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

**ROLL CALL**

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

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

Note: This meeting will be recorded for subsequent use.

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

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

**REVIEW AND ADOPTION OF MINUTES**

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

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

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

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

 

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

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

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

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

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

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

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

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

## REVIEW of COMMENTS on EXPOSED ITEMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Included in the responses were the following:

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

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

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

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

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

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

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

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

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

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

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

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

To provide an overview of a securities lending transaction:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

iii. Assets subject to repurchase agreements;

iv. Assets subject to reverse repurchase agreements;

v. Assets subject to dollar repurchase agreements;

vi. Assets subject to dollar reverse repurchase agreements;

vii. Assets placed under option contracts;

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

ix. FHLB capital stock;

x. Assets on deposit with states;

xi. Assets on deposit with other regulatory bodies;

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

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

xiv. Other restricted assets.

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

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

 

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

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

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

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

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

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

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

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

 

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

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

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

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

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

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

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

**Accounting and Reporting of Reinsurance**

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

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

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

b. Premiums or other amounts payable on reinsured risks;

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

d. Modified coinsurance reserves; and

e. Amounts receivable or payable for funds withheld.

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

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

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

f. Collateral deficiency liability

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

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

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

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

b. Reinsurance premiums receivable or other amounts receivable;

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

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

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

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

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

**Funds Held Under Reinsurance Treaties with Unauthorized Reinsurers or Certified Reinsurers**

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

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

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

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

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

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

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

1. Deferred income (the deferred income approach)

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

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

*Recommendation:*

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

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

Unusual/Infrequent Items

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

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

Relevant Literature

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

**Comment Letters:**

- **The comment letters for this hearing agenda are included in Attachment 10** - (8 pages)**.**
- Comment letters addressing the IMR and ALM derivative topic are included as Attachment 8 to the IMR/ALM Hearing Agenda – 23 pages. (The ACLI proposed edits to the exposed IMR documents are captured in Attachment 9 to the IMR/ALM Hearing Agenda – 92 pages.)

 

Draft: 4/2/26

Statutory Accounting Principles (E) Working Group
San Diego, California
March 23, 2026

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met in San Diego, CA, March 23, 2026. The following Working Group members participated:, Kevin Clark Chair (IA); Dale Bruggeman, Vice Chair (OH); Sheila Travis and Richard (Hamp) Russell (AL); Kim Hudson, Laura Clements and Monica Macaluso (CA); William Arfanis and Michael Estabrook (CT); Rylynn Brown (DE); Cindy Andersen (IL); Shantell Taylor and Tom Travis (LA); Steve Mayhew and Kristin Hynes (MI); Ned Cataldo (NH); Bob Kasinow (NY); Diana Sherman (PA); Jamie Walker and Rachel Hemphill (TX); Doug Stolte and Jennifer Blizzard (VA); and Amy Malm and Levi Olson (WI).

1. Adopted its 2025 Fall National Meeting Minutes

The Working Group met March 17 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) and paragraph 6 (consultations with NAIC staff related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings, to discuss its Spring National Meeting agenda. No action was taken at the meeting.

Walker made a motion, seconded by Malm, to adopt the Working Group's Dec. 9 minutes (*see NAIC Proceedings – Fall 2025, Accounting Practices and Procedures (E) Task Force, Attachment One*). The motion passed unanimously.

2. Reviewed Comments on Non-Contested Positions

The Working Group reviewed comments received on previously exposed items (Attachment One-A).

A. Ref #2025-25

Clark directed the Working Group to agenda item *2025-25: Separate Account Nonadmitted Assets*. Julie Gann (NAIC) stated that during the 2025 Fall National Meeting, the Working Group exposed revisions to Statement of Statutory Accounting Principles (*SSAP) No. 56—Separate Accounts* that would require book-value separate accounts to follow the same admittance provisions as the general account. She stated that the Working Group also sponsored a Blanks (E) Working Group proposal to incorporate the concept of nonadmitted assets on the balance sheet and the related schedules. Gann stated that separate accounts already include some schedules that identify nonadmitted assets, but these changes would align the treatment with the general account and make it clear on the face of the statements. She stated that interested parties commented in support of the revisions and that NAIC staff recommend moving forward with adoption, as well as supporting the Blanks (E) Working Group proposal, which is scheduled for consideration of adoption during its May meeting.

B. Ref #2025-30

Clark directed the Working Group to agenda item *2025-30: Administrative Services Contracts Disclosure Clarification.* Robin Marcotte (NAIC) stated that this item is a clarification to the administrative services contracts disclosure. She stated that it was exposed at the 2025 Fall National Meeting and includes minor revisions to *SSAP*

*No. 47—Uninsured Plans* disclosure, along with updates to Annual Statement Instructions Note 18B to clarify the net gain or loss calculation for administrative service contract plans. Marcotte stated that interested parties had no comments on the proposal.

C. Ref #2025-31

Clark directed the Working Group to agenda item *2025-31: Update Coverage Gap.* Marcotte stated that this agenda item updates *Interpretation (INT) 05-05: Accounting for Revenues Under Medicare Part D Coverage* with revisions related to accounting for revenues under Medicare Part D coverage. She stated that the changes note the end of the Coverage Gap Discount Program as of Dec. 31, 2024, and add the appropriate references to the federal Centers for Medicare & Medicaid Services (CMS) Manufacturer Discount Program that began in 2025. Marcotte stated that interested parties had no comments on the proposal.

D. Ref #2025-32

Clark directed the Working Group to agenda item *2025-32: Remove Shaded Text.* Jake Stultz (NAIC) stated that this agenda item removes shaded text that signifies previously superseded guidance. Stultz stated that this approach is no longer used in the main SSAPs, but that *SSAP No. 40—Real Estate Investments* and *SSAP No. 90—Impairment or Disposal of Real Estate Investments* still had shaded text related to superseded language. He stated that the purpose of this agenda item is to clean that up and remove the superseded text in these SSAPs. Stultz stated that interested parties had no comments on the proposal.

E. Ref #2025-33

Clark directed the Working Group to agenda item *2025-33: Update to Annual Statement Expense Descriptions and Categories.* Stultz stated that this agenda item is a cleanup change in the annual statements related to some of the expense descriptions and categories. He stated that NAIC staff received comments over the years that a few of the references were outdated, so this update simply modernizes the language and clarifies the categories. He stated that there are no statutory accounting changes in this agenda item and that the NAIC staff review included whether items needed to be updated from a statutory expense-categorization standpoint, but nothing rose to that level. Stultz stated that these are just updated titles in the annual statement blank. He stated that interested parties submitted one comment, which was about the exclusion of Section 15 from the suggested changes. He stated that there are no revisions to Section 15, so it was omitted from the exposure.

