some of the increase, but market appreciation on assets already inside existing policies is doing a lot of the work — meaning a larger balance does not mean the number of policies has grown by anywhere near the same amount. We think that distinction deserves to be in front of the Working Group as it weighs the materiality of the growth that prompted this exposure. None of this means larger balances are beside the point — it is reasonable for the Working Group to want better information. Disclosure can deliver that without collapsing the distinction between owning a life insurance contract and owning the assets behind it.

A Targeted Way Forward

Finseca would support a better disclosure-based approach that hands regulators real visibility into the actual risk to the policyholder without touching the underlying accounting treatment. That kind of transparency serves everyone's interest in a well-functioning market; treating the contract as though it belonged on Schedule BA does not. We would submit that an expansion and refinement of the disclosure currently required by SSAP No. 21 would provide more consistent reporting and better information regarding the risks to the policyholder.

If there is concern about how ICOLI gets marketed and sold, we would ask the Working Group to take that on directly rather than through an accounting change that does not actually reach sales practices. That is squarely our members' territory — they are the ones in the room with corporate clients placing these policies — and we would welcome the chance to help the Working Group and other regulators build practice-level guidance on producer conduct and marketing that addresses the underlying concern without disturbing how ICOLI is accounted for.

Where regulators identify a specific concern regarding ICOLI programs, Finseca supports addressing that concern through a targeted response tied to the relevant contract feature, program structure, or conduct at issue, rather than through a blanket reclassification that treats the policyholder as the owner of underlying assets. Schedule BA treatment is not a substitute for that analysis. Accounting presentation, disclosure, and capital treatment serve different purposes and should not be conflated, even where they are informed by common facts.

Conclusion

How an item is presented in the accounts, what gets disclosed about it, and how much capital it carries are three separate questions, and each deserves its own answer even when the same underlying facts inform all three.

ICOLI is a life insurance contract: the client owns the policy, not the assets that support the carrier's contractual obligations. Licensed insurance professionals and carriers design, market, and place these arrangements within an established framework of tax law, state insurance regulation, employee-protection requirements, carrier underwriting, and ongoing compliance obligations. We welcome continued discussion with the Working Group, carriers, and other regulators about disclosures—and, where genuinely helpful, producer-conduct and marketing guidance—that gives regulators confidence in this market without changing what the product is.

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John Blocher's Comments:

My focus is on the appropriate ICOLI RBC charge. The current ICOLI RBC charge is 0% for Life entities and that is not appropriate, neither is the 5% RBC charge used for Property & Casualty and Health entities. Both percentages appear to be arbitrary. It does not make sense to look through the ICOLI arrangement to underlying assets as there is a significant intermediary, the insurer offering and maintaining the ICOLI arrangement.

ICOLI balances are quite similar to many other types of noncontrolled or restricted assets in NAIC RBC. Some of the exposure draft language reads as if an ICOLI arrangement is simple to collapse (if it is that simple, no RBC charge is necessary). It is not simple to collapse for various reasons, not the least of which is that the arrangement itself is frequently a Modified Endowment Contract (MEC). Stil even though ICOLI is expected to be a long-term vehicle, it can be fully surrendered with a modest effort, if ever necessary.

As an asset ICOLI is similar to a restricted asset which also can be recovered back to the balance sheet with a little time and effort. Noncontrolled assets bearing some similarity to ICOLI:

1. Subject to repurchase, reverse repurchase, dollar repurchase, or reverse dollar repurchase agreements
2. Placed under option agreements
3. Pledged as collateral/encumbered FHLB assets for funding agreements
4. On deposit with states or other regulatory bodies

For noncontrolled or restricted assets, a company cannot immediately sell that direct asset because the assets are included another agreement, just like ICOLI balances are.

Suggested RBC Treatment:

1. ICOLI balances should receive the same RBC charge as the other restricted assets on NAIC RBC (LR017). This would be a 1.26% RBC charge currently and make this similarly a restricted asset consistently across Life, Property & Casualty, and Health.

2. For ICOLI policy loans, any assets purchased with policy loan proceeds from an ICOLI arrangement would receive the applicable RBC charge for those assets as they are outside of the ICOLI arrangement.

Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing (as a formal project), and direct NAIC staff to work with industry and the Capital Adequacy (E) Task Force on an expanded disclosure for year-end 2027.

Although the comments are detailed, they are essentially uniform in key themes:

- Commenters highlight that ICOLI products must comply with various federal and state provisions as a life insurance product, including insurable-interest, notice and consent requirements, investor-control limitations and diversification requirements.

- Commenters oppose including ICOLI assets as an investment on Schedule BA, highlighting that the assets are not held by the reporting entity owner/beneficiary, but are assets of the insurer product issuer.

- Commenters support enhanced disclosure of ICOLI reported as an other-then invested asset.

- Commenters identify that ICOLI products are specifically tailored for each reporting entity owner/beneficiary. Comments identify that ICOLI products are captured in the issuer's general account or separate account, and if a general account product, then the reporting entity owner/beneficiary is not subject to investment risk. ICOLI products captured in the issuer's separate account are subject to investment risk, but different structures may mitigate the investment risk.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-09 (Julie)	**SSAP No. 86 - RSATs**	**13 – Agenda Item**	**Comments Received**	**Att 21 ACLI - 12 IP - 21**

Summary:
On August 12, 2026, the Working Group exposed a concept agenda item to assess potential revisions to *SSAP No. 86—Derivatives* and the overall accounting and reporting guidance for RSATs. Comments were requested from industry and state regulators on whether further clarifications or limitations to RSAT transactions should be considered.

Proposed concept changes include the following summarized changes:

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. Guidance 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.

ACLI Comments:

RSATs play an important role in life insurers derivative usage and portfolio construction processes. By pairing liquid derivative products with existing assets on a life insurer's balance sheet, insurers are better able to manage market risks including credit, interest rate, and foreign currency risk by matching replicated assets with their liabilities. RSATs help to bridge the gap between what types of assets are currently available in the market, versus those necessary to match a given liability profile. They can be part of a long-term asset allocation or as a tool to help facilitate portfolio transitions. Also, RSATs can give insurers additional flexibility to efficiently adjust portfolios rapidly to changing market conditions. The Safe Harbor for RSATs provides many examples of structures that are beneficial to life insurers including (but not limited to):

A Bond paired with a Fixed-Float Interest Rate Swap: A floating rate security can be paired with a receive fixed – pay floating rate swap to produce a synthetic fixed rate security. An example of this would be a floating rate AAA Collateralized Loan Obligation (CLO) paired with a swap. AAA CLOs are most commonly issued with floating rate coupons. This RSAT structure can potentially reduce a life insurer's interest rate exposure when this RSAT is matched against a long duration liability. It is an example of an RSAT that does not involve a change in credit profile.

A Bond paired with a Credit Default Swap (CDS): The Markit CDX North American Investment Grade Index ("CDX IG") and the Markit CDX North American High Yield Index ("CDX HY") are two of the most liquid products within the credit markets today. By pairing exposures in these indices with bonds, life insurers have the ability to rapidly shift credit exposures in their portfolios in a diversified way, with minimal transaction costs. Index CDS liquidity persists when cash credit markets gap or close, so insurers can continue to manage exposure in stressed conditions rather than being forced into distressed cash sales. They can play an important part of life insurers' overall credit portfolio strategy. This RSAT changes the credit profile of the cash component, and these risks must be appropriately captured within a company's risk based capital calculations.

A Bond paired with Foreign Currency Swap: U.S. Insurers can hold liabilities in currencies other than USD. To match those liabilities, an Insurer could purchase a USD-denominated asset and pair it with a foreign currency swap. This would exchange the USD cash flows of the asset with foreign-denominated flows. In this RSAT, the insurer takes advantage of the depth of U.S. capital markets to originate the underlying cash component, and the resulting synthetic asset can then be matched against foreign-currency liabilities. This RSAT does not result in a change of credit profile.

Ever since their inception in 2003, RSATs have been subject to a significant regulatory governance structure. This governance structure enhances the regulatory transparency around RSATs, and places important limits on the amount and types of permissible RSAT structures the life insurers can use. These include:

1. In some jurisdictions, a company's use of RSATs is addressed through a Derivative Use Plan or other filings with its domiciliary regulator.

2. Every RSAT must be reported to the Securities Valuation Office (SVO). Any changes to existing RSAT structures must be reported within 30 days, and any changes that break RSAT effectiveness terminates the RSAT immediately.

3. All RSATs are publicly reported on Schedule DB Part C.

4. Types of RSATs are generally confined to those defined in the Safe Harbor[1]. Each structure outside of the Safe Harbor is subject to review and approval by the SVO.

   FN1: Purposes and Procedures Manual of the NAIC Investment Analysis Office, Part Two, "Replication (Synthetic Asset) Transactions," ¶¶ 30–31, "Safe Harbor – Defined RSATs" and "Transactions Subject to RSAT Approval Review" (effective Dec. 31, 2025).

5. Every RSAT carries an NAIC Designation assigned by the SVO — that of the Cash Component, or of the Reference Security where the transaction changes the credit profile.

6. All RSATs must satisfy six separate effectiveness tests:

   a. The transaction is deemed to be an approved RSAT if it fits into a Safe Harbor Defined RSAT structures or has been reviewed and approved by the SVO pursuant to the "Transactions Subject to RSAT Approval Review" process.

   b. The Replicated (Synthetic Asset) must be an otherwise permissible investment.

   c. The insurer's maximum potential loss in the replicated asset cannot exceed the combined book/adjusted carrying value of the cash and derivative components.

   d. At no time is there derivative exposure without a corresponding Cash Component assigned exclusively to the replicated asset.

   e. The derivative maturity cannot be longer than the maturity of the cash component.

   f. At inception, the market value of the cash and derivative components must not be materially different from the market value ascribed to the RSAT.

7. In some jurisdictions, state law establishes limits or parameters governing RSAT usage relative to admitted assets.

ACLI supports the core objectives of the Exposure: ensuring that RSATs are used only to replicate otherwise permissible investments, taking into account applicable state investment limits, and that the risks embedded in RSATs are appropriately reflected in a company's Risk Based Capital (RBC) calculations. ACLI believes these objectives can be achieved through enhanced disclosures, clear reporting requirements, and a distinction between RSATs that change the credit profile of the cash component ("Credit RSATs") and those that do not ("Non-Credit RSATs"), without unnecessarily limiting the ALM benefits these transactions provide. Additionally, ACLI supports continuing to allow structured products and high yield assets in the allowable scope of the cash components of RSATs, as well as allowing them as the replicated assets in RSATs, including as illustrated in examples earlier in this letter.

As the NAIC continues to evaluate potential updates to the framework, ACLI believes continued engagement with industry would be beneficial in clarifying the eligibility of existing RSAT structures and addressing remaining ambiguities. We appreciate the opportunity to provide these comments and look forward to continued engagement, including through the planned public educational session.

Interested Parties' Comments:

Interested parties support the Working Group's efforts to review the statutory accounting and reporting framework governing replication synthetic asset transactions (RSATs) and, where warranted, pursue targeted modernization. RSATs are an important tool utilized by insurers to manage asset-liability matching, efficiently access desired investment characteristics, and respond to changing market

conditions in support of insurance obligations. When appropriately structured, RSATs provide insurers with flexibility to manage interest rate, credit, and currency exposures in a manner that can enhance risk management and align investment portfolios with underlying liabilities.

Interested parties note that RSATs are not a new or unregulated activity. Existing statutory accounting guidance, Securities Valuation Office oversight, public reporting, state investment law requirements, and RBC risk assessments collectively provide a substantial framework of regulatory safeguards governing their use. These provisions are intended to ensure that RSATs remain tied to otherwise permissible investment objectives and that the risks associated with such transactions are subject to regulatory review, transparency, and ongoing monitoring.

Interested parties support the objective of ensuring a clear and comprehensive understanding of the economic exposures created by RSATs and the way those exposures are reflected in statutory reporting and RBC. We look forward to collaborating with regulators and NAIC staff in assessing potential opportunities to refine the clarity, accessibility, and consistency of the guidance governing RSATs, as well as the transparency and usefulness of statutory reporting as a tool for evaluating activity and associated exposures. Interested parties encourage consideration of whether modest enhancements to existing disclosures could provide regulators with clearer visibility into the economic characteristics of a company's RSAT structures and facilitate efficient evaluation of distinct exposure cohorts, such as by distinguishing between RSATs that transform the credit profile of the cash component and those that do not. Consolidating core accounting concepts and effectiveness requirements into a common authoritative source, clarifying how separately reported investment and derivative components across statutory holdings schedules collectively establish traceability and provide regulators with an integrated and accessible view of the resulting synthetic exposure as reflected in Schedule DB Part C, and enhancing alignment across accounting, reporting, and RBC instructions may further strengthen regulators' ability to assess these transactions. Collectively, such enhancements could provide a more comprehensive and accessible framework for monitoring existing and emerging exposures while preserving the risk management and asset-liability management benefits of appropriately structured RSATs.

Accordingly, interested parties encourage continued collaboration among regulators, NAIC staff, and industry participants. Additional dialogue, educational sessions, and representative transaction walkthroughs may help identify targeted improvements that address regulatory concerns while preserving the legitimate benefits that RSATs provide to insurers. Interested parties stand ready to work with the Working Group and other interested regulators to support these efforts.

Recommendation:

NAIC staff recommend that the Working Group direct NAIC staff to proceed with drafting preliminary revisions to consolidate accounting RSAT guidance into *SSAP No. 86—Derivatives.* The current guidance is divided between SSAP No. 86 and the P*urposes and Procedures Manual of the NAIC Investment Analysis Office*, with reporting instructions in Schedule DB-C and the RBC Instructions.

NAIC staff also recommend that the Working Group direct NAIC staff to work with industry and regulators in the interim on the parameters for when RSATs should be permitted, and an overall disclosure that allows easy comparison to state investment limits from NAIC designations.

An educational session on RSATs has been scheduled for Dec. 1, 2026, at 11 Central / 12 Eastern. Notice of this meeting has been distributed and participation details are available on the SAPWG webpage.

NAIC staff has reviewed Schedule DB-C and the RBC formula for many companies, and there are significant inconsistencies in reporting. Below are noted situations that raise questions from a detailed review of reporting:

- Impact on RSAT reporting when they are not filed with the SVO. (Technically, all RSATs are to be filed, but this has not been fully observed.) Also, impact on RSAT reporting when an RSAT has been filed and an NAIC designation has not been received. This requests discussion when the RSAT filing occurred much later than the effective date of the RSAT.
- Impact on RSAT reporting when the investment schedule has not been properly completed. (For example, companies that fail to report the RSAT NAIC designation when one exists.
- Reporting entities that only report the NAIC designation (and not the modifier) for either the RSAT or the cash component. Pursuant to the SVO, all RSATs, even those filed prior to 2021 have a designation modifier. This is an impact on the RBC formula and whether the RBC impact is properly reflecting the actual NAIC designation.
- Use of cash components that are reported with "Z" designations or with an NAIC 6 (at or near default) to support the RSAT. This is also noted for other non-investment grade designations.
- Use of commercial real estate (or other forms of invested assets) as cash components.
- Potential disclosure of investments by designation, including RSATs, in assessing whether an RSAT (and all lower-quality investments) are within state investment law limits.
- Missing, incomplete or inaccurate reporting of the RBC replication schedule. Per initial review, companies with RSATs have reported "none" for this schedule, companies with replications have not completed the RBC impact, and companies have been identified as using the incorrect RBC factor to calculate the impact based on the reported NAIC designation.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-10 (Julie)	**SSAP No. 26 – Embedded ALM Risk**	**14 – Agenda Item**	**Comments Received**	**Att. 20 ACLI – 1 Athene – 3 LSTA & ACC - 6 Derchert – 11 SFA – 18**

Summary:
On August 12, 2026, the Working Group exposed revisions to *SSAP No. 26—Bond*s, to expand on the requirements for asset-backed securities to qualify for bond reporting. The revisions would incorporate two new components to the principles-based bond definition for financial asset-backed securities:

- All financial asset backed securities that are not self-liquidating would be required to overcome the rebuttable presumption for equity-backed securities in order for the security to meet the definition of a bond.

- Financial asset backed securities that are self-liquidating would be subject to assessment as to whether the debt security is subject to significant embedded asset-liability management (ALM) risk. Embedded ALM risk is considered to be 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 would not meet the definition of a bond.

ACLI Comments:
ACLI supports the objective of ensuring that securities are appropriately classified when their ability to pay contractual principal and interest is materially dependent on the reinvestment of underlying asset cash flows.
Our primary comment is that paragraph 9.d. should more clearly define when embedded ALM risk is considered "significant." The operative text in the exposure "could be impacted" could be interpreted as having any non-zero, even if remote, possibility of impacting cash flows. As drafted, the guidance could capture ordinary changes in reinvestment interest rates or investment spreads, even when those changes would not significantly impair the security's ability to pay contractual cash flows. We discussed this concern with NAIC staff and regulators, and we support considering structural mitigants and applying a severe but precedented stress threshold. We also recommend removing "as scheduled" because the reference to contractual cash flows adequately captures the intended concept.

Accordingly, ACLI recommends revising paragraph 9.d. as follows:

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, when factoring in any structural mitigants, the ability to pay contractual cash flows of the debt security ~~as scheduled~~ could be significantly impacted by severe but precedented changes in reinvestment interest rates or investment spreads. Securities that include significant embedded ALM risk do not meet the definition of a bond.

This revision would establish a clearer threshold for significant embedded ALM risk while recognizing structural features that mitigate that risk.

ACLI also recommends a minor clarification to paragraph 9.c. Consistently referring to the "financial assets" of the ABS issuer would eliminate potential ambiguity regarding the scope of the paragraph.
Accordingly, ACLI recommends revising paragraph 9.c. as follows:

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 financial 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.

Lastly, we understand that the intention of these provisions is generally not to apply to investments with relatively short reinvestment periods, including those present in commonly traded assets (e.g., CLOs), and we would recommend codifying this intention in the operative language.

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

Athene Comments:
We recognize the need to examine statutory guidance as insurers invest in new asset classes, and we appreciate SAPWG's efforts to address embedded ALM risk. As currently drafted, however, we are concerned that proposed paragraphs 9.c. and 9.d. of the Principles-Based Bond Definition (PBBD) could be interpreted to disqualify a range of well-established asset classes based on structural mechanics that may create some reinvestment exposure, even when that exposure is not significant.

These proposed modifications include language to clarify how to assess whether reinvestment periods are exposed to significant embedded ALM risk. This language would exclude from this presumption ABS where (i) structural mitigants embedded within the debt security protect the ALM risk from becoming significant or (ii) the economic likelihood of creating ALM risk is insignificant.

I. Potential Issues with the Proposed Revisions
We understand that proposed paragraphs 9.c. and 9.d. are intended to identify debt securities with significant embedded ALM risk. We believe the proposal includes one significant ambiguity -- the use of the word "could" in proposed paragraph 9.d., "…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…", may be interpreted to establish a significance threshold so low that any structure permitting the reinvestment of collateral cash flows could be interpreted to fail to qualify for bond treatment. As a result, we believe the proposal, without further modifications or guidance, may affect assets commonly held by insurers and other institutional investors even when the embedded ALM risk is, in reality, limited.

Because holdings are spread across U.S. insurers, a significance threshold established with a non-zero probability (e.g., 'could') could create interpretive ambiguities across the industry.