F. Ref #2025-34

Clark directed the Working Group to agenda item *2025-34: Updates on Economic Scenario Generator and Non-Variable Annuities.* Marcotte stated that this item includes exposed revisions to *SSAP No. 3—Accounting Changes and Corrections of Errors*, *SSAP No. 51—Life Contracts*, and *SSAP No. 52—Deposit-Type Contracts*. She stated that there were two separate updates, both tied to coordination with the *Valuation Manual*. Marcotte stated that the first change was related to the economic scenario generator. The revisions expand the existing phase-in disclosures to include the economic scenario generator phase by adding a reference to VM-20, Requirements for Principle-Based Reserves for Life Products. The second change reflected the adopted revisions to VM-22, Requirements for Principle-Based Reserves for Non-Variable Annuities, for non-variable annuities. She stated that those revisions come with an optional implementation period, and when a company adopts them, it results in a change in valuation basis. Marcotte stated that this update simply acknowledges the new guidance, its effective date, and the fact that implementation represents a valuation-basis change. She stated that interested parties did not submit comments.

Walker made a motion, seconded by Sherman, to adopt agenda items 2025-25 (Attachment One-B), 2025-30 (Attachment One-C), 2025-31 (Attachment One-D and Attachment One-E), 2025-32 (Attachment One-F), 2025-33 (Attachment One-G), and 2025-34 (Attachment One-H). The motion passed unanimously.

3. <u>Reviewed Comments on Exposed Items</u>

The Working Group reviewed comments received on previously exposed items (Attachment One-A).

A. <u>Ref #2025-01</u>

Clark directed the Working Group to agenda item *2025-01: Sale-Leaseback Clarification.* Stultz stated that this agenda item has been exposed several times, most recently at the 2025 Fall National Meeting. He stated that the issue came up after NAIC staff received a question about a situation that looked like a sale-leaseback, but the cash received was so heavily restricted that, in substance, no real sale had occurred. He stated that the question was how to treat these types of transactions and that NAIC staff recommended clarifications that these arrangements should be treated as financing transactions, not sale-leasebacks. Stultz stated that the Working Group exposed the language a few times and made adjustments along the way. In the most recent exposure, interested parties supported the comments that the National Association of Mutual Insurance Companies (NAMIC) and the American Property Casualty Insurance Association (APCIA) submitted. He stated that the joint letter suggested a few minor edits to paragraph 33c and that, after review, NAIC staff recommend adoption with one of the suggested changes. Stultz stated that NAIC staff believe that the first additional suggested clarification referring to the cash/assets not being available for policyholder obligations is redundant and duplicates language from earlier in that sentence and is, therefore, unneeded. However, NAIC staff do recommend adding the language addressing situations where a lessee breaches the terms of the lease. He stated that the proposed language would be added to *SSAP No. 22—Leases.* Stultz stated that this guidance applies to all contracts in effect on or after March 23, 2026. He stated that NAIC staff recommend that the Working Group adopt the revisions to SSAP No. 22.

Jonathan Rodgers (NAMIC) stated that NAMIC and APCIA have submitted comments for multiple iterations of this proposal. He stated that they think the proposed guidance is in a good place now. He stated that they appreciate the Working Group's consideration of some of the suggested edits during the process and agree with the Working Group adopting the current proposed guidance.

Cataldo made a motion, seconded by Bruggeman, to adopt agenda item 2025-01 and the proposed revisions to clarify that sale-leasebacks with restrictions on access to cash or assets received from the sale do not qualify for sale-leaseback accounting and must be accounted for by the seller using the financing method (Attachment One-I). The motion passed unanimously.

B. <u>Ref #2025-22</u>

Clark directed the Working Group to agenda item *2025-22: IMR Impact to Reinsurance Collateral*. Gann stated that this agenda item addresses the impact of interest maintenance reserve (IMR) on reinsurance collateral. She stated that at the 2025 Fall National Meeting, the Working Group exposed revisions to *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* to clarify how IMR should be reflected in the reinsurance-collateral calculation used to determine whether credit for reinsurance can be taken. Gann stated that this only applies to situations where collateral is required to receive that credit. As of now, SSAP No. 61 only references positive IMR, which is in a liability position. There is no reference to negative IMR in the collateral calculation, likely because net negative IMR has historically been nonadmitted. Gann stated that as the broader IMR discussions progressed, it became clear that the Working Group needed to revisit whether the calculation should continue to include only positive IMR or whether net negative IMR should also be considered. The Working Group exposed proposed revisions that reflected what is referred to as the asymmetrical approach, meaning only the positive liability IMR would be included. Gann stated that the Working Group also sent a referral to the Reinsurance (E) Task Force. Comments were received from the American Council of Life Insurers (ACLI) and other interested parties supporting a move toward a symmetrical approach. The American Academy of Actuaries (Academy) also supported moving in that direction but suggested adding some guardrails. Gann stated that a response has not yet been received from the Task Force and that NAIC staff recommend that action on this item be deferred until after a response is received.

Hans Avery (ACLI) stated that the ACLI appreciates the Working Group's thoughtful approach to these interrelated IMR issues and the thoughtful write-up that includes both the asymmetrical and symmetrical approaches. He stated that the ACLI recommends symmetrical treatment because it better aligns the value of assets and liabilities. This is most clearly seen with modeled reserves. He stated that under the principles-based reserving (PBR) framework, PBR targets a level of policyholder security and then models out cash flows with explicit recognition of changing interest rate environments. IMR is subtracted from the PBR in the end so that, in aggregate across the company, the targeted level of policyholder security is achieved. Avery stated that excluding IMR from reinsurance collateral would create a mismatch for any PBR reserves. There would also be a mismatch on formulaic reserves. Because the reserve liabilities are valued at a fixed interest rate, while individual assets are reported at book value, the value of the portfolio or the valuation rate for the portfolio will wind up floating as assets are sold and replaced. Avery stated that the replacement assets being recorded with book value equal the market value at that time. So, IMR would need to be included in that equation to balance the assets and liabilities, which is the valuation adjustment characterization that has been used. He stated that in addition to better aligning assets and liabilities, the ACLI believes the symmetrical approach stabilizes collateral requirements through economic cycles. Having the requirements aligned in decreasing interest rate environments and misaligned in increasing interest rate environments is not intuitive. The symmetrical approach prevents any collateral implications from distracting from prudent asset-liability management.

Bruggeman asked for clarification of whether, with PBR, where positive IMR would be subtracted, whether negative IMR would be added to calculate the final reserve amount. Avery stated that Bruggeman's understanding is correct.

Hemphill stated that with PBR, the negative IMR would be added, and it would increase the reserve if it were admitted. She stated that if it is not admitted, it would not be reflected.

Clark stated that if there is an admitted negative IMR, under the asymmetrical treatment, the collateral requirements would be greater than the policyholder reserve as calculated under PBR. He stated that this has already been discussed once at a prior meeting of the Reinsurance (E) Task Force and the Working Group was not planning to take any action at this meeting. He stated that there will be another meeting scheduled soon after the Spring National Meeting, possibly a joint session with the Reinsurance (E) Task Force, Life Actuarial (A) Task Force and the Working Group, to discuss this further. Clark stated that the Working Group will await a response from the Reinsurance (E) Task Force before consideration of adoption.

 

Hemphill stated that in discussions with the Life Actuarial (A) Task Force, it was raised that reinsurance should not be disincentivized. She stated that it needs to be considered in conjunction with the 10% capital and surplus limitation to ensure there is no incentive or disincentive across the transaction. She stated that because the Academy had proposed cash-flow testing, it is particularly important to note that, for example, when admitting negative IMR, cash-flow testing is not a perfect tool that fixes all things. She stated that if the Working Group decides there is a certain treatment, the Life Actuarial (A) Task Force will ensure it gets reflected in cash-flow testing. She stated that she would warn against deciding based on cash-flow testing.

No action was taken at this meeting pending a response from the Reinsurance (E) Task Force.

C. Ref #2025-23

Clark directed the Working Group to agenda item *2025-23: IMR Proof of Reinvestment*. Gann stated that this agenda item was exposed specifically to gather comments on the proof-of-reinvestment templates. She stated that the idea behind allowing a negative IMR is that the proceeds from selling fixed-income assets have been reinvested in new fixed-income instruments, presumably at a higher yield. Gann stated that one of the long-running discussions within the IMR Ad Hoc Group has been how to verify that reinvestment in a practical way. She stated that there was discussion of one-to-one tracking, but it became clear that it was not feasible across the industry. This led to the development of the proof-of-reinvestment template. Gann stated that if an entity passes the two tests in the template, they would be allowed to report a net negative IMR from a previously positive position. In other words, if they were positive and then experienced losses that pushed them negative, passing the tests would allow them to report that negative amount. Similarly, if they were already negative and had additional losses, passing the tests would allow them to go further negative. She stated that if they fail the proof-of-reinvestment tests, they would not be allowed to report a net negative IMR or go further negative. Instead, those losses would have to be recognized immediately as capital losses in the financial statements. Gann stated that the IMR Ad Hoc Group worked closely with industry on this and brought it to the Working Group for exposure. She stated that the Working Group received supportive comments on the overall concept, along with some feedback on the technical calculation. NAIC staff recommend that the Working Group support the overall concept of the proof-of-reinvestment approach for inclusion in the IMR issue paper and the upcoming statutory accounting guidance. She stated that there will be another exposure of all the documents when the Working Group moves forward with the IMR guidance.

Malm made a motion, seconded by Hudson, to adopt agenda item 2025-23 and the proposed concepts for an IMR proof-of-reinvestment template, developed by the IMR Ad Hoc Group. The motion also directed NAIC staff to continue to work with industry to refine the templates as part of the IMR work (Attachment One-J). The motion passed unanimously.

D. Ref #2025-24

Clark directed the Working Group to agenda item *2025-24: Commitments and Contingencies Disclosures*. Stultz stated that this agenda item was originally exposed at the 2025 Fall National Meeting. The purpose of that exposure was to consolidate and clarify the disclosure requirements for commitments and contingent commitments, and to introduce a new definition of commitments. Stultz stated that interested parties asked for more time and offered to help further develop the material. He stated that NAIC staff recommend that the Working Group direct NAIC staff to continue working with industry on this agenda item and request clarification from state insurance regulators on the risk-based capital (RBC) implications for contingent commitments and contingencies. He stated that currently, the RBC formula applies a 0.01 post-tax factor to contingent liabilities reported in Note 14A(1) of the financial statements, across all lines of business. One issue that led to this agenda item was inconsistencies in how companies report those amounts in the note, which affects the RBC calculation. Following a review of the historical guidance, NAIC staff identified that the original intent of the disclosure was broad. The disclosure was not limited to investments; it also included items such as accounts receivable and other operational contingencies. Stultz stated that NAIC staff are requesting regulator input on how this disclosure should be populated so that the intended amounts flow properly through RBC. NAIC staff also recommend a referral to the Capital Adequacy (E) Task Force to review this from an RBC perspective.

Clark stated that, historically, Iowa has taken a broad view of what should be included in that disclosure. He stated that they have not factored in the likelihood of having to fund the commitment when determining whether it should receive an RBC charge. He stated that the most common items they see reported are commitments to fund various types of investments, such as alternative investments, delayed-draw financing structures, and things along those lines. So, from their standpoint, the scope should remain broad. He stated that Iowa is open to continuing the discussion.

Keith Bell (Travelers), representing interested parties, stated that interested parties had several meetings to discuss this with industry, and all parties understood contingency accounting and gain and loss contingencies. He stated that usually, if there is a lost contingency, it must either be disclosed or something must recorded. He stated that gain contingencies are generally not recognized until they occur, and, on the other end, unfunded commitments usually impact an asset or an invested asset. He stated that is where they could spend their time trying to improve the definitions and what the accounting would be for contingent commitments.

No motion was made, and the Working Group directed NAIC staff to move forward, working with interested parties.