II. Alternative Modifications to SSAP No. 26 and the Meaningful Level of Cash Flows Test
We believe that revisions to SSAP No. 26 would address SAPWG's concerns while also mitigating unintended consequences.

The preamble to agenda item Ref #2026-10 describes structures that NAIC staff presume to have significant embedded ALM risk and also refers to structures that are presumed not to have significant risk, including those with shorter reinvestment periods. We recommend incorporating the relevant limiting concepts directly into SSAP No. 26 (or other equivalent guidance) as follows:

a) Revise paragraph 9.d. so that significance depends on whether changes in reinvestment interest rates or investment spreads would materially impair the debt security's ability to pay scheduled contractual cash flows, rather than on whether those cash flows could be affected in any respect.

b) Specifically identify structural mitigants of embedded ALM risk in paragraph 9.d., including but not limited to:
    - Interest-rate or basis hedges;
    - Subordination and/or overcollateralization;
    - Diversification;
    - Structural protections, including weighted average spread test, weighted average ratings test;

- Ability to refinance liabilities;
- Ability to partially or fully prepay outstanding debt;
- Bounded reinvestment period with scheduled amortization or a step-up afterwards;
- Hard-wired spread-compression trigger that ends reinvestment if unable to find suitable assets;
- Documented access to eligible asset origination capacity at a set multiple of the vehicle's reinvestment needs, under a formal allocation policy; and/or
- Clear manager alignment of interest (e.g., fee subordination at certain spread compression levels).

c) Add factors to paragraph 9.a. that an insurer should consider when performing the meaningful level of cash flows test, including:
   - Fund-level governance and risk limits, including actions the asset manager must take in response to stress arising from reinvestment risk;
   - Stress testing that demonstrates the effectiveness of the structure and other mitigants for ALM and reinvestment risk;
   - The use of derivatives and other instruments to reduce ALM risk; and
   - Historical and forward-looking macroeconomic data and other factors that could affect reinvestment risk.

We expect these proposed revisions will greatly reduce the interpretive risk and scope of structured securities with significant embedded ALM risk to what we believe is the intended population as foreshadowed in the preamble to the exposure. To the extent that the Working Group prefers to simplify the language within an Issue Paper Q&A, then we respectfully request that the Working Group addressing the salient points from the preamble into other authoritative regulatory guidance. The aim of doing so would be to preserve the durability of the accounting guidance for use years and decades in the future.
Additionally, we are supportive of the ACC/LSTA letter. The criteria they recommend to limit the range of assets subject to additional testing and regulatory review, including based on length of reinvestment period and alignment of the ABS issuer's effective maturity with the weighted-average life of the underlying assets, would provide a means to avoid disruption or interpretive confusion to any well-established asset classes

III. Conclusion
We appreciate the Working Group's attention to embedded ALM risk and share the objective of ensuring that insurers hold assets that reliably support policyholder obligations.
The PBBD represents a thorough, principles-based standard developed through substantial consideration and engagement, and updates to this standard should also be thoroughly considered. We would welcome the opportunity to work with the Working Group, NAIC staff, and other interested parties on this project, and we would be pleased to provide additional data or analysis. Please do not hesitate to contact us with any questions.

LSTA Inc & Alternative Credit Council (ACC) Comments:
LSTA, Inc. ("LSTA") and the Alternative Credit Council ("ACC") respectfully submit these comments on Agenda Item 2026-10, which the Statutory Accounting Principles (E) Working Group ("SAPWG" or the "Working Group") exposed for comment at the 2026 Summer National Meeting. Both organizations members include, and act as counterparties to, many of the life insurers subject to the Statement of Statutory Accounting Principles ("SSAP") framework, and both organizations have a strong interest in

ensuring that the principles-based bond definition ("PBBD") continues to function predictably for the structured credit markets our members build, manage, and invest in.

We understand the regulatory objective underlying Agenda Item 2026-10: SAPWG and state insurance regulators should have the analytical tools and transparency needed to monitor asset-liability management ("ALM") risk. We offer the recommendations below to help the Working Group achieve its stated objective with precision.

I. Background on insurance investments in structured credit and impact of capital charges

Life insurers are among the largest institutional holders of structured credit vehicles that finance non-investment-grade businesses. As of year-end 2024, U.S. insurers held approximately $276.8 billion in CLOs - more than double their 2018 exposure - with life insurers accounting for 82% of that total (approximately $226.5 billion).[2] CLO holdings represented roughly 5.1% of total insurer bond holdings and 3.1% of total cash and invested assets industry-wide, with exposure concentrated among the largest institutions.[3] The treatment of these instruments under the PBBD therefore has an outsized effect both on insurers' investment portfolios and on the cost and availability of credit to the borrowers who depend on this financing.

Most of this exposure is high-quality credit and has performed accordingly. Approximately 90% of insurers' CLO holdings carry investment-grade ratings (39% AAA, 22% AA, 15% A, and 12% BBB), with only about 2% rated below investment grade.[4] This is not simply a product of a benign credit cycle: S&P Global Ratings' 30-year tranche default study found that investment-grade-rated CLO tranches experienced a cumulative default rate of only 0.3% from 1994 through the first quarter of 2024, with those defaults concentrated almost entirely in pre-financial-crisis vintages issued under structural protections weaker than those standard in CLOs today, and confirmed that no CLO tranche rated AAA or AA has ever defaulted.[5] This performance record reflects the structural protections - subordination, overcollateralization and interest-coverage triggers, and typically five-year-or-shorter reinvestment periods - built into conventional, single-collateral-type CLOs, which are not the structures Agenda Item 2026-10 is aimed at.

The stakes of the bond/non-bond determination under Paragraph 9 are unusually high because the accounting classification drives the risk-based capital ("RBC") charge mechanically, with no gradation in between. Life RBC bond factors currently range from roughly 0.4% for the highest-quality designation (NAIC 1) up to 30% for the lowest bond designation (NAIC 6); a security that instead fails the PBBD and is reported on Schedule BA generally defaults to the same approximately 30% factor applied to unaffiliated common stock, unless the insurer subsequently submits the failed bond to the SVO and receives a designation based on their analysis of the credit risk. In addition, the NAIC has separately developed a dedicated 45% pretax factor for CLO residual/equity tranches.[6][7] In practical terms, a well-subordinated, investment-grade-rated debt tranche carrying a 0.4% RBC factor today could see its capital charge increase 75x to well over 100x if it is found to contain "significant" embedded ALM risk and loses bond

[2]NAIC Capital Markets Bureau, U.S. Insurers' CLO Exposure at Year-End 2024 (2025).
[3]NAIC, Private Credit Issue Brief.
[4]NAIC Capital Markets Bureau, U.S. Insurers' CLO Exposure at Year-End 2024 (2025).
[5]S&P Global Ratings, CLO Spotlight: Thirty Years Strong - U.S. CLO Tranche Defaults From 1994 Through First-Quarter 2024 (2024).
[6]NAIC Life Risk-Based Capital Instructions, Investment Risk-Based Capital Factors.
[7]NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Agenda and Materials (June 23, 2026).

treatment - a consequence entirely disconnected from any change in the security's actual credit quality or collateral performance.

Because SSAP classification drives RBC charges mechanically, an ambiguous standard is not merely an accounting problem - it is a capital problem. Absent workable, administrable criteria, economically similar structures will be classified inconsistently across filers, producing divergent RBC charges for identical risk and undermining the cross-industry comparability RBC is designed to ensure. That uncertainty carries real consequences: it risks forcing sales of legacy holdings into an illiquid secondary market precisely when conditions are already stressed, and it injects unnecessary uncertainty into new-issuance and portfolio-construction decisions for a market on which insurers, CLO managers, and private credit fund managers depend for stable, long-term financing.

II. Recommendations

Determining whether a structured security with a fixed-duration, self-terminating reinvestment period results in significant ALM risk requires significant judgment and analysis. We recommend that SAPWG establish a two-stage process to determine what constitutes significant embedded ALM risk. The first stage would be to establish a rebuttable presumption of significant ALM risk. If a structure meets the criteria for the practical expedient described below, then that structure would not be deemed to pose significant embedded ALM risk and would continue to qualify as a bond. If it does not meet either criterion, the structure would need to be analyzed under the criteria in the second recommendation, which adds relevant factors to subparagraph 9.d to determine whether the rebuttable presumption can be rebutted.

Recommendation 1 – Establish a Rebuttable Presumption Regarding Significant Embedded ALM Risk

As a practical expedient, any structure that meets either of the following criteria would not be considered to create significant embedded ALM risk:

(i) the reinvestment period, measured from the closing date of the transaction, does not exceed seven years; or

(ii) the weighted average life (WAL) of the underlying assets exceeds 30-50%[8] of the vehicle's effective maturity.

Seven years reflects the staff memorandum's own reference to reinvestment periods of five years or less as "not uncommon" for conventional structured credit.[9] A seven-year threshold would de-scope well-established structures with reinvestment periods of five years or less, including most CLOs, while accommodating structures that fall modestly above the five-year mark and ensuring that testing and the associated regulatory review are applied only to true outliers. This threshold reduces regulatory burden for insurers and state regulators, and gives insurers the predictability necessary to avoid disruption to conventional asset classes they already hold. By contrast, the appropriate WAL threshold requires further empirical analysis. We propose 30–50% as a starting range to be calibrated through a data-driven process. These two tests are designed to be both workable in practice and consistent with how the PBBD already approaches structural protection. These two tests give preparers, auditors, and regulators a predictable, administrable path to resolve the overwhelming majority of conventional securitizations - including CLOs, which, as noted above, make up a large, high-credit-quality, and historically well-performing share of

[8]. Exact percentage to be determined by empirical analysis.

[9]NAIC Statutory Accounting Principles (E) Working Group, Agenda Item 2026-10, SSAP No. 26 - Embedded ALM Risk, Staff Memorandum, content.naic.org/sites/default/files/inline-files/26-10-ssap-no-26-embedded-alm-risk.docx.

insurers' structured credit portfolios - without requiring a full facts-and-circumstances review of each transaction, while preserving full scrutiny for the structures the project targets.

Recommendation 2 - Require Structural Mitigants to Be Included When Determining What Constitutes "Significant" ALM Risk

As drafted, the "could be impacted by changes in reinvestment interest rates or investment spreads" test is so broad and undefined that it could be read to compel a "significant" finding based on a wide variety of theoretical concerns, such as the existence of reinvestment-rate sensitivity, without regard to whether the transaction's own structure has already priced in, hedged, or subordinated that risk. We recommend that subparagraph 9.d. require that, before a reporting entity or examiner concludes that embedded ALM risk is "significant," the analysis consider what structural mitigants are present in the transaction, including but not limited to:

(i) the reinvestment period is fixed at issuance and cannot be unilaterally extended by the manager, sponsor, or servicer;

(ii) the reinvestment period is followed by mandatory - not merely permitted - amortization of the debt tranches;

(iii) the transaction includes overcollateralization and/or interest-coverage triggers that force early amortization upon collateral deterioration during the reinvestment period;

(iv) interest-rate or basis hedges executed at the transaction level;

(v) subordination sized with reference to, and sufficient to absorb, reasonably foreseeable reinvestment-rate or spread-related shortfalls - not merely credit losses; and

(vi) active portfolio and ALM governance, including manager modeling and stress-testing of reinvestment risk.

We recommend that SAPWG follow the same principles-based approach that is used elsewhere in the PBBD, in that the examples above of structural mitigants should not be considered an exhaustive list. A strength of the principles-based approach is that it allows for consideration of what structural mitigant is appropriate and needed for each specific type of underlying asset. For instance, overcollateralization may be sufficient for some types of underlying collateral, whereas subordination and/or hedging might be more appropriate for other types of assets.

Incorporating appropriate ALM mitigants aligns with how the PBBD already treats credit risk elsewhere and avoids the perverse incentives an indiscriminate test would create. The PBBD's existing "substantive credit enhancement" concept in Paragraph 10 already asks whether subordination, overcollateralization, or guarantees put the bondholder "in a different economic position" than a direct holder of the collateral would be. The same principles-based, facts-and-circumstances methodology should apply to embedded ALM risk. A structure with a long legal final maturity but hard triggers that force rapid amortization well before any meaningful reinvestment-rate exposure could materialize presents a fundamentally different risk profile than a similarly-tenored structure with no such protections, and the rule should not treat the two identically.

A mitigant-blind rule creates perverse incentives on both sides of the transaction. Sponsors and managers have less reason to build in costly protections that the test will not recognize. And insurers have correspondingly less reason to select for, or pay up for, better-protected structures, since a hedged, over-collateralized, actively managed deal receives the same Schedule BA treatment as one with none of those

features - pushing capital toward whatever structure technically avoids triggering the standard's literal wording, rather than toward the structure with the best actual risk profile.

This recommendation is complementary to Recommendation 1 and does not depend on its outcome. Duration-mismatched structures should evaluate mitigants before concluding that risk is "significant," because two structures with the same nominal duration gap can present very different practical ALM risk depending on their protective features.

III. Conclusion
We appreciate SAPWG's willingness to engage with industry on these complex structural questions, and we share the Working Group's interest in ensuring that insurers hold appropriate capital against genuine embedded ALM risk. We believe the recommendations above would allow the Working Group to achieve that objective precisely, while avoiding unintended consequences for the broader and largely unrelated market for conventional structured credit on which insurers, and the companies that depend on this financing, rely. We would welcome the opportunity to discuss these comments further as this project moves forward.

Dechert LLP:
Dechert LLP submits these comments on Agenda Item 2026-10, exposed by the Statutory Accounting Principles (E) Working Group ("SAPWG") on August 12, 2026. This agenda item proposes revisions to Statement of Statutory Accounting Principles ("SSAP") No. 26, Bonds, that would introduce two new tests under the Principles-Based Bond Definition ("PBBD"): (1) a self-liquidation test for underlying financial assets under proposed Paragraph 9.c, and (2) an embedded Asset-Liability Management ("ALM") risk test under proposed Paragraph 9.d. We submit these comments in our own capacity (having served as counsel to a variety of participants in the structured credit markets), and to better understand how the proposed revisions would affect our ability to advise our clients involved with such structures. As a firm, we have always tried to be constructively engaged in the ongoing dialogue around new regulatory initiatives and in no small part we believe our reputation in the structured credit markets reflects this engagement. As the markets and their investors continue to interconnect, we will increasingly endeavor to provide practical feedback to SAPWG on questions of importance to it.

As an initial matter, we note that we support and appreciate the objectives underlying the proposals and the NAIC's role in bringing to the fore the application of those objectives with respect to multi-collateral structured credit investments. As we consider the concerns identified, they appear to us to be first and foremost disclosure and aggregation questions. In that regard, we would hope there are tools that already exist (or could be enhanced and improved) to adequately address them, including investment characteristic codes and look-through reporting of the kind used for rated note feeders. By corollary, we would respectfully submit that a security-level bond-classification test does not seem to be the right place to address these considerations.

For the reasons explained in more detail below, we would recommend that SAPWG not adopt proposed Paragraphs 9.c and 9.d in their current form. As currently drafted, the proposal does not distinguish structures that genuinely lack cash flow durability and structural protection, which is the risk the agenda item identifies, from established structured finance transactions whose reinvestment, refinancing, and revolving features are already bounded by proven structural safeguards. To assist your further consideration of this topic, we have attempted to lay out in more detail our thoughts with respect to the current proposal.

I. The Self-Liquidating Test (Proposed Paragraph 9.c)

Proposed Paragraph 9.c appears to create a binary test which classifies underlying financial assets as either strictly self-liquidating or not. If an asset does not convert entirely into cash over a defined period under its contractual terms, the reporting entity must overcome the rebuttable presumption framework in Paragraph 6 of SSAP No. 26. In our experience, this approach does not reflect the range of repayment structures routinely found in fixed-income and securitization markets. For example, a wide range of traditional, highly performing debt instruments are not fully self-liquidating; they routinely feature balloon payments, bullet maturities, refinancing features, revolving draws, or other repayment mechanics without calling into question their fundamental character as debt.

Transactions that could be captured by the proposed language include, but are not limited to, credit card ABS, floorplan facilities, CRE structures, CLOs, CFOs, rated feeder notes, structured settlements, whole business securitizations, data center and fiber ABS, equipment and fleet lease, timeshare, solar and residential PACE, and CRE CLOs. These products existed at the time the PBBD was originally developed, and it does not appear to be intended that they would be subject to the rebuttable presumption of Paragraphs 6.a through 6.d of SSAP No. 26 simply because their underlying assets were not, in the strictest sense, fully self-liquidating.

We would also submit that the rating agencies have developed an intricate set of criteria for this same inquiry. Their starting premise for asset-backed securities and closed-end fund debt is that there is no market value in the structure: no asset sales are assumed to repay the debt, and under stress cases the collateral must generate sufficient proceeds to repay the rated notes by legal final maturity. That is the same meaningful cash flows inquiry that the first sentence of proposed Paragraph 9.d already asks, and it is an inquiry that credit rating providers already perform, publish, and monitor on an ongoing basis. Where multi-collateral credit vehicles are rated under established closed-end fund or ABS methodologies, rating agencies have already confirmed the presence of material structural mitigants to ALM risk and reinvestment mismatch, and at investment-grade ratings these residual risks are established as minimal.

The breadth of the proposed test can be illustrated with a government-guaranteed example and a private-market one. Ginnie Mae MBS carry the full faith and credit of the United States Treasury. When a loan in a Ginnie Mae pool becomes delinquent, the servicer may institute a partial claim principal deferral, structured as a zero-coupon balloon payment due on sale or maturity, to make the monthly payment more affordable for the borrower. A performing Ginnie Mae bond containing a single loan that received such a deferral would not be fully self-liquidating, and would therefore be presumptively not a bond under proposed Paragraph 9.c, even though that presumption would likely be overcome on the facts. The same dynamic is not unique to government-guaranteed collateral: a conventional commercial real estate mortgage loan with a balloon payment at maturity, or a credit card master trust that continuously revolves and replenishes its receivables pool, would also fail a strict self-liquidation test despite decades of performance history and no government backstop. Together, these examples suggest that the proposed test's breadth is not confined to any one asset class or guarantee structure, but rather reflects a structural limitation in the test's design that should be further considered.

Notwithstanding the various ways in which a self-liquidating asset may not fully convert to cash, the broader structured finance market and federal regulatory authorities have not taken such a strict view when determining what constitutes an "asset-backed security" for purposes of the Securities Exchange Act of 1934. In fact, taking such a strict view would theoretically open up loopholes that Congress and regulators did not intend.

To the extent duration is relevant to this analysis, we believe the proposal's focus on stated legal final maturity is the wrong metric. Stated maturity is an outer limit on repayment, not an expected payoff date. The expected weighted average life of a debt tranche, which reflects prepayment assumptions, reinvestment dynamics, and structural amortization mechanics, is typically considerably shorter, and senior investment-grade tranches often have weighted average lives that are half the length of their legal final maturity. A test anchored to stated maturity will systematically overstate the duration exposure these instruments actually present. Market precedent bears this out: whole business securitizations and data center and fiber ABS routinely carry legal final maturities of 25 to 30 years against Anticipated Repayment Dates ("ARDs") of only 5 to 7 years, coupled with post-ARD excess cash flow sweeps and coupon step-ups, and have been bond-eligible throughout. Music and other royalty-based ABS carry effectively perpetual underlying cash flows and legal maturities of 40 to 50 years, yet equally short ARDs, typically 3 to 10 years, with most of the market set at 5 years. A long legal final paired with an ARD sweep is established transaction architecture, tested through many market cycles.

II. The Significant Embedded ALM Risk Test (Proposed Paragraph 9.d)

Proposed Paragraph 9.d disqualifies an asset from bond treatment if it contains significant embedded ALM risk. This is defined as any situation where scheduled contractual debt service could be impacted by future reinvestment interest rates or investment credit spreads. As drafted, there is no materiality qualifier, no probability or likelihood standard, and no safe harbor. Under that framing, we are concerned that virtually any structured instrument with a reinvestment feature could qualify, because the cash flow profile of any reinvesting structure is, in some theoretical sense, sensitive to reinvestment rates and spreads. We respectfully submit that this likely was not the intended scope of the provision, and that, if read literally, it would unintentionally affect the treatment of a large volume of outstanding structured products.

The proposal also treats embedded ALM risk as a single, undifferentiated concept. We think ALM risk is more usefully broken down into three distinct components: (i) interest rate and basis risk, (ii) reinvestment spread risk and (iii) extension risk. The reason we say that is because each is mitigated differently, and to a different degree, by structural features (in our experience) already present in the market. Floating-rate or hedged structures, for example, carry little to no meaningful rate risk, which narrows the relevant inquiry to spread and extension risk, precisely where collateral quality and eligibility covenants are strongest.

The first sentence of proposed Paragraph 9.d, which requires that cash flows be sufficient to pay all contractual amounts due, is a separate test from the embedded ALM risk sentence that follows it, and the two should not be conflated. That threshold cash flow adequacy inquiry is exactly the stressed cash flow sufficiency analysis that credit rating providers already run as part of their surveillance and initial rating processes, and satisfaction of that stressed cash flow test, whether through the safe harbor described in Part III below or through comparable quantitative modeling, should be recognized as the route by which a reporting entity demonstrates compliance.

In our experience, rated revolving structures always contain a number of structural features (and back-ups) that mitigate potential asset-liability mismatch. Short-tenor assets may turn over continuously at high velocity, such as dealer floorplan lines that repay every 30 to 90 days or monthly credit card receivables balances, replenishing the trust with newly originated, market-priced assets. This dynamic reinvestment is generally subject to legally enforceable eligibility criteria and collateral quality covenants, such as minimum portfolio spread floors, weighted average life limits, and ongoing overcollateralization

tests, which constrain the collateral that may enter the pool and help protect against deterioration in collateral economics or credit quality. If eligible replacement collateral becomes unavailable, if performance deteriorates, or if reinvestment or performance triggers are breached, contractually mandated early amortization triggers may end the revolving period and redirect cash flows to amortize the senior notes. SAPWG itself recognizes that structured-credit reinvestment periods are commonly of limited duration and subject to early termination provisions. These protections demonstrate why the mere existence of reinvestment exposure should not determine whether ALM risk is significant. We believe SAPWG should consider whether an objective anchor for that term can be crafted. For example, embedded ALM risk should be considered significant only where it produces a projected shortfall to a rated class under the stress assumptions applied by an NAIC credit rating provider, not merely a theoretical sensitivity to future rates or spreads.

The agenda item's implicit premise appears to be that substantive credit enhancement was designed to absorb credit losses and never contemplated ALM risk. We respectfully submit that this premise warrants further scrutiny. Rating agency cash flow models run stressed interest rate vectors, spread compression, and default timing together, and subordination levels are sized to the combination of those stresses, not to credit risk alone. Embedded ALM risk should be assessed with this existing, integrated stress framework in mind.

III. Some Additional Observations

We would add several further observations drawn from our experience across the structured credit markets.

Complexity is not a perfect proxy for credit risk. The agenda item's concerns about complexity, transparency, and interconnectedness stem from the diversity of collateral within multi-collateral structures, which can make it harder to track an insurer's aggregate economic exposure. But the agenda item itself acknowledges that the credit quality and diversity of the collateral, together with the vehicle's capital structure, often supports a view that credit risk is comparable to, or lower than, equivalently rated single-collateral structures. A structure diversified across many obligors and asset classes is more complex to describe than a single bilateral loan, but that complexity is also what allows idiosyncratic underperformance to be absorbed across a pool and by subordination, rather than concentrated in one credit.

Performance history shows the utility of reinvesting structures. CLOs, the most rigorously tested managed reinvestment vehicle in global credit markets, have reinvested continuously into leveraged loans across multiple credit cycles, including the 2008 to 2009 financial crisis and the March 2020 dislocation, and AAA and AA CLO tranches have suffered no material principal losses across more than two decades of market cycles. That track record reflects the benefit of structured reinvestment managed by experienced investment managers. We believe this is a significant benefit over static structures that should be carefully considered as part of the proposals.

The proposal is, at this stage, premature. Multi-collateral structured credit investments are a relatively new addition to the structured credit landscape, and there is not yet a meaningful body of data documenting defaults, losses, or reinvestment-related underperformance in these structures. We respectfully submit that stripping bond eligibility from a class of instruments before there is data establishing that the targeted risk has actually materialized would be premature.

IV. Recommendation

We strongly believe the best approach to address the concerns motivating the proposals is a collaborative, data-driven approach. In that vein, we would suggest the following for consideration.

a. *Enhanced reporting and disclosure*. Instead of excluding these structures from Schedule D-1, to the extent there are shortcomings in the information available to the investors, the NAIC might consider requiring enhanced reporting disclosures, such as specialized reporting codes or supplemental schedules, that give regulators greater look-through visibility into underlying collateral concentrations, duration profiles, and structural mitigants. This might resolve regulatory concerns about opacity, concentration risk, and circularity.

b. *Objective criteria*. If the NAIC develops ALM guidelines in the future, we believe those criteria it be objective, methodology-anchored criteria. For all involved, it would be best for any such criteria to (i) recognize effective risk mitigants, including appropriate credit support relative to underlying asset credit quality, subordination, active hedging programs, and mandatory contractual cash sweeps, and (ii) provide a path for demonstrating through the meaningful cash flow test or quantitative modeling that ALM risk has been mitigated. SAPWG might also want to consider a safe harbor under which a security rated by an NAIC credit rating provider whose published methodology meets certain standards is deemed not to carry significant embedded ALM risk. This anchors the test in existing public rating criteria and avoids a duplicative insurer-level model for every CUSIP.

c. *Prospective application and grandfathering*. The exposure draft is silent on effective date and transition. SAPWG should state at the outset that any final revisions will apply only prospectively to new issuances and will grandfather securities already held by insurers, consistent with the treatment insurers relied on when the PBBD was originally adopted.

d. *Clarify interaction with SSAP No. 43R*. Because the proposal operates through the existing rebuttable presumption framework under SSAP No. 26, SAPWG should clarify how the new tests are intended to interact with SSAP No. 43R and the rebuttable presumption more generally, so the two frameworks are not applied inconsistently to the same instrument.

Conclusion: Agenda Item 2026-10 raises valid considerations that, in our view, are not yet supported by empirical data and do not fully account for existing structural mitigants and rating agency methodologies already used in this market. We respectfully urge SAPWG to defer adoption of Agenda Item 2026-10 and to work with market participants on enhanced reporting, objective criteria, and further data collection before proceeding.

Structured Finance Association Comments:

SFA supports the NAIC's statutory accounting objectives of preserving solvency, safeguarding policyholder reserves, and ensuring that regulatory reporting accurately reflects underlying economic risk. We recognize that state insurance regulators are seeking to appropriately understand, monitor, and regulate multi-collateral structured credit investments and whether substantial mismatch between the duration of underlying assets and debt tranches create embedded ALM risk that is not adequately reflected in bond classification. Regulators also have legitimate supervisory interests in transparency, portfolio interconnectedness, and potential circularity. SFA agrees that unhedged, speculative reinvestment risk should be appropriately differentiated from fixed-income bond cash flows. At the same time, the mere

presence of reinvestment risk features or a degree of mismatch does not, by itself, mean that a debt security lacks the economic substance of a bond.

However, SFA urges SAPWG not to adopt the proposed additions of Paragraphs 9.c and 9.d to SSAP No. 26 as drafted. The proposal in its current form does not adequately distinguish the kind of ALM risk identified in the agenda item, particularly, the risk attributed to multi-decade asset-liability duration mismatch observed in certain multi-collateral structures from more typical reinvestment, refinancing, and revolving features found in established structured finance transactions. SFA's primary objections center on two fundamental flaws:

1. *The Proposed Changes Are Excessively Broad in Scope***:** As drafted, the proposed tests extend far beyond the multi-collateral structures with substantial, long-dated duration mismatches that prompted regulatory concern, threatening to disqualify wide swaths of traditional, well-established structured finance asset classes from Schedule D-1 bond classification.

2. *The Proposal Fails to Account for the Use of Structural Mitigants***:** The proposal does not distinguish ordinary reinvestment exposure from material dependence on future reinvestment conditions. In particular, the proposed revision does not factor in how structural mitigants are used today in revolving ABS structures to neutralize ALM mismatch risk.

Rather than adopting blunt, disqualifying accounting exclusions that penalize prudent portfolio diversification and more typical reinvestment structures and disrupt the secondary market, SFA advocates for enhanced transparency, robust reporting schedules, and ongoing education.

I. Analysis of the Two Proposed Tests

a. *The "Self-Liquidating" Test (Proposed Paragraph 9.c): Binary Approach & Allocation of Burden*

Proposed Paragraph 9.c creates an overly rigid gating test: underlying financial assets are either strictly "self-liquidating" or they are not. Under the proposal, if an asset does not convert entirely into cash over a defined period in accordance with its contractual terms, the reporting entity must overcome the intensive rebuttable presumption framework in Paragraph 6 of SSAP No.26.

That approach does not adequately reflect the range of repayment structures routinely found in fixed-income and securitization markets. A wide range of traditional, highly performing debt instruments are not fully self-liquidating; they routinely feature balloon payments, bullet maturities, refinancing features, revolving draws, or other repayment mechanics without calling into question their fundamental character as debt. Established structured finance transactions may likewise incorporate revolving or controlled reinvestment periods before entering amortization. As a result, transactions that could be captured by the proposed language include, but are not limited to, credit-card ABS, floorplan facilities, CRE structures, CLOs, and rated feeder notes. Structured products with these features existed at the time the PBBD was initially developed, yet at no point was it contemplated by the industry that such instruments would be subject to the rebuttable presumption of paragraphs 6.a-6.d of SSAP No.26 simply because their underlying assets were not—in the strictest sense—fully self-liquidating.

The potential breadth of the proposed test can also be illustrated by considering its application to Ginnie Mae MBS, which carry the full faith and credit of the United States Treasury. When a loan in a Ginnie Mae pool goes delinquent, the servicer will work with the borrower to institute a partial claim principal deferral

so that the monthly payment is more affordable for the borrower. This partial claim amount is attached to the first lien but structured as a zero-coupon balloon payment that is due on sale or maturity. The presence of this balloon payment would mean that a performing Ginnie Mae bond containing a single loan that received a partial claim deferral is not fully self-liquidating, and therefore presumptively *not* a bond under paragraph 9.c of the PBBD. While it is true that this presumption is likely to be overcome in this fact pattern, the fact that Ginnie Mae MBS can be presumed to not be a bond demonstrates that the revised text of Paragraph 9.c may result in the rebuttable presumption scoping in more securities than intended.

Treating self-liquidation as a rigid either/or test ignores established market mechanics and forces routine debt instruments into an onerous rebuttable presumption regime that was originally designed for equity-collateralized structures.

b. The "Significant Embedded ALM Risk" Test (Proposed Paragraph 9.d): Ambiguity and Scope Creep for Revolving ABS Structures

Proposed Paragraph 9.d categorically disqualifies an asset from bond treatment if it contains "significant embedded ALM risk," defined broadly as any situation where scheduled contractual debt service could be impacted by future reinvestment interest rates or investment credit spreads. The proposal fails to define what level of interest rate sensitivity constitutes "significant" embedded ALM risk and could even be read as saying that any impact at all on the ability to pay contractual cash flows is deemed “significant.” Without objective metrics or quantitative thresholds, this test creates immense regulatory uncertainty, leaving reporting entities unable to assess whether standard reinvestment flexibilities will disqualify their holdings from Schedule D-1. In particular, this proposal risks scoping in existing revolving ABS structures even when reinvestment risk is controlled, bounded, and substantially mitigated by structural protections.

Under proposed Paragraph 9.d, any vehicle that redeploys principal collections during a reinvestment or revolving period could be subject to significant embedded ALM risk analysis if its cash flows could be affected by future interest rates or spreads. In practice, the revolving mechanic contains a number of features to mitigate potential asset-liability mismatch. In these structures, short-tenor assets may turn over continuously at high velocity (such as dealer floorplan lines that repay every 30 to 90 days or monthly credit card receivables balances), replenishing the trust with newly originated, market-priced debt assets. Crucially, this dynamic reinvestment is generally subject to legally enforceable eligibility criteria and collateral quality covenants—such as minimum portfolio spread floors, weighted-average life limits, and ongoing overcollateralization tests. These covenants constrain the collateral that may enter the pool and help protect against deterioration in collateral economics or credit quality that could impair debt service.

There are additional protections in place if eligible replacement collateral is unavailable, if transaction performance deteriorates, or applicable reinvestment or performance triggers are breached. In these cases, contractually mandated early amortization triggers may conclude the revolving period and redirect cashflows to amortize the senior notes. The overall dynamic between collateral velocity, binding eligibility criteria, credit enhancement, and turbo-amortization triggers can materially mitigate ALM risk associated with revolving structures. Indeed, SAPWG itself recognizes that other structured-credit investments commonly contain reinvestment periods of more limited duration and provisions that can terminate reinvestment early if specified triggers are breached. In short, these protections demonstrate why the existence of reinvestment exposure alone should not determine whether ALM risk is “significant”. The relevant inquiry should consider the magnitude and duration of the ALM mismatch, the extent to which

repayment depends on future investment conditions and the structural protections available to limit exposure.

II. Recognizing Structural Mitigants and the Value of Multi-Collateral Credit

Insurers—particularly life insurers with long-tail liabilities—must hold long-dated, high-quality fixed-income assets to match obligations. Prudently engineered multi-collateral credit structures could help reduce idiosyncratic credit risk across uncorrelated asset classes. Importantly, well-structured transactions do not expose senior noteholders directly to unhedged reinvestment risk. They incorporate structural mitigants like substantive credit enhancements & first-loss tranches, contractual reinvestment covenants, dynamic hedging & liquidity facilities, and mandatory amortization of senior notes. As discussed above, embedded ALM risk should be assessed after taking these contractual protections into account, rather than based solely on the existence of a reinvestment period or duration mismatch within the structure.

The PBBD was established to determine whether an instrument represents a bona fide creditor relationship supported by substantive credit enhancement. A debt security that uses overcollateralization, subordination, and hedging to protect scheduled payments functions as a true bond in economic substance. Pushing these investments onto Schedule BA could impose disproportionate, equity-like RBC charges that directly penalize prudent portfolio diversification.

III. SFA Recommendations: Transparency, Objectivity, and Education

Rather than enacting punitive accounting disqualifications that are overly broad in scope and not based on observed empirical findings, the NAIC should pursue a collaborative, data-driven approach to first help inform whether and to what degree amendments to the PBBD may be appropriate. Along these lines, SFA suggests the following for consideration:

a. *Enhanced Reporting and Disclosures*: Instead of excluding these structures from Schedule D-1, the NAIC should implement enhanced reporting disclosures—such as specialized reporting codes or supplemental schedules—that provide regulators with look-through visibility into underlying collateral concentrations, duration profiles, and structural mitigants. This would resolve regulatory concerns regarding opacity, concentration risk, and circularity without destabilizing bond accounting.

b. *Objective Use of Structural Mitigants:* If the NAIC develops ALM guidelines in the future, it must establish explicit bright-line guardrails that: (1) recognize effective risk mitigants, such as appropriate credit support relative to underlying asset credit quality, subordination, active hedging programs, and mandatory contractual cash sweeps; and (2) provide a path for demonstrating through the meaningful cash-flow test or quantitative modeling that ALM risk has been mitigated. This is especially important for existing ABS using revolving structures coupled with proven structural ALM mitigation features.

c. *Industry Education and Collaborative Data Gathering:* SFA is actively working across the structured finance ecosystem—including life insurers, asset managers, rating agencies, and accounting firms—to foster a comprehensive understanding of emerging products with novel structural features. We would be happy to continue our work with the NAIC to bring together market participants and policymakers to discuss the path forward.

Conclusion: The Structured Finance Association shares the NAIC's commitment to solvent, transparent insurance markets. However, Agenda Item 2026-10 introduces a self-liquidation test and an undefined ALM threshold that would both benefit from further refinement.

We urge the SAPWG to defer adoption of Agenda Item 2026-10 and partner with market participants on enhanced reporting and data collection.

Recommendation:

NAIC staff recommend that the Working Group expose updated revisions to SSAP No. 26, paragraphs 9.c. and 9.d. mostly consistent with the suggestions from the ACLI. These proposed revisions clarify the scope of paragraph 9.c. to financial assets of the ABS issuer and incorporate the concept of structural provisions in assessing significant ALM risk within paragraph 9.d. Additionally, a new paragraph 49 of SSAP No. 26 is proposed to clarify the application guidance upon adoption.

Note: Both paragraphs 9.c. and 9.d. are new paragraphs to SSAP No. 26. However, only modifications from the prior exposure are shown as tracked changes for ease of reading:

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 financial 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, when factoring in any structural mitigants, the ability to pay contractual cash flows of the debt security ~~as scheduled~~ could be impacted by severe but precedented changes in reinvestment interest rates or investment spreads. Securities that include significant embedded ALM risk do not meet the definition of a bond.

49. Revisions to SSAP No. 26, adopted (month/year) to incorporate paragraphs 9.c. and 9.d. and expand the requirements asset-backed securities are required to meet to qualify for bond reporting are applicable to all financial asset-backed securities held as of December 31, 2027, and for all subsequent acquisitions. Debt securities previously reported as bonds that do not qualify under the new provisions shall be reclassified to non-bond debt securities reported on Schedule BA: Other Long-Term Assets using the transition guidance for the principles-based bond definition captured in paragraph 46. Reporting entities may use a practical expedient in assessing debt securities captured under paragraph 9.d. and exclude currently held financial asset-backed securities for which the reinvestment periods have ended. Only financial asset-backed securities where the reinvestment period is still open are required to be assessed for significant embedded ALM risk.

The following addresses comments not reflected in the above proposal:

- The word "significantly" as included in the ACLI edits (…could be "significantly" impacted by severe…) was not included in the revisions. For reinvestment risk to cause a debt tranche of an asset-backed security to have any amount not be repaid under the proposed wording, that means that inclusive of any structural mitigants, in rate and spread environments that have occurred before, reinvestment rates are so insufficient so as to wipe out the entire amount of substantive subordination. This would be a clear demonstration that embedded ALM risk is significant. Even without inclusion of "significantly", there remains concern that the update language may not be sufficient to address the structures that have been highlighted to be of concern as a structure could be left with little or no remaining credit enhancement to absorb actual credit losses following a period of severely declining reinvestment yields. Additional feedback is requested on any further refinements needed to address this concern.

- Comments from Derchert proposing a safe harbor for securities rated by an NAIC credit rating provider have not been incorporated, as the establishment of the PBBD was clear that the structural assessment of a debt security determines bond reporting. An NAIC designation or credit rating does not determine whether a debt security qualifies as a bond.