E. Ref #2025-26

Clark directed the Working Group to agenda item *2025-26: SSAP No. 48 Equity Changes*. Gann stated that at the 2025 Fall National Meeting, the Working Group exposed an extensive conceptual agenda item that walked through several questions related to the accounting and reporting under *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies.* She stated that this originated from an NAIC staff data pull of new acquisition items first required to be reported in 2024. Upon review of the data, it indicated the reporting was varying, noting that gains and losses were handled inconsistently and that investment income was sometimes shown as negative, which does not align with the instructions. Additionally, several other issues surfaced. Gann stated that interested parties submitted comment letters asking for more time and expressed interest in working with NAIC staff. She stated that all parties support bringing more clarity to SSAP No. 48 so that reporting is consistent and reflects the intended treatment. Gann stated that NAIC staff recommend the formation of a small group, comprised of possibly two to four industry representatives, to work with NAIC staff to walk through the standard and develop proposed guidance. She stated that this would be like the approach used for the bond project, though hopefully not as extensive, with the goal of completing a proposed revised SSAP later this year.

Bell stated that this is another item that interested parties have held a series of meetings on. He stated that there was no real objection to this item. However, there was some confusion. He stated that interested parties had very different interpretations as to how the current draft would be applied, and that is why they offered to work with NAIC staff to make it clearer. He stated that in addition to making the guidance and SSAPS clearer, there needs to be better alignment with the annual statement instructions.

No motion was made, and the Working Group directed NAIC staff to move forward, working with interested parties.

F. Ref #2025-27

Clark directed the Working Group to agenda item *2025-27: SSAP No. 1 Modco/FWH Code*. Stultz stated that this agenda item was exposed at the 2025 Fall National Meeting. NAIC staff had previously received comments from industry pointing out inconsistencies in the annual statement reporting blanks, and this agenda item was intended as a cleanup to ensure statutory accounting stayed aligned with the blanks. He stated that the issue arose specifically because of modified coinsurance (modco) and funds-withheld codes. The exposure proposed updating *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures* to add modco and funds withheld codes to the restricted asset reporting section. Stultz stated that NAIC staff also coordinated with the Blanks (E) Working Group staff, who exposed a corresponding item to ensure consistency. The Working Group exposure received extensive comments from interested parties, and those comments raised additional internal questions about the direction of this project. A key issue is how the restricted asset column in the investment schedules is being used. For example, an investment might be only 10% restricted, and that raises questions about how meaningful or useful the reporting is if it is not comprehensive or does not reflect the full restricted amount. Stultz stated that, additionally, more robust restricted asset disclosures were added, specifically the expanded Note 5L, to provide clearer guidance, and Schedule S – Reinsurance, Part 8, which was added last year for modco and funds-withheld assets. He stated that NAIC staff are requesting Working Group input on what direction to take going forward, especially considering the newer disclosures in Note 5L and Schedule S, Part 8.

Clark stated that this would be a good opportunity to step back and reconsider things considering the changes made over the past couple of years, both the expanded restricted asset disclosures and the new Schedule S, Part 8 for modco and funds withheld assets. He stated that, given those updates, it is worth revisiting whether this level of granular reporting is still being used and whether it is worth retaining going forward.

Hudson made a motion, seconded by Walker, to re-expose revisions requesting comments on whether to retain the restricted asset codes. The motion passed unanimously.

G. Ref #2025-28

Clark directed the Working Group to agenda item *2025-28: Nonadmittance of Long-Term Repos*. Gann stated that this item relates to the non-admittance of long-term repurchase agreements. She stated that NAIC staff were previously directed to take on a broader project to review securities lending and repurchase agreements together and that work was to be done as time allowed. NAIC staff have been busy and have not yet been able to complete that full convergence review. Gann stated that one of the topics that was supposed to be addressed in that broader project was the admittance assessment for long-term repurchase agreements. She stated that long-term securities-lending agreements are admitted. NAIC staff learned that some states have granted permitted practices, and in some cases, companies were simply admitting long-term repos on their own. She stated that when walking through the accounting entries, if a repurchase agreement is treated as non-admitted, the insurer ends up in a worse position than if the agreement had defaulted, because the insurer would retain the cash collateral as an asset in a default scenario. After reviewing this further, NAIC staff have proposed revisions to allow admittance of long-term repurchase agreements, while keeping the non-admittance requirement for reverse repurchase agreements. The proposed revisions to *SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* also clarify how the non-admittance of reverse repos should be reflected in the financial statements, since that question had come up. Gann stated that interested parties supported the proposed revisions and that NAIC staff recommend moving forward with the edits and continuing the broader convergence project on securities lending and repurchase agreements as time allows.

Bell stated that interested parties had discussed this issue and agree with the NAIC staff conclusion. He stated that they reached out to industry to find out if companies were aware of or were willing to admit long-term repo agreements with puttable options. None were identified. Bell stated that although it is clear that the reverse repurchase agreements that are greater than 365 days are not admitted, perhaps there should be an affirmative statement that repurchase agreements are admitted.

Gann stated that originally the footnote stated that repurchase agreements were non-admitted assets. That language was removed, and the footnote was made specific only to reverse repurchase agreements. Gann stated that SSAP No. 103 already states that assets within its scope are admitted assets, so under that general rule, long-term repurchase agreements would be admitted unless they are explicitly identified as non-admitted. The revised footnote now makes clear that the non-admittance applies only to reverse repos and has no impact on the admittance of long-term repurchase agreements. She stated that the SSAP No. 103 general admittance guidance, combined with the updated footnote, should make the treatment straightforward.

Bell stated that a quick fix would be to include an i.e., in the last sentence stating that long-term repurchase agreements shall continue to be admitted. He stated this would take the negative and make it an affirmative.

Clark requested comments from Working Group members. He stated that the suggested edit keeps the same meaning, and they could certainly make that change now, or the Working Group could also consider whether any additional clarification is needed when they start the broader repo and securities-lending project, including whether disclosures are needed addressing puttability.

Walker stated that since there is going to be a larger project around this, the Working Group can take it up as part of the broader agenda and determine whether any additional clarification is needed.

Walker made a motion, seconded by Travis, to adopt agenda item 2025-28 and revisions to SSAP No. 103 that allow repurchase agreements with maturity dates of more than one year to be admitted (Attachment One-K). The motion passed unanimously.

H. Ref #2025-29

Clark directed the Working Group to agenda item *2025-29: Reporting Clarification*. Gann stated that with the bond project, the Working Group made many revisions to Schedule D (Bonds), added several new columns, and introduced a significant amount of new instruction. She stated that NAIC staff received several questions, and this agenda item identified several of those issues and included some proposed conceptual changes. She stated that after further consideration of those questions and reviewing comments from interested parties, NAIC staff are proposing three edits to the annual statement instructions that are instructional clarifications only and do not change any substantive bond reporting requirements.