- Reference was included in the Derchert comment letter that the PBBD was applied prospectively. This is incorrect. There was no grandfathering permitted with the implementation of the PBBD and all debt securities were required to be assessed for compliance under the PBBD. Debt securities that did not qualify as bonds were required to be reclassified to Schedule BA as non-bond debt securities.

- Revisions were not incorporated to address comments from Dechert and Structured Finance Association pertaining to Paragraph 9c as they appear to reflect a misunderstanding of the term "self-liquidating" which is defined in 9c as assets that "convert themselves to cash over a defined period in accordance with their contract terms, as is the case with most types of receivables." For example, the comments seem to consider balloon or bullet maturities as causing an asset to not be self-liquidating. However, a balloon payment is a contractually required payment that converts remaining principal to cash at maturity, which is a self-liquidating feature. Many other examples were noted that span self-liquidating (e.g. CLOs), non-self-liquidating (e.g. CFOs) and non-financial (e.g. fleet leasing). Paragraph 9c only applies to non-self-liquidating financial assets. In most cases, this would be equity-back structures, but in the rare event that there are other non-self-liquidating financial assets, it is intended to include those as well to ensure that the rebuttable presumption is met given the lack of contractual cash flows.

- Comments from Derchert suggesting clarification on how the guidance interacts within SSAP No. 43 were not incorporated. Determination of whether a debt security qualifies as a bond is captured in scope of SSAP No. 26. Debt securities that qualify as bonds under those provisions and are considered to be asset-backed securities (not issuer credit obligations) then move to SSAP No. 43 for specific accounting guidance.

- Although consideration occurred on incorporating specific structural mitigants as suggested by commenters, with the focus on a principles-based standard, a generic reference on structural mitigants was found to be less limiting and would work with future innovation of structural designs and better align with a principles-based definition. If desired by the Working Group, consideration could be given to adding a Q&A to INT 24-01 to address various comments made around providing more defined parameters.

- Revisions have not been proposed to incorporate thresholds suggested by many commenters based on the length of the reinvestment period or in accordance with the weighted average life to the effective maturity of the debt security. Debt securities that incorporate significant embedded ALM risk, after factoring structural mitigants, shall not be classified as bonds.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-11 (Wil)	**Residential Mortgage Loan Definition**	**15 – Agenda Item**	**Comments Received**	**Att. 21: IP – 23 ACC – 35 Athene – 43**

Summary:
On August 12, 2026, the Working Group exposed this concept agenda item with a specific request for comments from regulators and industry on a number of topics including drafting a residential mortgage loan definition for *SSAP No. 37—Mortgage Loans*, whether certain types of loans should be classified as residential or not, separate or grouped reporting Schedule B, and, if supported, the types of components which should be added to Schedule B reporting of mortgage loans to assess risk.

This agenda item was drafted in response to a referral received from the Investment Analysis (E) Working Group on inconsistent reporting of residential mortgage loans (RMLs) on Schedule B and the homogenous risk treatment of all mortgages reported as RMLs. As noted in the referral, no formal definition of residential mortgage loans exists in the AP&P Manual and residential mortgage loans are assigned a 68-basis points capital charge for life insurers without risk sensitivity to any underlying factors.

Interested Parties Comments:
The Working Group received a referral from the Investment Analysis (E) Working Group and exposed this as a concept agenda item. This is considered an SAP clarification as the intent to incorporate a definition into the SSAPs that is consistent with the existing definition in other statutory guidance of "one-to-four family properties" as the definition for residential mortgage loans and to assess different characteristics and risk components of properties that meet that definition for more granular reporting and/or accounting guidance. Comments are specifically requested on the items noted above.

After discussions with several insurers that invest in residential mortgage loans, interested parties offer the following responses to the items requested for comment in this exposure:

1. We agree the Federal definition (12 CFR § 1266.1) should be adopted for one-to-four family property and multifamily properties. This would provide consistency with the definition used by other financial institutions such as banks.

2. Possible modifications to the 12 CFR § 1266.1 definitions:
    a. For mixed use real estate, i.e., retail and residential use in the same building, should be classified as residential if use is more than 50% residential based on square footage or LTV.

The entire mortgage balance should be reported as either one-to-four family or multifamily property. No allocation should be made between the residential and commercial portions.

b. A multifamily property with 1-4 units should be classified as residential; 5 or more units should be classified as commercial.

c. A mortgage loan, including a construction loan, secured by a project involving multiple one-to-four properties should not be reported as a single residential loan when the collateral is the project or the development as a whole. Such loans should be reported as commercial. We agree that 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. Loan-to-value limits should be set by the lending insurance company based on the insurer's risk tolerance.

e. Accessory dwelling units (ADUs), including units known as a "mother in law" involves one or more buildings on the same land as the primary residence and is part of the title to the same land. We consider this to be a residential mortgage loan. For non-owner occupied one-to-four family properties, we consider this to be a residential mortgage loan, no different from an owner-occupied property. For residential construction loans, we believe the classification is the same as (c) above, a commercial loan. For fix and flip loans, we view these as commercial loans as these are loans made with the intent to "fix" the property and sell it in a short period (loans generally six months to two years) for profit. These properties are not occupied, similar to a construction loan. For lines of credit, the classification should be the same as home equity loans; home equity loans can be first or second liens, closed or open ended, but a lien on the property paid by the occupant would be considered residential loan. Loans on transitional properties are a form of the fix and flip category (see above), which is a form of commercial loan.

3. This question is not related to the accounting for mortgage loans and is more closely aligned with differentiating risk for purposes of assigning an appropriate risk charge in the RBC calculation. We recommend this question be referred to the Capital Adequacy Task Force.

4. This question is not related to the accounting for mortgage loans, and the suggested level of granularity would likely be needed for RBC, not accounting. We recommend this question be referred to the Capital Adequacy Task Force.

We note that the data necessary to evaluate and properly classify mortgage loans is available at origination and is not updated as long as the loan is outstanding.

Alternative Credit Council Comments:

The Alternative Credit Council,[10] the private credit affiliate of the Alternative Investment Management Association Ltd (AIMA), appreciates the opportunity to comment on agenda item 2026-11, Residential Mortgage Loan Definition, which the Statutory Accounting Principles (E) Working Group (Working Group) exposed as a concept agenda item on August 12, 2026. The agenda item responds to the May 26, 2026 referral from the Investment Analysis (E) Working Group and asks whether SSAP No. 37, Mortgage Loans, should define residential mortgage loans, how certain loan and property types should be classified, and whether Schedule B reporting should capture additional loan risk characteristics.

I. Introduction and summary

ACC members include private credit managers that originate, acquire and manage residential mortgage loans on behalf of US insurers, through separately managed accounts, funds and trusts. Insurers are important long-term investors in this market, and private credit managers have provided financing in segments where banks have reduced their participation, including construction lending to small homebuilders. Our members therefore have a direct interest in a classification framework that is clear, consistent across reporting entities and aligned with the credit risk of the loans insurers hold.

We support the Working Group's objective. A Level 1 definition of residential mortgage loan in SSAP No. 37, anchored in the one-to-four family property definition in 12 CFR § 1266.1, will resolve the reporting inconsistency the referral identifies and align SSAP No. 37 with Model Law 280, SSAP No. 58 and the Annual Statement Instructions. We also agree that current Schedule B reporting does not give regulators the loan characteristics they need to assess a growing asset class.

Our comments focus on two principles that should govern the next stage of this project:

- Identification of key risk attributes should be the basis for any updated categorization. Lien position, loan-to-value (LTV) ratio, borrower credit score, occupancy, loan purpose and documentation drive the credit performance of residential mortgage loans. The Working Group should capture these attributes in Schedule B reporting and use them to differentiate loans within the one-to-four family definition, rather than excluding categories of loans on the basis of product labels or loan balance.

- Pools of residential mortgage loans should be in scope of residential mortgage loan reporting to the extent that the collateral of each underlying loan meets the one-to-four family property definition and each parcel can be sold separately. This would apply whether the insurer holds a pool of individual loans, a single loan cross-collateralized by multiple such properties, or a loan to a borrower that owns many such properties. These loans carry credit risk tied to the value of

[10] The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over US$2 trillion of private credit assets. The ACC is an affiliate of AIMA and is governed by its own board, which ultimately reports to the AIMA Council. ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure, and the trade and receivables business. The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research to strengthen the sector's sustainability and wider economic and financial benefits. Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. The ACC seeks to explain the value of private credit by highlighting the sector's wider economic and financial stability benefits.

individual homes, which is the risk that the residential mortgage loan category is designed to capture.

II. Identification of key risk attributes should be the basis for any updated categorization

The referral and the exposure identify the same set of risk factors: lien position, LTV, borrower credit quality measured by FICO score, owner-occupied versus investment use, and loan type, including construction loans, bridge loans and home equity lines of credit. We agree that these are the attributes that matter. The question for the Working Group is how to use them.

Industry experience and regulatory practice confirm that a small number of loan-level attributes explain most of the variation in residential mortgage credit risk. In its March 24, 2026 presentation to the Invested Assets (E) Task Force, Neuberger Berman explained that borrower credit score and LTV together account for the majority of the predictive power in the internal models insurers use to estimate default probability and loss severity, with debt-to-income ratio, property cash flow coverage and loan seasoning as secondary drivers. The presentation also noted that prime loans originated between 2001 and 2005 experienced principal losses of approximately 60 basis points through the global financial crisis, and that the ability-to-repay requirements adopted under the Dodd-Frank Act have since strengthened underwriting across the market. Nationally recognized statistical rating organizations calibrate residential mortgage credit models on the same loan-level attributes, and the Basel Committee's standardized approach differentiates residential real estate exposures by LTV and by whether repayment depends materially on cash flows generated by the property, rather than by product label.

Categorization by attribute is more precise than categorization by product label. A label such as non-owner occupied, accessory dwelling unit or fix-and-flip describes the use of a property, not the credit risk of the loan. A stabilized single-family rental loan at a 60 percent LTV, underwritten to property cash flow with personal recourse to the borrower, may present lower expected loss than an owner-occupied second-lien loan at a 90 percent combined LTV. Excluding the first loan from the residential category while retaining the second would move classification further from the underlying economic risk, which is the outcome the referral seeks to avoid.

The same reasoning applies to loan value limits. Loan balance is a relevant reporting field and a relevant input to concentration analysis, but it is not a reliable proxy for credit risk. A jumbo loan to a borrower with a high credit score and a 50 percent LTV is not riskier than a conforming loan with weaker attributes because of its size. The referral itself notes that some of the high balances observed in Schedule B reflect aggregated reporting driven by the 99,995 row limit rather than individual loans. A balance cap applied as a definitional test would reclassify loans on the basis of a reporting artifact.

Attribute-based categorization also addresses the Working Group's concern about development-stage and transitional collateral more precisely than exclusion. Loan purpose and property status, whether purchase, refinance, construction, renovation or bridge, and whether the property is stabilized, are themselves attributes. Identifying them on Schedule B would allow regulators to isolate loans whose repayment depends on a future business plan, while retaining in the residential category loans secured by individually divisible one-to-four family homes under construction or renovation.

Recommendation. Retain the one-to-four family property definition as the scope of the residential mortgage loan category, and base any subcategories, disclosures or future RBC differentiation on a

defined set of loan-level attributes reported on Schedule B. At a minimum, those attributes should include:

- Lien position, distinguishing first-lien loans from second-lien loans and home equity lines of credit.
- LTV at origination, combined LTV where a subordinate lien is present, and an optional current LTV based on an automated valuation model or other updated valuation.
- Borrower credit score at origination, measured on a consistent basis across reporting entities.
- Occupancy, distinguishing owner-occupied primary residences, second homes and investor properties.
- Loan purpose and property status, identifying purchase, refinance, construction, renovation and bridge loans and whether the property is stabilized.
- Documentation type and, for investor loans, the debt service coverage ratio at origination.
- Property state, which should replace the "various" and "multiple" location entries the referral identifies.

We encourage the Working Group to define each attribute precisely in the Annual Statement Instructions, including the measurement date and valuation method, so that reported data are comparable across reporting entities. Consistent attribute data would also give the Life Risk-Based Capital (E) Working Group the basis it currently lacks to calibrate a risk-sensitive charge. The referral notes that the current 68 basis point charge was anchored to pre-CM framework commercial mortgage factors without calibration to residential mortgage data. Loan-level attributes are the predicate for replacing that factor with one that reflects the risk of the loans insurers actually hold.

III. Pools of residential mortgage loans secured by individually divisible one-to-four family properties should be in scope

Insurers commonly acquire residential mortgage loans as pools, through bulk purchases or flow arrangements with originators, and often through an investment manager. Insurers also lend against portfolios of one-to-four family properties, including single-family rental portfolios, through a single loan cross-collateralized by the individual homes. In both cases the collateral is a set of individual one-to-four family properties, each on its own legal parcel and each capable of being sold separately. The Neuberger Berman presentation described typical portfolios as containing hundreds or thousands of individual exposures diversified across loan types, borrowers and geographies. Recovery on these exposures depends on the value of individual homes that can be sold one at a time into the broad residential resale market. Borrower-level factors, including credit score and debt service coverage, are captured through the risk attributes previously outlined in Section II. Together with the value of each individual home, borrower-level factors make up the risk profile the residential mortgage loan category is intended to capture.

The manner of acquisition, holding or reporting should not change that classification. The Working Group recognized this principle in agenda item 2025-13, which expanded the scope of SSAP No. 37 to permit

residential mortgage loans held in qualifying statutory trusts to be reported individually on Schedule B as if held directly. The Life Risk-Based Capital (E) Working Group applied the same look-through logic in Proposal 2026-02-L, which aligns with the treatment of residential mortgage loans held through unaffiliated Schedule BA structures with direct ownership. SSAP No. 37 should state expressly that a loan, or a pool of loans, remains within the residential mortgage loan definition where the collateral consists of individually divisible one-to-four family properties, regardless of the number of borrowers, loans or properties involved.

The same principle should govern the staff's proposed clarification in question 2c, which we ask the Working Group to revise. As drafted, the clarification would bar a loan secured by a project involving multiple one-to-four family properties from residential mortgage loan reporting whenever the collateral is the project or development as a whole. That test looks at the form of the lending relationship rather than the substance of the collateral. Where a project has been divided into individual one-to-four family parcels and a single loan is secured by a mortgage on each of them, the insurer's recovery depends on the value of those individual dwellings, each of which can be released and sold on its own. That is residential mortgage credit risk. The loan should remain a residential mortgage loan, reported with the Section II attributes measured across the underlying properties.

Staff's concern is properly directed at collateral that cannot be divided into individually saleable homes, such as a horizontal multifamily community on a single parcel. Homes operated as one rental property on a single parcel, and not separately conveyable without subdivision or condominium conversion, reflect collateral that is commercial. Where the collateral does consist of individually divisible and saleable homes, the loan purpose and property status attributes in Section II identify development and business-plan risk more precisely than classification would.

This clarification would not extend residential mortgage loan treatment to securitized exposures. Residential mortgage-backed securities remain within SSAP No. 43, Asset-Backed Securities, and the principles-based bond definition. The clarification applies only to whole loans in which the insurer holds, directly or on a look-through basis, the note and a mortgage lien on each underlying property.

Pool reporting also offers a practical answer to the Working Group's concern about the length of Schedule B. We support permitting reporting entities to report pools of residential mortgage loans, and loans secured by multiple individually divisible and saleable one-to-four family properties, in aggregated lines, provided each aggregated line discloses the key attributes described in Section II as distributions rather than single values. An aggregated line could report the number of loans, total balance, weighted average and stratified LTV and credit score, the share of loans by lien position, occupancy and loan purpose, and the largest state concentrations, with loan-level data available to the domiciliary regulator on request. Therefore, insurers should maintain loan-level and property-level data for every aggregated line and make it available to the domiciliary regulator and examiners in a consistent format. This approach preserves the analytical value of Schedule B and ensures that regulators do not mistake an aggregated line for a single high-balance loan.

Recommendation. Add to SSAP No. 37 a statement that (1) a loan is within the residential mortgage loan definition where its collateral consists of individually divisible one-to-four family properties, whether held as a pool of individual loans or as a single loan secured by multiple properties, and regardless of the number of borrowers; (2) a loan secured by a horizontal multifamily community is a commercial mortgage loan where the individual homes cannot be conveyed separately; and (3) qualifying residential mortgage

loans are permitted aggregated Schedule B reporting of such loans subject to attribute-level disclosure and availability of loan-level and property-level data to regulators and examiners upon request.

IV. Responses to specific questions

Question 1, other definitions. We support 12 CFR §1266.1 as the starting point. It is consistent with the one-to-four family references in Model Law 280, SSAP No. 58 and the Annual Statement Instructions, and adopting it at Level 1 of the statutory hierarchy achieves the staff's objective without redefining the category.

Question 2a, mixed-use properties. We support a primarily residential test consistent with the federal definition, measured by the residential share of appraised value or property income. Where a property meets the test, the full balance should be reported in the residential category with a mixed-use flag. Allocating a single loan between categories would add complexity without improving risk information.

Question 2b, multifamily properties. The existing residential and commercial mortgage loan classifications can accommodate multifamily loans without a new reporting category. Consistent with 12 CFR § 1266.1, multifamily loans secured by residential real property would be reported as residential mortgage loans, with the proposed Schedule B attribute disclosure identifying dwelling units, property type, and related loan characteristics. This approach gives regulators visibility into multifamily exposures while keeping reporting aligned with the current Schedule B structure.

Question 2c, project-level collateral. We do not support the clarification as drafted. A loan secured by a whole project should remain a residential mortgage loan where the collateral consists of individually divisible and saleable one-to-four family properties, for the reasons in Section III. Collateral that cannot be conveyed separately, such as a horizontal multifamily community on a single parcel, would be a commercial mortgage loan.

Question 2d, loan value limits. We oppose loan value limits as a test for classification, for the reasons in Section II. Loan balance should be a reported attribute and an input to concentration analysis.

Question 2e, specific loan types. Loans secured by accessory dwelling units or non-owner-occupied properties, residential construction loans, fix-and-flip loans, lines of credit, home equity loans and loans on transitional properties should be identified through the lien position, occupancy and loan purpose attributes described in Section II, rather than excluded from the category by label.

Question 3, risk factors in Schedule B. Yes. The attributes listed in Section II should be incorporated into Schedule B through new columns or reporting codes, defined consistently in the Annual Statement Instructions.

Question 4, aggregated reporting. Yes, for pools of loans and loans secured by multiple individually divisible and saleable one-to-four family properties, subject to the attribute-level disclosure described in Section III.

V. Conclusion

The ACC supports the Working Group's objective of a clear, Level 1 definition of residential mortgage loans and more informative Schedule B reporting. We respectfully request that the Working Group:

- Adopt the one-to-four family property definition in 12 CFR § 1266.1 as the scope of the residential mortgage loan category in SSAP No. 37.

- Base any updated categorization, disclosure or referral for RBC differentiation on identified key risk attributes, including lien position, LTV, borrower credit score, occupancy, loan purpose and documentation, rather than on product labels or loan value limits.

- Clarify that a loan is within scope where its collateral consists of individually divisible and saleable one-to-four family properties, regardless of the number of borrowers, loans or properties, whether held directly, through a qualifying statutory trust or through a look-through structure.

- Revise the proposed clarification in question 2c so that classification turns on whether the project collateral consists of individually divisible and saleable one-to-four family properties.

- Permit aggregated Schedule B reporting of such pools, subject to attribute-level disclosure and availability of loan-level and property-level data to the domiciliary regulator and examiners upon request.