Gann stated that the first edit concerns “payment due at maturity” to clarify that this refers to the contractual payment due at the legal maturity date and that the amount is set when the asset is acquired and is not subsequently changed. The second edit is similar and relates to the origination balloon payment percentage. NAIC staff are proposing instructions clarifying that if the information is not available through the secondary market at the time of purchase, companies may use the best available information at that time. The third edit concerns residuals and is not directly tied to the bond project, but it relates to the maturity date reported on Schedule BA. Gann stated that some companies were reporting maturity dates for residuals, while others were not, and the question was which approach was correct. She stated that residuals do not have a contractual maturity date, although the structure itself does. The clarification NAIC staff proposed is that a maturity date should be reported only for Schedule BA items that have a contractual stated maturity date. As a result, residuals will generally no longer be reported with a maturity date. She stated that this is a broad instruction that applies to all of Schedule BA, but the issue arose specifically regarding residuals. Gann stated that SSAP No. 48 items do not have maturity dates, and non-bond debt securities do, so residuals were the gray area.

Gann stated that NAIC staff also propose limiting the payment-due-at-maturity reporting column to certain items on Schedules D-1-1 and D-1-2. She stated that for issuer credit obligations or bonds, the payment due at maturity is essentially par, so the column was duplicating information already reflected elsewhere in the financial statements.

Gann stated that NAIC staff are not proposing revisions to three of the items included in the original agenda item. The first relates to rated notes or feeder funds. There was a question about whether companies were reporting those as issue credit obligations (ICOs). She stated that NAIC staff have learned that companies generally report them as asset-backed securities (ABS), and, therefore, a separate code is not necessary. The second item concerned aggregate deferred interest for bank loans. Gann stated that NAIC staff believe that issue has been addressed and that no further clarification is needed. She stated that the third item involved Schedule BA reporting and ties back to Bell's earlier comment regarding how companies identify underlying characteristics for SSAP No. 48 items. The original question was whether a company could perform a double look-through. For example, if the underlying security is a residential mortgage-backed security (RMBS), could the company look through that security and report the underlying characteristics as residential mortgage loans? Gann stated that NAIC staff do not believe that was the intent, and that issue will be addressed as part of the SSAP No. 48 discussion rather than in this set of reporting revisions.

Gann stated that if the Working Group supports the three proposed changes to the annual statement instructions, it could then sponsor the corresponding Blanks (E) Working Group proposal so that the revisions can be incorporated.

Tip Tipton (ACLI), representing interested parties, expressed appreciation to NAIC staff for working with interested parties on these issues. He stated that with the bond project being implemented this past year, they are constantly evaluating descriptions, and interested parties have provided comments and suggestions to be incorporated. He stated that they also support the other three items that Gann discussed.

Hynes made a motion, seconded by Hudson, to adopt agenda item 2025-29 and the exposed revisions and communicate support for a Blanks (E) Working Group proposal to clarify reporting on debt securities and to improve consistency in reporting (Attachment One-L). The motion passed unanimously.

4. <u>Exposed Items on the Active Maintenance Agenda—Pending List</u>

The following items were exposed for a 39-day public comment period ending May 1.

A. <u>Ref #2025-13</u>

Clark directed the Working Group to agenda item *2025-13: Residential Mortgage Loans Held in Statutory Trusts.* Stultz stated that last year, the broader work on loans held in statutory trusts was completed. He stated that with this agenda item, NAIC staff are recommending the exposure of the issue paper that documents the process and the discussions that took place throughout that project.

Malm made a motion, seconded by Bruggeman, to expose the draft issue paper on *Qualifying Statutory Trusts* detailing the discussions supporting the adopted statutory trust guidance to allow reporting of qualifying items within the mortgage loan guidance. The motion passed unanimously.

B. Ref #2026-01

Clark directed the Working Group to agenda item *2026-01: Disclosure of FABNs and Similar Structures.* Gann stated that this agenda item concerns the disclosure of funding agreement backed notes (FABNs) and similar structures and originated from a referral from the Macroprudential (E) Working Group.

Gann stated that FABNs are debt instruments issued by special purpose vehicles (SPVs) that are formed by life insurance companies. The life insurer issues a funding agreement to the SPV, and the SPV then issues debt instruments that are held by investors. She stated that the intent of this disclosure is to capture information related to these FABN structures.

Gann stated that when the Macroprudential (E) Working Group first began reviewing FABNs, the term was used in a general sense. After working with industry, NAIC staff learned that there are several different structures within this category, and, therefore, the disclosures capture information for each type. She stated that these include traditional FABNs, funding agreement-backed commercial paper, funding agreement-backed repurchase agreements, funding agreement-backed loans (FABLs), and funding agreement-issued municipal prepaid structures. Gann stated that the disclosures provided by the Macroprudential (E) Working Group cover all these structures.

Gann stated that the NAIC staff proposal reflects the disclosures recommended by the Macroprudential (E) Working Group and that the agenda item includes two additional changes. The first is the addition of a disclosure related to collateral provided by the reporting insurance entity for these structures. She stated that NAIC staff identified collateral as a relevant element for FABNs, as well as for funding agreement backed repurchase agreements and proposed including that information. The second change is a set of revisions to SSAP No. 52 to define each of these structures and to include a glossary. She stated that this will give users of the annual statement instructions a clear reference point for understanding the various structures.

Gann stated that NAIC staff are recommending that the Working Group receive the referral from the Macroprudential (E) Working Group, move this item to the active listing, and expose the proposed SSAP No. 52 disclosures. She stated that the Macroprudential (E) Working Group is also sponsoring a Blanks (E) Working Group proposal related to this project. Gann stated that the intent is for the disclosures to be effective for year-end 2026, so adoption by both the Working Group and the Blanks (E) Working Group will be necessary to ensure that timeline is met.

Kasinow made a motion, seconded by Andersen, to expose revisions to disclosures and a glossary addition to SSAP No. 52 for FABNs and other funding agreement-backed structures and to receive a referral from the Macroprudential (E) Working Group (Attachment One-M) to incorporate proposed disclosures for FABNs and other funding agreement-backed structures. The referral included a corresponding Blanks (E) Working Group proposal. The motion passed unanimously.