- Expose proposed SSAP No. 37 language together with the corresponding Blanks (E) Working Group proposal, so that the definition and the reporting fields can be evaluated as a package before adoption.

Athene's Comments:

Athene Holding Ltd. (Athene) appreciates the opportunity to comment on agenda item 2026-11, *Residential Mortgage Loan Definition*, which the Statutory Accounting Principles (E) Working Group (Working Group) exposed on August 12, 2026, in response to the May 26, 2026 referral from the Investment Analysis (E) Working Group. Our comments distinguish the definition of an RML from the measurement of risk within that category.

The capital issue should remain central. The current 0.68% Life Risk-Based Capital (RBC) factor is flat and was not calibrated to residential mortgage loss data. It is appropriate that SAPWG revisits definition of the category and add Schedule B fields for the attributes that distinguish risk. The Life Risk-Based Capital (E) Working Group (Life RBC WG) should then use those data fields to develop risk-sensitive charges. Reclassification is not a substitute for that work.

Classification should follow the collateral. A loan secured by one-to-four-family properties should remain an RML when each property is separately saleable, regardless of occupancy, borrower purpose, construction or renovation status, intent to resell, loan size, or whether several properties secure one loan. Those features affect risk and should be reported as part of enhanced disclosures in Schedule B, but they do not change the nature of the collateral.

Accordingly, Athene recommends the following of the Working Group, with the collateral test applied to illustrative loan types in **Appendix A** and responses to the exposure's questions in **Appendix B**:

1. Adopt a Level 1 definition based on the federal one-to-four family property framework, including the related terms needed to address construction-stage, multifamily, mixed-use, and nonresidential property consistently.

2. Confirm that pools and cross-collateralized loans qualify when the underlying one-to-four family properties are individually divisible and saleable.

3. Add defined risk attributes to Schedule B, permit aggregated reporting with attribute distributions and loan-level support, and reject loan balance or product labels as classification tests.

4. Expose the SSAP No. 37 definition with the related Blanks proposal, then refer RBC differentiation to the Life RBC WG for calibration using the reported attributes.

Athene's growing allocation to residential mortgage loans is deliberate. As of December 31, 2025, Athene's U.S. statutory entities reported $86.8 billion of mortgage loans on Schedule B, including $52.1 billion of residential mortgage loans, of which 98.9% was in good standing.

That allocation reflects the characteristics of the underlying assets. Athene's residential mortgage loans are secured by individually saleable one-to-four-family homes, amortize on contractual schedules, and have historically shown limited correlation to corporate credit. This includes single-family rental portfolios, construction loans on individual lots, and renovation and bridge loans, all of which are secured by homes that can be sold individually into the residential resale market. These characteristics align well with the duration and cash-flow profile of our annuity liabilities and help us provide guaranteed lifetime income to American savers.

I. Classification should follow the nature of the collateral

12 CFR 1266.1 provides the operative federal anchor. It defines property by its physical character and residential use, expressly includes land to be improved or being improved by the construction of dwelling units, and distinguishes one-to-four family, multifamily, mixed-use, and nonresidential property. Bringing that framework into Level 1 guidance would resolve inconsistent Schedule B classification without creating a new asset taxonomy.

For a loan secured by several one-to-four family properties, the relevant question is whether each home is a separate legal parcel that can be conveyed and released from the lien independently. If so, the insurer's recovery is tied to homes that can be sold individually into the residential market. The loan should remain residential whether it is a pool of separate notes, a cross-collateralized loan, or a loan to a borrower that owns multiple properties.

The same test applies to non-owner-occupied homes, one-to-four family debt-service-coverage loans, residential construction and renovation loans, bridge loans, and fix-and-flip loans. Occupancy, borrower credit, property cash flow, completion status, and holding period may change expected loss. They should therefore be visible in reporting and underwriting, not used to convert residential collateral into commercial collateral.

A single Schedule B line should not determine classification. Conversely, a loan against one undivided project does not qualify for one-to-four family treatment if the homes cannot be conveyed separately without subdivision or condominium conversion. The distinction is the collateral available for recovery, not the number of borrowers, properties, or reporting rows.

II. Enhanced Schedule B reporting to capture risk attributes

Athene supports new Schedule B reporting codes for risk attributes that include lien position, loan-to-value (LTV) ratio at origination and combined LTV ratio for subordinate liens, borrower credit quality at origination measured by FICO, occupancy, loan purpose, construction status, documentation type, debt-service-coverage ratio (DSCR) for investor loans, dwelling-unit count and property type, and property state. The Annual Statement Instructions should define each field and its measurement date so that the data are comparable across insurers.

Pools and loans secured by multiple qualifying properties should remain on Schedule B and may be reported in aggregated lines. Each line should show the number of loans and properties, total balance, LTV and credit-score distributions, shares by lien position, occupancy and purpose, and material geographic concentrations. Insurers should retain the underlying loan-level and property-level data and provide it to regulators and examiners on request.

Loan balance should be reported and used for concentration analysis rather than as a boundary between residential and commercial mortgage loans. A large Schedule B line may represent many separately saleable homes rather than one large exposure. A reporting balance cap would therefore confuse reporting form with substantive collateral risk.

Additionally, because the new fields will require system and vendor changes, we ask that the effective date allow at least one full annual reporting cycle after the related Blanks proposal is adopted for reporting entities and vendors to build the new fields.

III. Conclusion

In summary, we recommend that SAPWG define RMLs by the nature and separate saleability of the collateral, including pools and cross-collateralized loans, and add Schedule B risk attributes without treating loan balance or product labels as classification tests. The SSAP No. 37 and subsequent Blanks changes should be exposed together, with RBC differentiation referred to the Life RBC WG once consistent data is available.

Athene appreciates the opportunity to comment and stands ready to provide loan-level data for the collateral types illustrated in Appendix A to inform further discussion and the Life RBC WG's calibration work.

Recommendation:
NAIC staff recommend that the Working Group hear comments and direct NAIC staff on drafting revisions, with an exposure seeking additional information on certain items as specified below.

Comments received on the exposed questions were aligned on most points as detailed below. NAIC staff seeks input from the Working Group on whether to proceed with drafting revisions in line with these comments, or if there are any where a different direction is preferred:

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?

    - All commenters supported utilizing CFR definitions. NAIC Staff recommend utilizing the CFR definitions to the extent possible in line with comments received.

2. The following are possible modifications to the 12 CFR § 1266.1 definitions:

    - 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?

        - All commenters opposed bifurcating loans secured by mixed-use properties and recommended basing the classification of the loan based on the predominant use (e.g. >50%). There was variation in whether this should be based on LTV, income production, or square footage. Some commenters also suggested the use of an identifier on Schedule B for mixed-use properties. NAIC Staff recommend using a 50% threshold metric for classification of the entirety of the loan consistent with comments, and to seek further input on which metric to use for this determination. Staff also recommend the suggested multi-use flag.

    - 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?

        - Commenters were largely aligned that one-to-four family properties should be considered residential and multi-family (5+) properties should be considered commercial. The ACC comment letter appeared to agree with this in one portion of their letter and not in another. As this is the existing annual statement distinction and largely supported to be retained, NAIC Staff recommend retaining this distinction.

    - 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.

        - The wording of this question was a bit unclear and generated a lot of commentary. However, that commentary was generally aligned and responsive to the intent of the question. Commenters were aligned that a single mortgage loan secured by multiple residential properties that are themselves legally separate properties that are individually saleable, should be classified as a residential mortgage loan. Commenters were also in agreement that a loan secured by multiple residential properties that are not individually saleable, should be classified as a commercial mortgage loan, which is what the question was referring to. NAIC Staff recommend incorporating this distinction in the drafting.

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

    - All commenters opposed using loan size as a determining factor for classification. NAIC Staff recommend excluding loan size as a determining factor.

- 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.

    - There was some variation in response on this item. Commenters all agreed that ADUs, non-owner occupied one-to-four family properties, home equity loans and lines of credit all should be classified as residential. Interested parties noted that construction loans, fix and flip loans and transitional properties should be commercial, while the ACC and Athene noted these to be residential. NAIC Staff recommend seeking additional input on those where the feedback was mixed.

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)

    - Commenters largely supported including key mortgage loan risk factors in Schedule B reporting. In addition to lien position and LTV ratio, many others including credit score, owner occupancy, debt service coverage ratios and others were listed as factors to be considered. NAIC Staff recommends working with key stakeholders to determine which of the identified characteristics are most important and work towards including as many of the most relevant factors as is reasonably feasible.

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?

    - While continued reporting on Schedule B was supported, some commenters supported an allowance for aggregated reporting in some instances, including for pools of loans. While this was commented on rather extensively, it is unclear what the reference to pools of loans means**.** Bulk purchases of many individual loans is allowed and currently treated as the purchase of each individual loan. SSAP 37 does not allow acquisition of a "bundle of mortgages" in which the insurer does not have a separable ownership in each individual loan. It is not clear if a "pool of loans" is a bulk purchase, a bundle or something else. NAIC Staff recommend seeking additional information from stakeholders.

Questions for Exposure

1. For multi-use properties, what metric should be used to determine the predominant usage? Options raised by commenters included: LTV, income production and square footage.

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2. There was mixed feedback on the inclusion of construction loans, fix and flip loans and transitional properties as residential RMLs. As all of these types represent transitional types of loans that are likely distinct in their nature from loans on stabilized properties, should they be reported as their own distinct classification?

3. Please provide more detailed information around the pooled loans referenced in comment letters, whether they represent bulk purchases, bundled loans, or something else. If there are multiple types, please include detailed descriptions of each.

As a reminder, the Investment Analysis (E) Working Group referral identified the following areas for consideration:

- Clarification of the characteristics that distinguish residential mortgage loans from 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 could be appropriate for reporting purposes, including guidance on which loans can be aggregated to retain benefits of disclosure of key risk characteristics

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-12 (Robin)	**Retroactive Reinsurance Exception**	**16– Agenda Item**	**Comments Received**	**Att. 21 IP – 24 RAA – 31 NC DOI – 51**

Summary:
On August 12, 2026, the Working Group exposed a new disclosure for when the exception retroactive accounting is applied to allow prospective accounting for intercompany reinsurance as described *SSAP No. 62—Property and Casualty Reinsurance* paragraph 36.d. The exposure requested comments 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. The exposure also noted that if the exception is eliminated or revised, corresponding disclosure revisions will be considered.

Regulators requested this agenda item to 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.

Existing SSAP No. 62 paragraph 36.d.:

> 36. The accounting principles for retroactive reinsurance agreements in paragraph 34 shall not apply to the following types of agreements (which shall be accounted for as prospective reinsurance agreements unless otherwise provided in this statement):
>
> d. Intercompany reinsurance agreements, and any amendments thereto, among companies 100% owned by a common parent or ultimate controlling person provided there is no gain in surplus as a result of the transaction; or

SSAP No. 62 exposed 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 36.d., 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.

SSAP No. 62—Property and Casualty Reinsurance provides different accounting treatment for prospective and retroactive reinsurance contracts. The distinction depends on whether the agreement covers insured events occurring after the agreement's effective date (prospective) or events that occurred before the effective date (retroactive).

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.

History - 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. 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 The wording has consistently required 100% common ownership since adoption.

The exception permits prospective accounting for certain transactions that shift prior-year business within an insurance group under 100% common control. It is commonly applied to amendments to intercompany pooling agreements, including the addition of new pool participants, and to reallocations of prior-year

reserves and premiums among affiliated entities. These intercompany reinsurance agreements are subject to regulatory review under the *Insurance Holding Company System Regulatory Act* (Model #440). In addition, if the transaction produces a gain to the ceding entity, SSAP No. 62, paragraph 37, requires a more conservative accounting methodology.

Risk Transfer Logic
Retroactive reinsurance agreements must transfer risk to qualify for retroactive accounting. Risk transfer requires both compliance with the applicable contractual requirements and a reasonable possibility that the reinsurer will incur a loss.

Implications of the Current Paragraph 36.d. Exception
Focusing solely on whether a surplus gain is recognized at inception emphasizes the timing of gain recognition rather than the transaction's ultimate economic effect. This approach may place form over substance.

It is unclear how a ceding company can assert both that a retroactive reinsurance agreement transfers risk and that the agreement will not produce a surplus gain for purposes of the paragraph 36.d. exception. A reasonable possibility of loss to the reinsurer generally implies a corresponding possibility of gain to the ceding company. Accordingly, these positions appear inconsistent.

Applying prospective accounting to intercompany reinsurance transactions may also affect the operational and risk-based capital (RBC) ratios of entities within an insurance group. If affiliated loss portfolio transfers and other retroactive agreements qualify for the paragraph 36.d. exception, significant premiums and reserves could be removed immediately from the ceding entity's statutory financial statements. This reduction in reported reserves could substantially and immediately lower the ceding entity's total RBC requirement.

Interested Parties Comments:
As noted in the related Form A, 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).

Prior to the adoption of FAS 113, reinsurance agreements covering events that occurred prior to the effective date of the reinsurance agreement generally resulted in an underwriting gain to the ceding insurer. FAS 113 changed reinsurance accounting to require gains from retroactive reinsurance to be deferred and recognized over the claims-paying period. When the guidance from FAS 113 was evaluated by the Property Casualty Reinsurance Study Group, the Study Group adopted most of the provisions of FAS 113 for statutory accounting, including the accounting for retroactive reinsurance between ceding insurers and unaffiliated reinsurers.

However, for retroactive reinsurance among companies 100% owned by a common parent or ultimate controlling person, the affiliated insurers were exempt from retroactive reinsurance accounting as long as there was no gain in surplus from the transaction. This exception was adopted so that new

intercompany reinsurance agreements and amendments to existing intercompany reinsurance agreements would continue to be accounted for as prospective reinsurance and continue to be reported in loss reserves and captured in the loss development reported in Schedule P.

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 (Issue Paper No. 75). The wording has consistently noted 100% common ownership since adoption.

For these reasons, interested parties do not recommend the elimination of paragraph 36.d. We recommend retaining the exception, clarifying its interaction with risk transfer and paragraph 37, and offer to work with NAIC staff on targeted disclosures.

Reinsurance Association of America (RAA) Comments:

Purpose of Our Comments

RAA appreciates the opportunity to comment on Ref. 2026-12. The exposure proposes disclosures identifying use of paragraph 36.d and requests comments on whether the exception should be retained, narrowed or eliminated. We oppose rescinding the exception and recommend retaining it, clarifying its application and improving transparency through targeted disclosures.

Paragraph 36.d permits prospective accounting for qualifying reinsurance agreements and amendments among companies 100% owned by a common parent or ultimate controlling person, provided there is no gain in surplus from the transaction. The exception was adopted in March 1996 and carried into initial codification.[1] In its subsequent historical explanation, INT 03-02 described the intent as accommodating amendments to wholly owned intercompany reinsurance agreements without surplus gains.[2] This accounting accommodation supports group risk and capital management today, but does not replace risk-transfer requirements, credit-for-reinsurance requirements or applicable holding company review.

Transactions Affected by the Exception

Intercompany Pooling

Intercompany pooling is a reinsurance arrangement through which affiliated insurers combine their business and allocate premiums, losses and expenses among participating companies according to agreed percentages. SSAP No. 63, paragraph 8, addresses modifications to pooling arrangements, and paragraph 14 incorporates the retroactive reinsurance provisions of SSAP No. 62, including paragraph 36.d. Changes in participation, acquisitions, dispositions and reorganizations typically require amendments to or replacement of the pooling agreement. The exception allows each participant to continue prospective accounting for its revised share of the pooled business.

Without paragraph 36.d or a replacement exception, a pooling modification covering past insured events would generally be subject to retroactive reinsurance accounting under paragraph 34. The ceding participant would report the affected reserves in its regular loss reserve accounts and schedules, with the reinsurance offset reported separately as a contra-liability. The assuming participant would likewise report the assumed retroactive reserves separately. This presentation could cause the reserves reported in each participant's regular schedules to differ from its revised share of the pool. Because property and casualty risk-based capital (RBC) uses Schedule P net reserves and loss development data, the change could also affect reserve-risk inputs and RBC ratios, subject to applicable adjustments. RAA recommends coordinating any change with the Casualty Actuarial Task Force and the Property and Casualty Risk-Based Capital Working Group.

Loss Portfolio Transfers and Adverse Development Covers
An affiliated loss portfolio transfer (LPT) reinsures specified liabilities for losses from past insured events within the same group. An affiliated adverse development cover (ADC) protects against further development of those losses above an agreed attachment point, subject to contractual limits. These agreements can support reorganizations or the management of non-core or run-off business by aligning prior-year liabilities with capital, diversification and claims expertise. Amendments may serve the same purpose. Each agreement should be evaluated on its terms; An affiliated LPT or ADC should be evaluated separately from the cedent's pooling arrangement unless it changes that arrangement. Participation in a pool alone does not make the transaction a pooling modification.

Separately managing these portfolios can give regulators and rating agencies a clearer view of continuing operations. Under indemnity reinsurance, the issuing insurer remains liable to policyholders and retains counterparty and liquidity risks. Review should assess the assuming affiliate's ability to perform as claims develop and are paid, considering its capital, liquidity, retrocessional protection and other financial support. The enforceability, duration and release or termination conditions of that support are relevant to its continued availability.

RAA Position and Recommendations

Retain the Exception and Preserve Regulatory Review
Paragraph 36.d is an important tool for managing a group's risk and capital profile. Applicable state holding company laws establish transaction standards and approval or prior-notice and non-disapproval requirements. Review should address business purpose, fair consideration and projected financial and capital effects on each insurer. For material affiliated LPTs and ADCs, it should also consider adverse loss development, related reinsurance and provisions governing distributions, collateral releases or termination. Group-level capital neutrality does not establish fair consideration or policyholder protection. Regulatory approval does not independently establish eligibility for the exception.

Legal restrictions, collateral obligations and liquidity needs limit the movement of capital within international groups. The assessment must therefore consider each insurer's financial capacity rather than rely solely on the group's financial position. To inform consideration of any change to the exception, we would welcome further discussion of the specific accounting or supervisory concerns the Working Group seeks to address and whether targeted clarification or disclosure could resolve them.

A reduction in the cedent's required RBC should not be confused with a gain in statutory surplus. A qualifying transaction may leave surplus unchanged while reducing reserve-risk exposure and required capital, subject to applicable charges and adjustments. The no-surplus-gain condition does not, by itself, establish the adequacy or continuing availability of resources supporting the assumed liabilities. The capital effects should be assessed together with the assuming affiliate's financial capacity and the risks retained by the cedent. An improved RBC ratio alone does not establish that policyholder protection has weakened.

Clarify Risk Transfer and the No Surplus Gain Condition
We agree that agreements using paragraph 36.d must satisfy applicable risk-transfer requirements. Paragraph 36.d does not specify whether its no-surplus-gain condition applies to the cedent or both parties; paragraph 37 expressly addresses gains to the ceding entity. We recommend clarifying that the condition applies to the cedent at inception. Subsequent recoveries or development under the original terms should not, by themselves, cause a qualifying agreement to lose the exception. Material

amendments should be evaluated for their incremental effect, including any gain to the cedent when entered into. Paragraph 37 should be conformed as necessary.