C. Ref #2026-02

Clark directed the Working Group to agenda item *2026-02: Valuation of Funds Withheld.* Marcotte stated that this agenda item concerns the valuation of funds withheld and was written specifically for life and health reinsurers because of differences in their annual statement reporting lines. She stated that there is currently a mismatch in the instructions. Assets that are withheld from the reinsurer by the ceding entity are reported in the investment schedules of the ceding entity at statutory book/adjusted carrying value (BACV). However, on the liabilities page, there are two different reporting lines for funds withheld, and at least one of those lines references Schedule S. Marcotte stated that the Schedule S, columns direct the use of fair value and, as a result, an entity could have an asset reported at book value and a corresponding liability reported at fair value if the Schedule S instruction is followed.

Marcotte stated that the recommendation in this agenda item is to expose revisions to the annual statement instructions for Schedule S, Parts 3, 4, and 5, as well as revisions to the liabilities page of the life and health statement and to SSAP No. 61. She stated that the purpose of these revisions is to clarify that the funds withheld liability should equal the book value of the funds withheld assets.

Marcotte stated that NAIC staff also identified some legacy instruction in Schedule S, Parts 4 and 5, related to the use of the NAIC's Securities Valuation Office (SVO) fair values. She stated that those references are proposed for deletion as a cleanup item.

Marcotte stated that because the Schedule S columns are used in calculating collateral shortfalls, NAIC staff also recommend that the Reinsurance (E) Task Force be notified of this exposure and that NAIC staff should be directed to prepare a proposal for exposure at the Blanks (E) Working Group.

Stolte made a motion, seconded by Hudson, to expose revisions to SSAP No. 61 to clarify that funds withheld liabilities should be recorded equal to the BACV of the funds withheld assets. The exposure includes proposed revisions to the Life and Health Annual Statement Instructions on Schedule S, Parts 3, 4, and 5, and the liabilities page. In addition, it includes proposed revisions to delete some legacy annual statement instructions regarding the use of SVO fair values. The motion passed unanimously.

D. Ref #2026-03EP

Clark directed the Working Group to agenda item *2026-03EP: 2026 Spring Editorial and Maintenance Update.* Gann stated that this agenda item is the editorial list for the Spring National Meeting. She stated that *SSAP No. 15—Debt and Holding Company Obligations* and SSAP No. 52 include the same paragraph regarding funding agreements, which states that if the funding agreement is, in substance, debt, then it follows SSAP No. 15, and if it is, in substance, a funding agreement, then it follows SSAP No. 52. However, the introduction to that paragraph refers to all of them as funding agreements, and NAIC staff have received questions from companies that were reporting all items as funding agreements because of that wording. She stated that the proposed edit removes that initial reference so that an item is considered a funding agreement only if it follows SSAP No. 52.

Gann stated that NAIC staff are also proposing revisions to eliminate the word "CUSIP" (Committee on Uniform Security Identification Procedures) throughout the statements of statutory accounting principles (SSAPs) and replace it with "security identifier." She stated that this aligns with a project being undertaken by the Investment Designation Analysis (E) Working Group to allow a broader range of security identifiers to be used in the financial statements and to ensure consistent reporting. She stated that there are many references to CUSIP, but CUSIP is not the only identifier permitted, so the terminology should be updated to reflect that.

Gann stated that NAIC staff are proposing to add "U.S." before generally accepted accounting principles (GAAP) references when applicable. She stated that this change is not appropriate in every instance, because there are times when foreign GAAP is referenced, but when the intent is to reference U.S. GAAP, the instructions should state that explicitly.

Sherman made a motion, seconded by Mayhew to expose the editorial revisions for public comment. The motion passed unanimously.

5. <u>Consideration of Maintenance Agenda – Active Listing</u>

   A. Ref #2024-15

Clark directed the Working Group to agenda item *2024-15: ALM Derivatives.* Gann stated that this agenda item concerns the asset-liability management (ALM) derivative proposal, which relates to new SSAP guidance allowing amortized cost accounting for qualifying ALM derivatives. She stated that the ACLI drafted the initial proposal, which was exposed for comment last fall. At the 2025 Fall National Meeting, NAIC staff were directed to develop an NAIC issue paper and sample SSAP based on that draft. Gann stated that the materials presented include a clean version of the proposed *SSAP No. 109—Asset Liability Management (ALM) Derivatives* permitting amortized cost accounting and deferral of gains and losses for effective derivatives, an issue paper outlining the background and rationale, and a tracked-changes version comparing NAIC staff edits to the ACLI draft. She stated that key revisions include removing the ACLI concept that allowed backdating deferred gains or losses when a derivative became ineffective, as NAIC staff determined this would create significant tracking challenges. Gann stated that under the NAIC proposal, derivatives removed from an ineffective program would no longer qualify for deferral, and interested parties have indicated they are comfortable with this change. She stated that guidance related to accelerated amortization and certain disclosures carried over from *SSAP No. 108–Derivatives Hedging Variable Annuity Guarantees* were removed because they do not align with the amortized cost approach under the proposed SSAP No. 109. She stated that additional items reviewed during exposure include transition guidance for companies that previously reversed unrealized gains and losses through the IMR under *SSAP No. 86—Derivatives*, allowing a one-time conversion for open qualifying programs so those amounts may be deferred under the new standard. Gann stated that new reporting lines are proposed for Schedule DB, though the schedule should not materially expand because these derivatives are already reported elsewhere, and broader feedback is encouraged on whether Schedule DB disclosures can be streamlined. The proposal also allows admittance of deferred losses arising under these programs, and feedback is requested on whether that admittance should be retained. She stated that NAIC staff recommend exposing all three documents, the issue paper, the clean SSAP, and the tracked-changes SSAP, for public comment.

Bruggeman made a motion, seconded by Travis to expose a draft SSAP and issue paper to incorporate new statutory accounting guidance allowing an amortized cost measurement method for a qualifying derivative program. Exposure included both the clean SSAP and a version that shows tracked changes from the prior ACLI version. The motion passed unanimously.

<u>6. Received a Referral from the Financial Condition (E) Committee Referral and Approved a Response</u>

Marcotte stated that at the 2025 Fall National Meeting, the Financial Condition (E) Committee adopted the updated guidance in agenda item *#2024-06 Risk Transfer Analysis of Combination Reinsurance Contracts* and added a clarification regarding accounting changes following SSAP No. 3. She stated that during those discussions, members noted that permitted practices could be used for transitioning agreements, but industry representatives pointed out that some states do not issue permitted practices as a matter of policy. Marcotte stated that the Committee issued a referral to the Working Group directing it to consider whether additional education was needed on how permitted practices might address transition issues for the 2026 effective date and whether any tools were necessary for jurisdictions that do not allow permitted practices. In response, the Working Group chair distributed an example permitted practice to chief financial examiners in January to encourage consistent reporting and clarify how permitted practices function, and conducted a survey to determine whether jurisdictions that do not grant permitted practices required additional tools. She stated that the survey received 47 responses, and all respondents indicated that no additional flexibility beyond the existing permitted practices process was needed. Based on this, the Working Group concluded that no further action is required at this time and has drafted a response to the Financial Condition (E) Committee stating this conclusion and noting that, absent further direction, the matter will be considered complete.

Walker made a motion, seconded by Bruggeman, to receive the referral from the Financial Condition (E) Committee (Attachment One-N) and approve the response drafted (Attachment One-O). The motion passed unanimously.

7. Receive an Update on the IMR Ad Hoc Group

Gann stated that the IMR Ad Hoc Group has continued to meet regularly since it was formed in 2023 and is now close to completing its work. The Ad Hoc Group received the draft of *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*, which incorporates the revised guidance being proposed for IMR accounting by consolidating all relevant accounting guidance into the SSAP and removing it from the annual statement instructions. She stated that the Ad Hoc Group plans to meet March 30, which may be its final meeting. After that, it plans to present the full package to the Working Group for consideration of exposure, which will likely include the draft SSAP, proposed reporting revisions, proposed revisions to other SSAPs, and potentially the issue paper. Gann stated that NAIC staff have completed a review of IMR results from the 2025 financial statements, and the amount of net negative IMR continues to increase both in total across the industry and in the number of companies shifting from a positive to a net negative position. She stated that NAIC staff expect to share the results of this data review soon, along with the memo summary and an Excel file so that regulators can sort by company and review trends, which extend back to approximately 2015 and show how companies have moved into net negative IMR positions over time. Gann stated that NAIC staff expect to have the full packet ready for the Working Group soon, so it can be considered, potentially at the Summer National Meeting.

Clark stated that this item would likely be considered for exposure through an e-vote. He stated appreciation to the members of the IMR Ad Hoc Group, including industry representatives, regulators, and NAIC staff. He noted that this project proved to be extremely complex and required a significant amount of time to work through all the intricacies involved.

8. Discussed a Referral from Life Risk-Based Capital (E) Working Group

Marcotte stated that this item is a referral from the Life Risk-Based Capital (E) Working Group, sent last summer seeking comments on specific asset valuation reserve (AVR) equity reporting lines for common stock and subsidiary, controlled and affiliated entities (SCAs). She stated that the referral forwarded comments received on proposal 2025-04-L Other Long-Term Assets (LR008). Specifically, the ACLI raised questions regarding AVR equity reporting lines for common stock in SCAs and other affiliates and requested clarifications to the AVR instructions. Marcotte stated that AVR line 15 is named SCA Common Stock – Certain Other Subsidiaries, and line 16 is SCA Common Stock – Other, and the intent is to get clarification in determining what is reported in each category. Marcotte stated that some of the original language appears to date back to the equity valuation methods used in earlier SAP guidance or even by the Valuation of Securities (E) Task Force in the 1990s. She stated that NAIC staff were too busy to address this item during the current quarter, but they plan to work with interested parties during the interim to review the historical intent of the categories, determine how that maps to current reporting, and assess whether the existing classifications remain appropriate.

9. Received an Update on U.S. GAAP Exposures

Marcotte said there are no U.S. GAAP items currently exposed by the Financial Accounting Standards Board (FASB) and that NAIC staff will monitor and review future exposures.

6. Received an Update on the IAIS Audit and Accounting Working Group

Gann stated that many of the topics under consideration focus on the implementation of International Financial Reporting Standard (IFRS) 17 *Insurance Contracts*, which is not being adopted in the U.S. However, the International Association of Insurance Supervisors (IAIS) Accounting and Auditing Working Group (AAWG) met Feb. 9 to discuss two items that were included in the Statutory Accounting Principles (E) Working Group's agenda for informational purposes. First, the AAWG is reviewing crypto assets. This is an area of ongoing interest for the NAIC, so NAIC staff are monitoring that work closely. Second, the AAWG is evaluating Insurance Core Principle (ICP) 9 (Supervisory Review and Reporting) and ICP 20 (Public Disclosure) for potential incorporation into the insurance capital standard (ICS). It is also reviewing comments received during the public exposure, but it has not released a revised draft. Gann stated that NAIC staff will continue to monitor these developments on behalf of the NAIC from an accounting perspective.

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

https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2026/08-12-26 summer national meeting/hearing/01 - spring nm minutes 3-23-26.docx

Draft: 4/23/26

Statutory Accounting Principles (E) Working Group
E-Vote
April 22, 2026

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force conducted an e-vote that concluded April 22, 2026. The following Working Group members participated: Kevin Clark, Chair (IA); Dale Bruggeman, Vice Chair (OH); Richard Russell (AL); Kim Hudson (CA); William Arfanis (CT); Rylynn Brown (DE); Cindy Andersen (IL); Shantell Taylor (LA); Kristin Hynes (MI); Ned Cataldo (NH); Bob Kasinow (NY); Jamie Walker (TX); Jennifer Blizzard (VA); and Amy Malm (WI).

1. Exposed Revisions to SSAP No. 7

The Working Group exposed a revised *Statement of Statutory Accounting Principles (SSAP) No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* to capture accounting guidance within the SSAP rather than in the annual statement instructions. The draft SSAP reflects conclusions reached by the IMR Ad Hoc Group from the direction to complete a long-term interest maintenance reserve (IMR) project requested by the Working Group on Dec. 1, 2023. In addition to the revised SSAP, the exposure included an issue paper that detailed the discussions and conclusions reached by the IMR Ad Hoc Group, proposed revisions to other SSAPs, and proposed annual statement instructions and Blanks changes.

Hynes made a motion, seconded by Bruggeman, to expose the proposed revised SSAP No. 7, along with accompanying documents, for a 60-day public comment period ending June 22. The motion passed unanimously.