A reasonable possibility of loss to the reinsurer does not necessarily produce a net surplus gain to the cedent. For example, an increase in gross loss liabilities may be offset by an increase in reinsurance recoverables. Risk transfer and eligibility require consideration of the complete arrangement, including limits, adjustable features, timing provisions and related agreements. The requested clarification should distinguish the inception test from subsequent accounting for recoveries and loss development. The clarification should address an assuming insurer's gain without creating a separate basis for gain recognition. Affiliated reinsurance remains subject to SSAP No. 25, including applicable economic-substance requirements and demonstrable support for any arm's-length representation. Paragraph 4 directs accounting and valuation of pooling modifications to SSAP No. 63.[3] For other affiliated transfers, consideration above carried reserves should be supported by the coverage and obligations assumed; the difference alone does not establish either overpayment or fair pricing. The clarification should preserve applicable recognition, measurement and holding company requirements and should not permit unsupported transfers of value between affiliates.

Enhance Transparency Through Targeted Disclosure

We understand the Working Group's concern that use of the exception is not readily identifiable in the annual statement. Targeted disclosure is a reasonable way to address that concern. Ref. 2026-12 proposes adding paragraph 126 to SSAP No. 62 to require disclosure of contracts entered into during the reporting period that use the paragraph 36.d exception. We recommend distinguishing pooling modifications from other affiliated transactions so the disclosures reflect their different purposes and reporting requirements.

For pooling, we recommend addressing identified gaps through SSAP No. 63 and Note 26 without overlapping requirements. For other new or materially amended agreements, disclosure should identify the counterparties and domiciles, common-ownership basis, business purpose, principal coverage terms, reserves reinsured, aggregate consideration, inception surplus effect for each party and required approval or non-disapproval status. For affiliated LPTs and ADCs, initial disclosure should also describe material financial support, including relevant retrocessional or other capital arrangements. Cross-references should be permitted where existing filings provide the information. Amendment disclosures should explain what changed and the incremental financial effect.

The new transaction disclosure should be required only for the reporting year in which the agreement is entered into or materially amended, with prior-year information retained in the following year only to the extent needed for comparative presentation. Remaining recoverables, continued coverage or routine loss development should not require repetition of the historical transaction disclosure in later years. Existing reporting obligations would continue. Any new ongoing disclosure of changes in financial support should address an identified information gap and be separately exposed with materiality and implementation criteria. Before requiring ceded premiums by line, the Working Group should assess whether existing allocations and reconciliations meet the supervisory need.

Conclusion

For these reasons, RAA opposes eliminating paragraph 36.d. We recommend retaining the exception, clarifying that the no-surplus-gain condition applies to the cedent at inception and limiting new transaction disclosures as described above. Any change to eligibility, recognition or measurement should be separately exposed as a substantive accounting change, with coordinated Schedule P and RBC analysis

and transition provisions for existing agreements. We appreciate the Working Group's consideration and would welcome further discussion.

North Carolina Department of Insurance Comments:
We support retaining the exception to retroactive reinsurance accounting in paragraph 36.d. for certain affiliated transactions when prospective accounting is less disruptive and provides more useful and comparable information, but do not believe that it should be the default treatment for all reinsurance agreements among affiliates. As discussed in more detail below, we believe certain affiliated reinsurance agreements should be scoped out of the exception and instead follow the specific accounting guidance tailored to retroactive reinsurance in paragraphs 34 and 35 of SSAP 62 and be included in the related disclosure requirements.

Transactions that should Remain in Scope of the Exception
We believe the guidance in paragraph 36.d. is appropriate for intercompany pooling agreements, as well as for modifications to existing intercompany pooling agreements, regardless of whether they impact only future policy years or also impact prior policy years, and should be retained for those purposes. We also support the exception being retained for amendments or modifications to other (non-pooling) intercompany reinsurance agreements that originally incepted on a prospective basis, as long as there is no surplus gain consistent with paragraph 36d. Without the exception permitting prospective accounting for these transactions, retroactive accounting would produce unusual fluctuations and financial statements that are opaque and inconsistent. It would also make it practically impossible to implement changes to intercompany pooling agreements over time. We believe the exception was originally only intended for these types of transactions.

Transactions that should be Scoped Out of the Exception
For reinsurance agreements between affiliates that incept on a retroactive basis, like loss portfolio transfers (LPT) and adverse development covers (ADC), we believe retroactive accounting should be required. This is more consistent with the intent of retroactive reinsurance accounting in paragraph 33 of SSAP 62, namely to prevent "potential abuses involving the creation of surplus to policyholders and the distortion of underwriting results…" Allowing the exception to extend to these affiliated transactions, which are inherently more susceptible to abuse and can provide significant and immediate RBC relief, seems contrary to the stated purpose of the guidance. In other words, we see no clear rationale for why an LPT with an affiliate should receive the accounting and reporting benefits of prospective reinsurance accounting while an arm's length LPT with an unaffiliated reinsurer is subject to the more stringent limitations of retroactive reinsurance accounting and reporting. We have also recently seen in practice affiliated LPTs that were structured with deferred premiums or other mechanisms that obscure a gain in surplus to qualify for prospective accounting under the paragraph 36.d. exception and avoid the more punitive accounting in paragraph 37. Often times the reinsurer in these cases is a U.S. or offshore captive affiliate, which is concerning.

For these reasons, we believe that reinsurance agreements between affiliates that incept on a retroactive basis should be scoped out of the paragraph 36.d. exception and be subject to the guidance in paragraphs 34 and 35 of SSAP 62. If prospective accounting treatment is ever appropriate for such a transaction, we believe it should be approved on a case-by-case basis as a permitted practice, after appropriate regulatory review and related notice requirements, and not by default.

Recommendations
The nature of the risks assumed by a reinsurer under a retroactive agreement when an insured event has already occurred is fundamentally different than under a prospective agreement, and we believe the

accounting should follow the nature of the transaction (prospective or retroactive) and not who the counterparty is (affiliated or unaffiliated). We therefore recommend retaining the exception in paragraph 36.d. for new and amended intercompany pooling agreements and for amendments to other intercompany reinsurance agreements that incepted on a prospective basis, but revising the exception to exclude affiliated reinsurance agreements that incept on a retroactive basis. We believe this puts true retroactive reinsurance agreements with affiliates and non-affiliates on equal footing and provides for more consistent financial statement presentation and disclosures.

If this approach is followed, those transactions scoped out of paragraph 36.d. should likely also be considered for scoping out of the requirements of paragraph 37 to prevent creative contract structuring designed to avoid a gain in surplus. Given the time value of money is a core economic driver behind true LPTs and discounting is a key input in their pricing, they often result in an initial gain, which paragraph 34 of SSAP 62 recognizes and prescribes very specific recognition, measurement and disclosure guidelines for. The exposed disclosure may also need to be amended to only address amendments or modifications to other (non-pooling) intercompany reinsurance agreements that originally incepted on a prospective basis, since disclosure of affiliated reinsurance agreements accounted for as retroactive would be captured in Note 23F and intercompany pooling agreements should continue to be disclosed in Note 26.

Recommendation:

Based on a review of comments from interested parties, RAA and North Carolina, NAIC staff recommend that the Working Group direct NAIC staff to prepare a draft for subsequent Working Group consideration. Working Group direction is specifically requested for items 1 and 2 below.

1. **Working Group direction is requested on whether to maintain or narrow the SSAP No. 62, paragraph 36.d. exception**
    - Interested parties and the RAA support maintaining the exception.
    - North Carolina recommends narrowing the exception to only apply to amendments to pooling agreements and amendments to existing intercompany agreements that were originally prospective.
    - North Carolina recommends requiring other initially retroactive intercompany agreements such as adverse development cover (ADC) and loss portfolio transfers (LPTs), to be accounted for as retroactive reinsurance or receive a case specific permitted accounting practice from its domiciliary state to apply prospective accounting. North Carolina noted that intercompany agreements are subject to abuse, and should not default to prospective treatment. North Carolina recommends revisions so the state can require retroactive treatment or provide a permitted practice to allow prospective treatment for contracts that initiate as retroactive. North Carolina is concerned with allowing a broad exception based on counterparty affiliation instead of having the accounting reflect the retroactive nature of the contract.
2. **Working Group direction is requested regarding how paragraph 36.d. requirement that the contract "has no gain in surplus" is measured.** The paragraph is not explicit, however, it is often interpreted to mean that it is measured based on the gain in surplus to the ceding entities, because the wording in paragraph 37 requires a more conservative methodology if there is a gain to the ceding entity.

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- North Carolina states that they have seen some concerning contracts with deferred premium and made comments regarding the time value of money noting concerns with focusing on gain at inception.
- Both RAA and the interested parties noted that the interaction of paragraphs 36.d. and 37 should be clarified. The RAA also recommended that material contract amendments should be evaluated based on incremental effects.

3. Interested parties suggest that additional language may be needed to clarify how the paragraph 36.d. exception interacts with risk-transfer requirements.
4. Depending upon whether the Working Group chooses to maintain or narrow the paragraph 36.d. exception, conforming revisions may be needed to paragraph 37.
5. **Disclosures**
   - **Direct NAIC staff to work with industry and regulators to revise the previously exposed disclosure to identify contracts which use the paragraph 36.d. exception.**
   - **NAIC staff support the RAA recommendation that the** new transaction disclosure should be required only for the reporting year in which the agreement is entered into or materially amended, with prior-year information retained in the following year only to the extent needed for comparative presentation.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-13 (Robin)	**Medicaid Updates**	**17 – Agenda Item**	**Comments Received**	**Att. 21 IP – 25 AHIP – 48**

Summary:
On August 12, 2026, the Working Group exposed revisions to *SSAP No. 47—Uninsured Plans* and *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. The Working Group sent a referral to Health Risk-Based Capital (E) Working Group so that group can determine if revisions to risk charges are warranted, as these amounts were previously classified as pass throughs and received a lower risk charge.

This agenda item was drafted 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 and are paid on a per members per month basis.

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.

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. This near zero risk may be relevant for the future Health RBC classification of such payments. 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.

SSAP No. 47—Uninsured Plans and *SSAP No. 54—Individual and Group Accident and Health Contracts* address 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. The exposed revisions added the following sentence to both SSAPs: "*Medicaid contract payments classified as capitated payments are included in insured plans.*"

Interested Parties
Interested parties have no comments on this item.

America's Health Insurance Plans - AHIP
The Exposure proposes to revise *SSAP No. 47—Uninsured Plans* and *SSAP No. 54—Individual and Group Accident and Health Contracts* to add a so-called "principles-based" statement that Medicaid contracts payments classified as capitated payments are included in insured plans. While the Exposure does not address whether any corresponding changes should be made to the health risk-based capital formula or its risk charges, it does note that a referral is being made to the Health Risk-Based Capital (E) Working Group for its consideration as to whether Medicaid state directed payment and separate payment terms should receive a risk similar to Medicaid pass through payments. The Exposure notes that the Health Risk-Based Capital (E) Working Group has previously determined that the risk associated with pass through payments is more administrative in nature and similar to uninsured plans.

The Exposure's proposal to include Medicaid contracts payments classified as capitated payments in insured plans seems intended to align with federal rules pertaining to Medicaid Managed Care Organization (MCO) contracts. In this letter and relative to the Exposure, AHIP does not dispute the federal Medicaid rules for the purposes to which they apply, but believes it is important to understand that they do not directly apply to statutory accounting principles (SAP) utilized by state-regulated insurers pursuant to state solvency regulation. Rather, SAP is driven by its own principles and must be evaluated in that light.[11ii]

A key aspect of SAP is the recognition of the substance of a transaction over its form. While federal Medicaid rules may prescribe that all Medicaid contracts be treated as underwritten for federal purposes (such as Minimum Loss Ratio reporting to CMS), the terms of Medicaid contracts vary by insurer, as well as by state, and may include terms including exceptions and grandfathering provisions that, in substance, alleviate most if not all potential risk to the insurer for some of its Medicaid business payments in a particular state. Indeed, the Exposure itself, while first observing that the federal rules include provisions such as treating all state-directed payments "at risk", then also observes that "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."

Ideally, there would be symmetry between SAP and RBC, such that insurance contracts that present very little risk would be reported for SAP as non-underwritten and receive a correspondingly low RBC charge, whereas other contracts that present higher degrees of risk would be reported for SAP as underwritten and receive a correspondingly higher RBC charge. For Medicaid contracts, the determination of the degree of risk presented differs by insurer and state and can only be made on a case-by-case basis based on the terms of the Medicaid contracts that pertain specifically to it in a specific state.

Whether all of an insurer's Medicaid payments are to be reported for SAP as insured as currently proposed in the Exposure or split between underwritten and non-underwritten as determined by the insurer based on the substance of the terms of its Medicaid contracts, the impacts on SAP earnings and surplus should be the same. The difference would be one of presentation, i.e., whether premiums and claims are reported at gross amounts or netted out in the income statement.

The Exposure characterizes its proposal to include all Medicaid contracts payments classified as capitated payments in insured plans as principle-based. AHIP respectfully views the proposal differently. As drafted, the approach appears more prescriptive than principle-based because it would require "at risk", or underwritten, SAP reporting treatment regardless of the underlying contractual terms and risk exposure. As presented, the proposed revisions may be better understood as a practical expedient rather than a principles-based approach. Framing the Exposure's proposal as a practical expedient would appear to be

[11] Differences between the application of federal rules and SAP have been previously recognized e.g., INT 24-02: Medicare Part D Prescription Payment Plan, paragraph 23: "Note that the statutory reporting of the written off (impaired) recoverable from MPPP participants in Medicare prescription claims is different from CMS treatment of such amounts in the MLR. The CMS requires Part D plan sponsors to report losses from impairment write-offs of uncollectible recoverables from MPPP participants as administrative amounts and, thus, such losses are excluded from the numerator in the CMS MLR. For loss ratios determined under statutory accounting, and pursuant to the guidance in this INT 24-02, such amounts are reported as claims expense and included in the numerator of the loss ratio."

more consistent with our understanding of NAIC staff's objectives of developing revisions to SSAPs 47 and 54 that avoid unnecessary complexity.

While the impact on SAP income and surplus would be the same whether or not Medicaid contracts payments classified as capitated payments are included in insured plans, the RBC impact would not necessarily be the same. If all such Medicaid payments of an insurer are treated as underwritten when, in substance, some are not, the resulting risk charges could be materially overstated relative to the actual underlying risk exposure. Thus, a practical expedient that says all Medicaid contracts are underwritten/ at risk for SAP purposes should not be relied on by the Health Risk-Based Capital (E) Working Group to determine the degree of risk in the establishment of risk factors.

While RBC provisions will be addressed later by the Health RBC (E) Working Group, AHIP believes it is important that any future RBC framework appropriately differentiate between Medicaid contracts and payment arrangements that transfer minimal risk and those that expose insurers to meaningful underwriting risk. Such differentiation would better align RBC requirements with the underlying economic substance of these arrangements, recognizing that the RBC framework will likely be more granular than SAP in order to distinguish not just between underwritten and non-underwritten, but also between relative degrees of underwriting risk.

AHIP is concerned that changes to SSAPs 47 and 54 could be interpreted to imply a level of underwriting risk that may later be relied upon by the Health RBC (E) Working Group's consideration of related RBC charges. To avoid that unintended result, AHIP respectfully recommends a principle-based SAP approach under which insurers would classify Medicaid payments as underwritten or non-underwritten based on the substance of the applicable contract terms and actual risk exposure.

Recommendation:

NAIC staff's recommendation is to expose additional revisions illustrated below to *SSAP No. 47—Uninsured Plans* and *SSAP No. 54—Individual and Group Accident and Health Contracts* to refine the prior exposure language which indicated that Medicaid contracts payments classified as capitated payments are included in insured plans. The intent of the August exposure was to address the Medicaid revisions regarding state directed payments and separate payment terms without becoming too detailed regarding federal program terminology. However, after reviewing the AHIP comments, NAIC staff has proposed additional revisions to ensure that capitated state directed payments and state directed payments with separate payment terms with utilization risk are included in premium as insured amounts. Note that the majority of the federal revisions become effective in July 2027 and it would be preferrable to have guidance considered for adoption by early 2027.

AHIP comments were primarily focused on risk classification, which is a topic that will ultimately be addressed by the Health Risk-based Capital (E) Working Group. AHIP also made comments which recommended allowing insurers to classify Medicaid payments as underwritten or non-underwritten based on the contract terms and actual risk exposure under SAP principles. Three states and an actuarial firm identified the need for clarifications and reporting consistency.

NAIC staff agree with the AHIP comments that SAP reporting has different reporting requirements than the federal Medicaid requirements. However, NAIC staff is concerned that the AHIP recommendation would result in inconsistent reporting of similar/identical contracts. Capitated payments will be in both the numerator and the denominator of the federal medical loss ratio calculation, so allowing the amounts to be classified as uninsured seems counterintuitive. This is why deferring to federal program

classifications may not be typical for statutory purposes, however, it seemed appropriate in this case. Note that discussions with actuaries noted that state directed payments are usually paid on a per-member per-month basis and have utilization risk. However, state directed payments with separate payment terms need to be separately evaluated for whether there is utilization risk because they may be paid on a different basis than per member per month. NAIC staff understanding is also that separate payment terms may be phased out in the future.

The following revisions are proposed for exposure. The gray shaded revisions reflect revisions to the 2026 Summer National Meeting exposure.

***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 state directed ~~contract~~ payments (including those with separate payment terms that have utilization risk), which are classified as capitated payments, are included in insured plans. Medicaid state directed payments with separate payment terms with no utilization risk are excluded from 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.

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 state directed ~~contract~~ payments (including those with separate payment terms that have utilization risk), which are classified as capitated payments, are included in insured plans. Medicaid state directed payments with separate payment terms with no utilization risk are excluded from insured plans.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2026-15 (Julie)	**SSAP No. 23 – Canadian Translations**	**18 – Agenda Item**	**Comments Received**	**Att. 21 IP – 26**

Summary:

On August 12, 2026, the Working Group exposed revisions to S*SAP No. 23—Foreign Currency Transactions and Translations* to remove the Canadian exception for foreign currency translations. With this change, all foreign currency operations will be required to be translated to U.S. dollars within each financial statement reporting line. The Working Group also requested comments from regulators and industry regarding the impact of this change, whether the Canadian exception should be retained, and (if applicable) rationale supporting retention of the exception approach.

Interested Parties' Comments:

Insurance operations in a Canadian branch of a U.S. domiciled insurance entity are conducted in Canadian dollars. As a result, the assets, liabilities, and results of operations are all reported in the functional currency (Canadian dollars). This reporting convention aligns with the manner in which the operations are reported to the Canadian regulator (the Office of the Superintendent of Financial Institutions, or OSFI). The net risk exposure to the U.S. entity that owns the branch is the net equity of the branch translated to U.S. dollars, consistent with the current accounting requirements in SSAP No. 23.

As noted in the Form A for this proposal, 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.) In accordance with 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 then 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 current guidance were changed, there would also be significant complexities with implementing such changes to Schedule P. If all the financial statement lines were converted to Canadian dollars for statutory reporting, one of the biggest impacts would be on Schedule P. The changes in foreign currency exchange rates would become inseparable from changes in loss development and would make any analysis of loss development difficult, if not impossible.

As noted above, the net value of the branch represents the net risk exposure to the entity that owns the branch and was the rationale for the current guidance when it was put into place. Accordingly, interested parties recommend that the current guidance remain in place as it provides a reasonable threshold for when full translation of foreign exchange for each financial statement line item is required while still reporting the amount of net risk to the U.S. domiciled entity to the state of domicile.

Recommendation:
NAIC staff recommend that the Working Group re-expose this item without revisions, which proposes to remove the Canadian foreign currency exception from S*SAP No. 23—Foreign Currency Transactions*, and direct NAIC staff to work with industry in developing transition guidance to implement the change, particularly addressing whether there is a requirement to restate prior balances and to incorporate guidance on rolling forward balances in schedules and notes.

From the 2025 year-end reporting, only 45 companies utilized the Canadian exception. Of those, only 27 companies reflect P/C companies that would complete Schedule P.

Many of the reported impacts from the Canadian exception (reflected in the balance sheet as a separate line) are minimal amounts. For those that are substantial, they are reported by large companies that presumably have other operations involving foreign currency, not just situations that qualify under the Canadian exception. Under the current guidance in SSAP No. 23, there is no restriction that precludes companies from following the Canadian exception for qualifying Canadian operations, while also following the standard approach for other foreign currency translations. If both approaches are being followed, then companies with foreign currency impacts are following different approaches for the accounting of foreign currency impacts within their own financial statements.

With the limited number of companies following the exception, and the broad SAP concept for consistency in accounting and reporting, **NAIC staff recommends that the Working Group direct staff to proceed with the removal of the Canadian exception. An email from a company that recently eliminated use of the Canadian exception suggested transition provisions, and NAIC staff agrees that these would be helpful components. NAIC staff proposes an effective date of Jan. 1, 2028, providing time for companies to revise their operations. After further consideration at the 2027 Spring National Meeting, NAIC staff will suggest a blanks proposal to eliminate the dedicated reporting line from the balance sheet capturing the separate asset and liability specific to this Canadian exception.**

Comment Letters:

- **The comment letters for this hearing agenda are included in three separate packets:**
  - **ICOLI (#2026-08) – Attachment 19**
  - **Embedded ALM (#2026-10) – Attachment 20**
  - **All Other Comments – Attachment 21**

Statutory Accounting Principles (E) Working Group
Meeting Agenda
November 15, 2026

A. Consideration of Maintenance Agenda – Pending List

1. Ref #2026-16: Private Letter Rating Disclosure
2. Ref #2026-17: SSAP No. 21 – Collateral Loans
3. Ref #2026-18: SSAP No. 21 – Structured Settlements
4. Ref #2026-19: ASU 2025-11: Interim Reporting
5. Ref #2026-20: Tax Credits Project Accounting and Reporting Improvements
6. Ref #2026-21: Disclosure Review
7. Ref #2026-22: Restricted Asset Column
8. Ref #2026-23: SSAP 97, SCA Entities with Negative Valuations
9. Ref #2026-24: Acquisition Date Reporting
10. Ref #2026-25: CLO Definition

Ref #	Title	Attachment #
2026-16 (Julie)	**Private Letter Rating Disclosure**	**A – Agenda Item**

Summary:
This agenda item has been prepared in response to regulator requests to better identify the use and sources of private letter ratings (PLR) in the statutory financial statements. Understanding the extent to which PLRs are used to determine reported NAIC designations, as well as the concentration of credit rating providers (CRPs) issuing those PLRs has been identified as a key regulatory focus for state insurance regulators.

Currently, statutory financial statements do not provide regulators or the public with a readily accessible means of determining the extent to which reported NAIC designations are supported by private letter ratings or the relative concentration of PLRs among CRPs. Reporting entities should identify PLRs with a specific administrative symbol in the investment schedules, but there is no summary of the aggregate results or any information on the concentration among CRPs. This information would provide greater visibility into the use of PLRs as an input to the NAIC designation process and assist regulators in evaluating potential concentrations and trends in their use across the industry.

To address potential proprietary and confidentiality concerns, the proposed disclosure has been structured to avoid identifying individual securities, issuers, or the underlying terms or content of any PLR. Instead, the disclosure would only identify the aggregate book/adjusted carrying value (BACV) in both Schedule D-1-1: Long-Term Bonds – Issuer Credit Obligations and Schedule D-1-2: Asset-Backed Securities for where the reported NAIC designation was determined by a private letter rating. The aggregate BACV would then be allocated, on a percentage basis, among the CRPs that issued the underlying PLRs.

The proposed disclosure is intended to provide meaningful regulatory transparency while preserving the proprietary and confidential nature of the underlying private ratings and rating analyses. More broadly, as private letter ratings can play a meaningful role in determining the statutory treatment of investments, transparency regarding the extent and concentration of their use is an important component of regulatory oversight. While the underlying content of a PLR may appropriately remain confidential and proprietary, the continued lack of visibility into the use and concentration of PLRs represents an area where greater transparency will benefit regulators and other users of statutory financial information.

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Recommendation:

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. 26—Bonds* and *SSAP No. 43—Asset-Backed Securities* to incorporate new disclosures for inclusion in the notes to the financial statements related to the source of private letter ratings. With exposure, NAIC staff recommends the Working Group sponsor a blanks proposal to allow for year-end 2027 inclusion.

The explicit wording for both SSAP No. 26 and SSAP No. 43 is included in the agenda item but shown for bonds below. (The language is identical except for the investment type reference.) The proposed annual statement illustration is also shown. (The agenda item includes the proposed A/S instruction.)

> **Disclosure:** The aggregate book/adjusted carrying value (BACV) for bonds and assets in scope of this statement for which the NAIC Designation is supported by a private letter rating (PLR), and the percentage of the aggregate BACV attributed to PLRs from each credit rating provider (CRP).

Proposed New Illustration:

	Schedule D-1-1: ICO Bonds	Schedule D-1-2: ABS
Total BACV Supported by Private Letter Ratings:	**$**	**$**
Percentage of BACV with PLR by CRP Issuer:		
A.M. Best Rating Services, Inc.	%	%
DBRS, Inc. (DBRS Morningstar)	%	%
Egan Jones Ratings Company	%	%
Fitch Ratings	%	%
HR Ratings LLC	%	%
Kroll Bond Rating Agency, Inc. (KBRA)	%	%
Moody's Investors Service, Inc.	%	%
S&P Global Ratings	%	%
Other Approved CRP*	%	%
CRP Source of PLR is Unknown	%	%
Percentage Total Must Equal 100%	**%**	**%**

* The "Other Approved CRP" category shall only be used if the NAIC has approved a new CRP that has not yet been captured in this data-captured disclosure listing. A listing of the approved CRPs is detailed in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*.

Ref #	Title	Attachment #
2026-17 (Julie)	**SSAP No. 21 – Collateral Loans**	**B – Agenda Item C – Blanks Memo**

Summary:

This agenda item has been prepared in response to the Life Risk-Based Capital (E) Working Group (LRBC WG) July 16, 2026, referral response on "collateral loans Schedule BA reporting". The response informs the Statutory Accounting Principles (E) Working Group that the LRBC WG adopted RBC charges to be effective with 2027 RBC filings based on the overcollateralization percentage for two types of collateral loans: 1) collateral loans backed by joint ventures, partnerships and limited liability company interests and 2) collateral loans backed by residuals.

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The referral response identifies that to address concerns over valuation of collateral, the adopted methodology requires independent verification of collateral fair value. It also notes that the ACLI suggested in its April 10, 2026, comment letter that "*insurers could disclose the valuation range associated with the independent valuation analysis. While regulators already have access to this information as required by SSAP 21, proactive disclosure of a valuation range, rather than a single point estimate, would allow regulators to better assess the reasonableness of the fair value used in the LTV calculation and provide additional context around estimation uncertainty.*"

The response notes that to facilitate implementation of the proposal, the LRBC WG requests that the Statutory Accounting Principles (E) Working Group incorporate additional disclosures such that the following information becomes readily available for collateral loans in scope:

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.

Furthermore, the response identified that the LRBC WG has made permanent the interim look-through solution for collateral loans backed by mortgage loans. The response then suggests that either the 2024 interim guidance memo posted on the Blanks (E) Working Group webpage be updated, or that guidance be incorporated into the annual statement instructions to effectuate the look-through of collateral loans backed by mortgages. (The explicit language from the referral has been included within the Authoritative Literature section in the agenda item for quick reference.)

In accordance with the requests from the LRBC WG, this agenda proposes corresponding disclosure revisions for collateral loans as well as proposes annual statement instruction changes for collateral loans backed by mortgage loans. To allow for consistent reporting across the investment schedules, the revisions proposed within this agenda item are for all lines of business and for all collateral loans even though the information may only be utilized in the RBC calculation for life entities for certain collateral loans.

Recommendation:

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. 21—Other Admitted Assets* to incorporate additional reporting elements for collateral loans pertaining to the independent verification of the collateral's fair value as requested by the Life RBC (E) Working Group. This agenda item also illustrates proposed annual statement instruction and Blanks revisions, including changes to facilitate a look-through of collateral loans backed by mortgage loans via the AVR when the reporting entity has supporting documentation on the underlying type and quality of the mortgage loans. With exposure, NAIC staff recommend sponsoring a blanks proposal to incorporate the edits. Revisions are also proposed to SSAP No. 21 to delete reference to "permitted relationship" between the loan outstanding and the fair value of pledged investment. This is a historical phrase within the guidance and there is uncertainty about the intent and meaning of this phrase.

The proposal incorporates the additional disclosure components for all collateral loan structures, with the Schedule BA reporting columns applicable to all lines of business. This is proposed to ensure consistency in reporting although the information may only be used in the life RBC formula for collateral loans backed by SSAP No. 48 investments and residuals.

In addition to the agenda item, an updated blanks memo to prescribe the 2026 reporting process for collateral loans backed by mortgage loans has been included. This memo updates the prior 2024 memo detailing the interim process. **The Working Group is requested to approve this memo to the Blanks (E) Working Group for year-end 2026 application**. Reporting guidance detailing the permanent look-through approach shall be in place for year-end 2027.

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Ref #	Title	Attachment #
2026-18 (Julie)	**SSAP No. 21 – Structured Settlements**	**D – Agenda Item**

Summary:

This agenda item has been prepared to revise existing reporting guidance for structured settlements, when the reporting entity acquires the legal right to receive payments. The current guidance for these structures is in *SSAP No. 21—Other Admitted Assets*. Unless the structured settlement is a securitization, these structures do not qualify as securities and are not captured within *SSAP No. 26—Bonds* as debt securities.

Existing guidance indicates that these structures shall be reported on Schedule BA—Other Long-Term Invested Assets. Footnote 4 of SSAP No. 21 indicates that these structures can be reported as an "Any Other Class of Asset" or as a "Fixed or Variable Interest Rate Investment with Underlying Characteristics of Other Fixed Income Investments." Historically, by reporting on the latter reporting line, an SVO-Assigned designation received for the structure resulted in an RBC impact.

The Schedule BA reporting line "Fixed or Variable Interest Rate Investment with Underlying Characteristics of Other Fixed Income Investments" was revised for year-end 2019 to reflect "Non-Registered Private Fund" as the reporting category, and that line category was eliminated as part of the principles-based bond project in 2025. (Since non-registered private funds are captured within SSAP No. 48, this reporting line was combined with the SSAP No. 48 reporting lines.) As such, under current reporting provisions, structured settlements would default to the Schedule BA "Any Other Class of Investment" reporting line. With this reporting, if there is an NAIC designation received from the SVO, the designation has no impact on RBC. The NAIC SVO has reporting provisions to provide designations for structured settlements, and these structures were afforded life RBC impact based on the SVO-Assigned designation in historical reporting.

This agenda item proposes to revise the footnote 4 of SSAP No. 21 and allow structured settlements that have SVO-Assigned Designations to be reported as an "interest in a joint venture, partnership or limited liability company with underlying assets having characteristics of bonds with an NAIC Designation Assigned by the SVO" if an NAIC designation was received from the SVO. Although structured settlements do not qualify as a SSAP No. 48 investment, this reporting line provides the ability for the SVO-Assigned Designation to impact RBC without creating new Schedule BA reporting lines for an immaterial asset class. This reporting location was selected as it presumed that items that were captured on the prior reporting line may have transitioned to this renamed current line, so for such instances, companies would not need to reclassify the investment. Further, the Annual Statement Instruction currently includes guidance to include structures settlement payment rights in scope of SSAP No. 21 that have an SVO-Assigned designation in this reporting category.

Recommendation:

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. 21—Other Admitted Assets* to revise the existing reporting direction for structured settlements and permit reporting as an "interest in a joint venture, partnership or limited liability company with underlying assets having characteristics of bonds with an NAIC Designation Assigned by the SVO" if an NAIC designation was received from the SVO. Structured settlements without an SVO-Assigned designation shall be reported as an "Any Other Class of Asset" on Schedule BA.

Ref #	Title	Attachment #
2026-19 (Wil)	**ASU 2025-11: Interim Reporting**	**E – Agenda Item**

Summary:
In December 2025, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2025-11, Interim Reporting (Topic 270), Narrow-Scope Improvements*, to improve the guidance in Topic 270, Interim Reporting, by improving the navigability of the required interim disclosures and clarifying when that guidance is applicable. The amendments also provide additional guidance on what disclosures should be provided in interim reporting periods. The amendments add to Topic 270 a principle that requires entities to disclose events since the end of the last annual reporting period that have a material impact on the entity. ASU 2025-11 has an effective date for annual reporting periods after for public entities beginning after December 15, 2027, and after December 15, 2028, for all other entities.

Topic 270 was primarily established from *Accounting Principles Board (APB) Opinion No. 28: Interim Financial Reporting*, of which only paragraphs 19 and 20 were adopted into *SSAP No. 101—Income Taxes*. Both of these paragraphs were later moved from Topic 270 to Topic 740 and were not modified by ASU 2025-11.

One item which requires separate consideration are ASC paragraphs 270-10-50-67 thru 70 which were added or modified by ASU 2025-11. NAIC staff noted that ASC 270-10-50-67 and 68 are consistent with the Interim Financial Statements guidance provided in the SAP Preamble. Based on further research, the reason for this convergence is that the paragraphs pulled into ASU 2025-11 were from SEC Rule 210.10-01.(a).(5), which had already been adopted into the SAP framework during SAP Codification. The majority of the guidance amended by ASU 2025-11 related to Topic 270 guidance which has already been considered and rejected; however, the disclosure principle guidance proposed in ASU 202-11 involves SEC language previously incorporated into SAP and should be adopted by reference as the language already exists within the Preamble.

Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to adopt with modification the Disclosure Principles detailed in *ASU 2025-11, Interim Reporting (Topic 270), Narrow-Scope Improvements* (specifically, ASC 270-10-50-67 to 70) by reference in the Preamble.

NAIC staff noted that these disclosure principles are substantially similar to existing SAP guidance and revision to the Preamble is not necessary as the FASB is effectively converged with the SAP principles-based guidance on Interim reporting.

Proposed Revisions to Preamble:

XI. Financial Statements

B. Interim Financial Statements

65. The interim financial information shall include disclosures sufficient to make the information presented not misleading. It may be presumed that the users of the interim financial information have read or have access to the annual statement for the preceding period and that the adequacy of additional disclosure needed for a fair presentation, except in regard to material contingencies may be determined in that context. Accordingly, footnote disclosure which would substantially duplicate the disclosure contained in the most recent annual statement or audited financial statements, such as a statement of significant accounting policies and practices, details

of accounts which have not changed significantly in amount or composition since the end of the most recently completed fiscal year, may be omitted. However, disclosure shall be provided where events subsequent to the end of the most recent fiscal year have occurred which have a material impact on the insurer. Disclosures shall encompass (but not be limited to), for example, significant changes since the end of the period reported on the last annual statement in such items as: statutory accounting principles and practices, estimates inherent in the preparation of financial statements, status of long term contracts, capitalization including significant new borrowings or modifications of existing financial arrangements, and the reporting entity resulting from business combinations or dispositions. Notwithstanding the above, where material noninsurance contingencies exist, disclosure of such matters shall be provided even though a significant change since year end may not have occurred.[x]

Footnote x - Interim Financial Statements disclosure guidance is consistent with the disclosure principles detailed in ASU 2025-11, Interim Reporting (Topic 270), Narrow-Scope Improvements. ASU 2025-11 is adopted with modification by reference to reflect this consistently. No other provisions of the ASU are adopted by reference or otherwise incorporated into statutory accounting.

Ref #	Title	Attachment #
2026-20 (Wil)	**Tax Credits Project Accounting and Reporting Improvements**	**F – Agenda Item**

Summary:

This agenda item proposes revisions to *SSAP No. 93—Investments in Tax Credit Structures* and *SSAP No. 94—State and Federal Tax Credits* to clarify certain accounting, disclosure and reporting items. The Tax Credits Project was adopted in 2024, with a January 1, 2025, effective date, and established new guidance regarding tax credit investments, and purchased state and federal tax credits. During a review of 2025 reporting data, discussion with regulators, industry and other interested parties, NAIC staff identified a number of clarifications and improvements and have recommended the following proposed revisions.

1. **SSAP No. 93:**
    a. Clarify that for statutory accounting purposes District of Columbia tax credit programs are considered state-based programs. *(similar clarification is recommended for SSAP No. 94)*
    b. Clarify that agreements for the future acquisition of tax credits (forward contracts), and investment structures in which tax credits are callable rather than allocated in accordance with investment ownership are not in the scope of SSAP No. 93.
    c. Various clarifications suggested by industry (Record allocated tax credit assets at face value, provide examples of other tax benefits, clarify what is an "unused tax credit")
    d. Revise paragraph 14 to eliminate duplicated recognition guidance.
    e. Recommend several revisions to SSAP No. 93 disclosure to simplify or improve reporting.
2. **SSAP No. 94:**
    a. Remove "allocation" language from SSAP No. 94 as the guidance is intended to be used for purchased tax credits and "allocated" tax credits are indicative of an investment arrangement rather than a purchase.
    b. Revise paragraph 9 to eliminate duplicated recognition guidance.
    c. Clarify treatment of tax credits purchased but not available for use.
    d. Eliminate two disclosures and simplify nonadmittance disclosure language. *(these changes are also recommended for the SSAP No. 93 tax credit disclosures)*
3. **Annual Statement**

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a. Propose a prescribed table for the disclosure of aggregate schedule of future tax credits to be received, and book/adjusted carrying value of tax credit investments.
b. Propose revisions to annual statement instructions to resolve inconsistent reporting instructions for reporting proportional amortization. The Schedule BA instructions currently direct insurers to report proportional amortization as a reduction to investment income, while the net investment instructions direct proportional amortization to be reported as a component of investment expense. Proposed revisions recommend that proportional amortization be reported as a reduction on the Exhibit of NII, Line 8, Other Invested Assets.

Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing of maintenance agenda and expose revisions to SSAP No. 93 and SSAP No. 94 to clarify District of Columbia tax credit programs, treatment of forward contracts for tax credits and investments with callable tax credits, simplification of tax credit disclosures, and other various accounting, disclosure, and reporting improvements. Proposed revisions are detailed within the agenda item.

Ref #	Title	Attachment #
2026-21 (Jake)	**Disclosure Review**	**G – Agenda Item**

Summary:

NAIC staff have been requested by regulators to perform a detailed review of the disclosures in the annual statement with the intent of removing those that are deemed to not be adding value to financial reporting, duplicative or just no longer needed. This process will include a comprehensive review of all the reporting blanks and will be a coordinated effort between the NAIC staff from both the Statutory Accounting Principles (E) Working Group and the Blanks (E) Working Group. The goal of this project is to streamline reporting for companies, improve the usefulness of disclosures to regulators, and eliminate unnecessary or duplicative reporting.

This is a concept agenda item, so this initial agenda item does include proposed disclosure changes. With this exposure, NAIC staff are requesting regulators and interested parties to provide comments on disclosures that should be reviewed for potential deletion or simplification. NAIC staff will present separate agenda items proposing SSAP disclosure revisions, which correspond to financial statement disclosures for consideration.

Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose this concept agenda item with a request for comments from regulators and interested parties on any disclosures which can potentially be either simplified or fully removed from the reporting blanks.

Ref #	Title	Attachment #
2026-22 (Jake)	**Investment Restricted Asset Code Column**	**H – Agenda Item**

Summary:

On May 18, 2026, the Working Group adopted agenda item 2025-27: SSAP No. 1 Modco/FWH Code which revised *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures* to expand paragraph 23.b. to add categories to the disclosures for assets held under a modified coinsurance (modco) and funds withheld

arrangements. These revisions made the SSAP No. 1 categories consistent with Note 5(L)1. At that time, the Working Group deferred recommending that the Blanks (E) Working Group add investment schedule code changes to allow more time to assess whether the restricted asset codes should be retained.

When agenda item 2025-27 was exposed, the Working Group received comments from one state recommending that the column be retained in the investment schedules, but it has been the view of some Working Group members that the revisions to Note 5(L) provided the necessary information needed for assessing restricted assets. Further, Working Group members previously noted concerns that the results of the restricted asset code column could be misinterpreted, as only one code could be utilized regardless of whether the investment was pledged for multiple purposes, and the code would be attributed to the entire investment schedule reported balance, even if only a portion of the security was pledged. NAIC staff worked with the state that initially provided comments supporting the retention of the code, and they are accepting of moving forward with the removal of the column from the investment schedules.

This item does not intend to modify statutory accounting, but since the concept was first discussed at this Working Group in a prior agenda item, NAIC staff prepared this agenda item for both the Statutory Accounting Principles (E) Working Group and a corresponding proposal at the Blanks (E) Working Group to make the change in the annual statement blanks.

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose conceptual revisions to the investment schedules in the annual statement blanks to remove the restricted asset column. This does not result in changes to statutory accounting. With exposure, NAIC staff will proceed with sponsoring a blanks proposal to be in effect for year-end 2027.

Ref #	Title	Attachment #
2026-23 (Jake)	**SSAP 97, SCA Entities with Negative Valuations**	**I – Agenda Item**

Summary:

NAIC staff have received questions over the past several years about situations where guidance in *SSAP No. 97—Investments in Subsidiaries, Controlled and Affiliated Entities*, can be reported with a negative equity value. Specifically, the remaining guidance impacts "paragraph 8.b.ii" entities (non-insurance SCAs that conduct "insurance related operations" and meet the 20% revenue test) and some 8.b.iv. entities (foreign insurance companies). For these entities, paragraph 9 of SSAP No. 97 notes that the reported equity valuation can go negative as a result of the required "statutory adjustments" detailed in paragraph 9. As an example, paragraph 9 adjustments include decreasing the value of the investment if it holds nonadmitted assets. This can occur even though the reporting entity may not have an obligation to fund losses in the 8.b.ii entity. The current guidance applies currently to investments in scope of SSAP No. 97, as well as *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* investments with more than a minor ownership interest that follow the 8.b.ii and 8.b.iv provisions of SSAP No. 97.

For example, Reporting Entity A owns an 8.b.ii subsidiary, Company B, and has transferred $200k of nonadmitted EDP equipment to Company B ,which represents Company B's only equity for purposes of this example. Because EDP equipment is nonadmitted and excluded from the statutory valuation of the SCA, Company B could report a negative equity value even if its US GAAP equity remains positive. The intended outcome of this guidance is for nonadmitted assets to have the same surplus impact to the reporting entity whether it is owned directly or indirectly, where putting the nonadmitted asset in a subsidiary should not be more beneficial. If Company B were

to incur current year losses of ($100k), current statutory guidance would require Reporting Entity A to report a negative $100K "investment in the SCA" on Schedule D-6-1 to reflect the nonadmission of the asset in the equity of the SCA, .

Although this has been long-standing guidance, it was brought to NAIC staff that reporting the negative investment value impacts the total amount reported on investment schedules, reducing positive balances for other investments by the reported negative amount. Continuing the example, if another SCA was reported with a positive amount for $100K, the total net amount reported on Schedule BA would be $0. This means that the total amount that would flow through to the AVR and the RBC formula would be $0, and that there would be no RBC impact for the SCAs, because the negative equity value of the one SCA reduced the positive SCA value of another.

Previous revisions have eliminated all negative equity value reporting for all SCAs except paragraph 8.b.ii and some 8.b.iv. entities. For all other instances, reporting entities stop reporting losses when the SCA equity amount reaches zero. If there is a guarantee or commitment to fund losses, then that commitment is reported as a liability (and not as a negative equity value).

Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* and *SSAP No. 97—Investments in Subsidiaries, Controlled and Affiliated Entities*, that clarify that for 8.b.ii and 8.b.iv entities if the statutory adjustments result in a negative equity value, the amount reported on Schedule BA for that SCA shall stop at zero, with the amount of the negative equity reclassified as a liability.

Ref #	Title	Attachment #
2026-24 (Julie)	**Acquisition Date Reporting**	**J – Agenda Item**

Summary:

This agenda item has been prepared in response to noted inconsistencies in guidance and application for the reporting of the "acquisition date" for investments on year-end "owned" schedules. The current process and inconsistencies have hindered recent assessments, particularly when trying to isolate the year-end reporting detail to current year acquisitions. It has been identified that in some instances companies override the "date acquired" on the investment schedules whenever additional investment shares or lots are acquired. Although there are limited schedules where the existing instructions support this approach, such instructions are limited to issuer credit obligations and stocks acquired at public offerings. In addition to being inconsistent within the schedule (e.g., between public and non-public offerings), it is perceived that some industry interpretations have applied these instructions across schedules for all investments. In any case, recent efforts by NAIC staff or regulators to identify and assess year-end reporting details for current-year acquired investments produced inaccurate results as many of the investments reported with a current year acquisition date had been held for many years, with just additional investment occurring in the current year.

This agenda item does not propose any statutory accounting revisions, but supports blanks revisions to consistently define how the acquisition date should be reported on the investment schedules:

- On year-end "owned" investment schedules, the date "acquired" shall reflect the date the investment was originally acquired. This date shall not be revised subsequent to initial acquisition, regardless of whether additional investment (shares, lots, etc.) has been acquired.

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- On acquisition schedules, the acquisition date shall reflect the date the investment was acquired in the current year. If the investment was acquired on multiple dates in the current year, each acquisition shall be captured on separate reporting lines. If the investment was previously held, the reported current year acquisition date shall not override the date originally acquired on the year-end "owned" schedule.

This agenda item requests regulator comments on whether it would be beneficial to add a new column to the year-end "owned" schedules to detail "most recent acquisition date." If supported, this will be an additional field separate from the date acquired.

This agenda item does not propose revisions to the derivative schedules. For the derivative schedules, the trade date can be updated to reflect the most recent trade with the specific counterparty, but only if all instruments included in the summarized reporting line are identical.

Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing categorized as a SAP clarification and sponsor a blanks proposal to consistently define how the acquisition date shall be reported throughout the investment schedules, excluding derivatives on Schedule DB. It is proposed that Schedule DB retain the current guidance. This agenda item requests regulator comments on whether it would be beneficial to add a new column to the "owned" schedules to detail "most recent acquisition date." If supported, this will be an additional field separate from the date acquired. This agenda item does not include SSAP revisions.

- On year-end "owned" investment schedules (excluding Schedule DB: Derivatives), the date "acquired" shall reflect the date the investment was originally acquired. This date shall not be revised subsequent to initial acquisition, regardless of whether additional investment (shares, lots, etc.,) has been acquired.

- On acquisition schedules (and schedules were the acquisition and disposal occurred in the same year) (excluding Schedule DB: Derivatives), the acquisition date shall reflect the date investment was acquired in the current year. If the investment was acquired on multiple dates in the current year, each acquisition shall be captured on separate reporting lines. If the investment was previously held, the reported current year acquisition date shall not override the date originally acquired on the year-end "owned" schedule.

Ref #	Title	Attachment #
2026-25 (Julie)	**CLO Definition**	**K – Agenda Item**

Summary:

This agenda item has been prepared to review and revise the existing collateralized loan obligation (CLO) definition captured in the annual statement instructions. The existing definition has the potential to restrict the debt securities captured and include structures with underlying real-estate risk as CLOs. From a review of items reported on the CLOs/CBOs/CDOs reporting line from 2025, the Structured Securities Group (SSG) identified that 11% of the reported BACV was in fund finance, residential and commercial mortgage-backed securities (RMBS & CMBS), home equity line of credits (HELOC's) and commercial real estate (CRE) CLO or other securitization that has real estate risk.

Self-liquidating financial asset-backed securities that do not qualify as RMBS or CMBS (agency or non-agency) or as CLOs/CBOs/CDOs shall be reported as "Other Financial Asset-Backed Securities – Self Liquidating" on Schedule D-1-2: Asset-Backed Securities.

Existing ASI Definition for CLOs/CBOs/CDOs and Other Financial Asset-Backed Securities:

> Non-Agency – CLOs/CBOs/CDOs: Include self-liquidating collateralized loan obligations (CLO), collateralized bond obligations (CBO), and collateralized debt obligations (CDO). In general, this category includes pools of assets whose cash flows are divided into 2 or more tranches. This also includes any other significant leverage inside the deal, for example, in the form of off-market swaps or repo. The underlying collateral in this category consists of corporate or structured credit, cash or synthetic. This category does not include single name underlying collateral. Lastly, the repayment of the securities issued by CLOs/CBOs/CDOs depend primarily on the default and recovery of the underlying collateral and not on their market value.
>
> Other Financial Asset-Backed Securities – Self-Liquidating: Include self-liquidating financial asset-backed securities not issued by a government agency that are not backed by commercial or residential mortgage loans and that are not considered CLOs/CBOs/CDOs.

Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing categorized as SAP clarification and sponsor a blanks proposal to revise the definition of what shall be captured in the CLO/CBO/CDO Schedule D-1-2: Asset-Backed Securities reporting line. With exposure, NAIC staff recommend that the Working Group direct NAIC staff to sponsor a blanks proposal to modify the definition in the annual statement instruction. The proposed new definition is shown below.

> Non-Agency – CLOs/CBOs/CDOs (Collateralized Loan Obligations / Collateralized Bond Obligations / Collateralized Debt Obligations): Includes all asset-backed securities (ABS) for which repayment is derived from the cash flows of a pool of self-liquidating corporate credit obligations, whether in the form of debt securities or loans, and whether secured directly through a securitization or indirectly through one or more feeder funds. This excludes non-credit corporate obligations such as trade receivables, tax receivables, etc. Broadly Syndicated CLOs are a subset primarily backed by broadly syndicated corporate loans, which are typically rated by credit rating agencies, and distributed to a wide range of institutional investors. Investments that have underlying real estate risk, including items commonly referred to as Commercial Real Estate (CRE) CLOs, shall not be reported in this category.

B. Consideration of Maintenance Agenda – Active Listing

1. Ref #2025-24: Commitments and Contingencies Disclosures

Ref #	Title	Attachment #
2025-24 (Wil)	**Commitments and Contingencies Disclosures**	**L – Agenda Item M – Current Draft Revisions**

Summary:

This agenda item was first exposed at the 2025 Fall National Meeting in response to comments from both industry and regulators. This agenda item proposes revisions to the annual statement instructions and several SSAPs to improve and clarify the reporting requirements of commitments in both the notes and the investment schedules.

Since the initial exposure, NAIC staff have worked with regulators and interested parties to further refine the proposed revisions.

For discussion at the 2026 Fall National Meeting, a separate exhibit (Attachment M) details the current draft revisions and reflect changes based on discussions with regulators and interested parties. To avoid confusion, deletions from the proposed revisions exposed at the 2025 Fall National Meeting are not tracked in the exhibit. Significant revisions reflected in the current draft revisions include:

- Contingent Commitments: References to contingent commitments as a category separate from commitments have been removed from both the original proposed revisions and existing SSAP guidance. Discussions with regulators and interested parties indicated that separately identifying contingent commitments would provide little regulatory value and could create confusion for reporting entities.
- Commitment Definition: The definition of a commitment was refined to focus on arrangements which were binding rather than specifically legally binding. Feedback provided during discussions noted that arrangements could be binding in a number of ways, for example failure to fulfill the commitment could have reputational considerations which would make the arrangement binding. Certain application guidance was also moved from the definition to separate subparagraphs, and a footnote was added to further explain the concept of a binding arrangement.
- Comprehensive Summary of Commitments: Several changes were made to the proposed Summary of Commitments disclosure. The summary is now proposed to replace the existing Note 14A(1) narrative disclosure because much of that information is already reported elsewhere in the note. The proposed reporting lines in the Summary of Commitments disclosure were also refined to pull investment commitments from the schedules rather than the notes. As such, most of the data pulls for investment related commitments in the notes to the financial statements were deleted. In addition, reporting lines for unrecorded guarantees and guaranty assessments were removed, and instructions were added requiring narrative disclosures for items reported within the “Other” categories.
- Commitment for Investment Reporting: The revised draft expands commitment reporting by adding a Commitment for Investment column to the applicable owned and acquired sections of Schedules B and D and by revising Schedule BA to provide consistent reporting requirements across investment schedules. These proposed revisions also expand the scope of reporting commitments on the investment schedules to all investment commitments, including commitments for initial investment. Corresponding revisions are proposed to the annual statement instructions for each investment schedule, as well as to the Investment Schedules General Instructions to provide general guidance on reporting investment commitments and an exception from investment commitment reporting for regular-way security trades. These revisions are intended to provide regulators with investment-level detail on reported investment commitments and to allow the Summary of Commitments disclosure to pull total commitments directly from each applicable investment schedule.

One of the items discussed frequently during interim meetings was the potential RBC impact of the proposed summary of commitments disclosure. As proposed, this disclosure would be a prescribed, data captured schedule with most reported amounts sourced directly from existing notes or investment schedules and verified with cross checks. The summary of commitments is also proposed to replace the existing disclosures in Note 14A(1), including the requirement to report Total Contingent Liabilities which is pulled into the RBC calculation as an Off-Balance Sheet Asset Risk. As a result, commitments reported in the summary of commitments disclosure would replace Total Contingent Liabilities for RBC purposes.

NAIC staff pulled the historic annual instructions for the Total Contingent Liabilities disclosure requirement used for RBC and noted that the contingent liabilities / commitments originally required to be reported in this total were quite expansive. A version of these instructions existed in the annual since at least 1993, which was the

inaugural year for the Life RBC formula, up until 2001 and provided instructions for the contingent liability disclosure which was in turn pulled through to RBC. (see Current Draft Revisions for excerpt of 2000 A/S instructions)

NAIC staff recommend that upon adoption of this agenda the Working Group sponsor a referral to Capital Adequacy (E) Task Force to assess which commitments should be pulled into the RBC calculation and whether the RBC factor currently in use should be re-assessed. Comments provided by industry in the interim recommend that only investment-related commitments (acquisition of an asset) should be pulled through to the RBC calculation. An "investment only" approach would be a departure from the broad scope of the original instructions for Total Contingent Liabilities. NAIC staff defer to the Capital Adequacy (E) Task Force on whether the RBC calculation should be limited to investment commitments, investment commitment plus other specific types of commitments, or all reported commitments.

Recommendation:

NAIC staff recommend that the Working Group reclassify this item as a New SAP Concept and expose the agenda item and updated revisions as detailed in the "Current Draft Revisions" document for public comment. In addition, NAIC Staff also recommend that the Working Group direct NAIC staff to document the discussion and conclusions of this project in an issue paper, and sponsor a corresponding blanks proposal for the proposed revisions.

Significant Proposed revisions detailed in the "Current Draft Revisions" document include:

- *SSAPs:*
  - Revisions and reformatting of the proposed definition of commitments to SSAP No. 5.
  - Remove references to contingent commitments throughout APPM.
  - Disclosure requirement for commitments related to early termination fees and recallable distributions.
  - Clarification that insurer guarantees of repayment on debt instruments or credit facilities held by SCAs or SSAP No. 48 investee must be disclosed as commitments.
  - Add clarifying language to SSAP No. 21 to specify when private placement non-bond debt securities should be recorded.
- *Annual Statement:*
  - Replace existing commitments disclosure in Note 14A(1) with comprehensive summary disclosure of commitments.
  - Clarifying revisions to Note 14F to ensure the disclosure instructions match SSAP No. 5 and clarify the requirement to disclose amounts accrued.
  - Add "Commitment for Investment" column, with instructions, to Schedule D: Parts 1-3 and Schedule B: Parts 1-2 and revise the instructions for the existing "additional commitments" column in Schedule BA.
  - Add general investment instructions to require all investment commitments be reported on the applicable investment schedule, regardless of whether the related investment has an existing balance or is an initial investment commitment. Commitments for an initial investment would be reported as a current year acquisition, but with the investment cost and BACV reflected as zero.

C. Any Other Matters

a. Receive Investment Analysis (E) Working Group Referral – Reporting of Structured Investments and Underlying Collateral and other Reporting Enhancements (Julie - Attachment N)

On October 21, 2026, the Investment Analysis (E) Working Group provided a referral to the Statutory Accounting Principles (E) Working Group on the reporting of structured investments and underlying

collateral and other reporting enhancements. **The Working Group is requested to receive the referral and direct NAIC staff to proceed with drafting an agenda item for exposure in the interim or the 2027 Spring National Meeting.** The recommendations in the referral are summarized as follows:

- Improve classification within ABS reporting lines and the use of collateral code types by establishing a threshold for designating investments. Investments that do not meet the designated threshold would be identified as multi-collateral structures.

- Consider the addition of dedicated annual statement reporting category (or categories) for multi-collateral financial asset-backed securities, including investments supported by collateral that can otherwise fit into multiple line items.

- Consider the addition of a separate structure code that identifies the manner in which an insurer obtains exposure to the underlying collateral, such as through a securitization, feeder funds or other indirect structure. Additionally, may be needed on how an insurer should look through legal structures for classification purposes. (For example, how to distinguish looking through a feeder fund structure versus classifying the structure as equity-backed.)

b. Update on the SSAP No. 48 Discussions – (Julie)

This project (agenda item 2025-26) is reviewing the overall guidance as well as the process in which equity changes are reported for investments in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*. During the 2026 Spring National Meeting, the Working Group heard initial comments from the December 2025 initial agenda item exposure and directed NAIC staff to move forward with proposing revisions to SSAP No. 48, working with interested parties to understand current application of existing guidance.

In the interim, NAIC staff had many calls with industry to discuss key aspects of the guidance. NAIC staff have developed a preliminary draft of a revised SSAP No. 48 and issue paper. Further discussion of the concepts within the small group is expected in the interim, with presentation to the Working Group and require for exposure anticipated early in 2027.

c. Review of U.S. GAAP Exposures (Jason/Robin – Attachment O)

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.*

d. Kerper and Bowron Comments on the Unearned Premium Tests in SSAP No. 65 (Jake – Attachment P)

The attached comment letter was received from Kerper and Bowron with recommended changes to the unearned premium calculation for policies in excess of 13 months in *SSAP No. 65—Property and Casualty Contracts*. NAIC staff will work with the firm after the Fall National Meeting to get an understanding of the recommendation, and any potential action items will be done with an agenda item through the regular Working Group process.

Comment Deadline: Friday, February 12, 2027

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