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

https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2026/08-12-26 summer national meeting/hearing/02 - evote minutes 04-22-2026.docx

Draft: 6/13/26

Statutory Accounting Principles (E) Working Group
Virtual Meeting
May 18, 2026

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met May 18, 2026. The following Working Group members participated:, Kevin Clark, Chair (IA); Dale Bruggeman, Vice Chair (OH); Sheila Travis and Richard Russell (AL); Kim Hudson (CA); William Arfanis and Michael Estabrook (CT); Rylynn Brown (DE); Cindy Andersen (IL); Shantell Taylor and Tom Travis (LA); Steve Mayhew and Kristin Hynes (MI); Ned Cataldo (NH); Bob Kasinow (NY); Diana Sherman (PA); Jamie Walker (TX); Doug Stolte and Jennifer Blizzard (VA); and Amy Malm and Levi Olson (WI).

1. Reviewed Non-Contested Positions

The Working Group reviewed comments received on previously exposed items (Attachment One-A1).

A. Agenda Item 2025-13

Clark directed the Working Group to agenda item *2025-13: Residential Mortgage Loans Held in Statutory Trusts*. Wil Oden (NAIC) stated that at the Spring National Meeting, the Working Group exposed a draft issue paper for public comment that addressed the recently adopted guidance for residential mortgage loans held in statutory trusts. He stated that statutory trust guidance was added at the 2025 Summer National Meeting, with an effective date of Jan. 1, 2027, though early adoption is permitted. Oden stated that no comments were received from interested parties and that NAIC committee support recommended that the Working Group adopt the exposed *Issue Paper No. 172—Qualifying Statutory Trusts*.

B. Agenda Item 2026-03EP

Clark directed the Working Group to agenda item *2026-03EP: 2026 Spring Editorial and Maintenance Update*. Julie Gann (NAIC) stated that there were three revisions reflected in this item. The first was the deletion of the word "funding" in two locations in *Statement of Statutory Accounting Principles (SSAP) No. 15—Debt and Holding Company Obligations* and *SSAP No. 52—Deposit-Type Contracts* to prevent mischaracterizations of funding agreements that are, in fact, debt borrowings from the Federal Home Loan Banks (FHLBs). The second revision replaces the term "CUSIP" with "security identifier." Gann stated that the Working Group received a referral from the Investment Designation Analysis (E) Working Group shortly after the Spring National Meeting (Attachment One-A2). She stated that NAIC committee support had been collaborating with the Investment Designation Analysis (E) Working Group throughout the process, so the editorial changes had already been incorporated. The action to adopt this item would include formal receipt of the referral. Lastly, Gann stated that a reference was added to U.S. generally accepted accounting principles (GAAP) to clarify that specific references to generally accepted accounting principles are appropriate, and NAIC committee support are recommending adoption of these revisions.

Walker made a motion, seconded by Hynes, to adopt the previously exposed clarifications to statutory accounting guidance in agenda items 2025-13 (Attachment One-A3) and 2026-03EP (Attachment One-A4). The motion passed unanimously.

2. Reviewed Comments on Exposed Items

The Working Group reviewed comments received on previously exposed items (Attachment One-A1).

A. Agenda Item 2026-01

Clark directed the Working Group to agenda item *2026-01: Disclosure of FABNs and Similar Structures*. Gann stated that this item originated from a Macroprudential (E) Working Group referral (*see NAIC Proceedings – Spring 2026, Accounting Practices and Procedures (E) Task Force, Attachment One-M*), and at the Spring National Meeting, the Statutory Accounting Principles (E) Working Group exposed revisions to incorporate disclosures consistent with its recommendations for funding agreement-backed notes (FABNs) and other similar structures. She stated that the proposed disclosures were aligned with the referral, with two additional items. First, a requirement was added to capture any collateral pledged by the reporting entity to the special purpose vehicle (SPV) in connection with funding agreement-backed structures. Second, it was proposed to add a glossary to SSAP No. 52 to define the different types of structures.

Gann stated that comments were received from interested parties, primarily focused on paragraph 23.a. and the draft glossary. She stated that this resulted in a streamlined rewrite that preserved the original intent while improving clarity. Gann stated that additional edits included revising a footnote that referenced book value, which did not align with the intended meaning. She advised that all revisions were reviewed by NAIC committee support from the Macroprudential (E) Working Group. Gann stated that NAIC committee support recommend that the Statutory Accounting Principles (E) Working Group adopt the exposed revisions with the proposed modifications and support the related blanks proposal sponsored by the Macroprudential (E) Working Group, and that NAIC committee support will notify them of these changes to ensure corresponding blanks edits are aligned. She stated that the proposed disclosures would be effective for year-end 2026.

Tip Tipton (American Council of Life Insurers—ACLI), representing interested parties, stated that regulators and the industry collaborated on education sessions to learn more about the various types of funding agreements backing these SPV issuances, which is important in identifying specific disclosures. He thanked NAIC committee support for incorporating their comments on this exposure, as it provided clarification on the categories being addressed.

Kasinow made a motion, seconded by Malm, to adopt as final revisions to SSAP No. 52, modified as discussed during the meeting, to incorporate disclosures for FABNs and other similar structures, as well as a glossary to define the different structures (Attachment One-A5). The motion passed unanimously.

B. Agenda Item 2026-02

Clark directed the Working Group to agenda item *2026-02: Valuation of Funds Withheld*. Robin Marcotte (NAIC) stated that this item was exposed at the Spring National Meeting to address inconsistent guidance on valuing the liability for funds withheld in life and health reinsurance agreements. She stated that these assets are often held by the ceding entity as reinsurance collateral or to mitigate credit-risk exposure with all types of reinsurers, and to comply with the *Credit for Reinsurance Model Law* (#785). She advised that the assets withheld are reported on the ceding entity's investment schedules at their statutory book-adjusted carrying value in accordance with the applicable SSAPs, and the guidance related to the corresponding liability was inconsistent.

She stated that the exposure proposed revisions to *SSAP No. 61—Life, Deposit-Type, and Accident and Health Reinsurance* and the annual statement instructions to require reporting the funds-withheld liability to be consistent with the book-adjusted carrying value of the assets withheld. Marcotte stated that the Reinsurance (E)

Task Force was notified of the exposure.

Marcotte stated that interested parties and the ACLI provided comments and noted that interpretations vary depending on the terms of individual reinsurance agreements. Their comments noted that although the funds-withheld liability often equals the carrying value of the invested assets on the ceding entity's balance sheet, there are instances where this is not the case.

Marcotte stated that NAIC committee support recommend exposing modified guidance with direction for NAIC committee support to continue working with the industry to refine the language. She stated that a corresponding blanks proposal is currently exposed with a Dec. 31 effective date, and that, with this re-exposure, the proposal may need to be revised to reflect a later effective date. She stated that no separate comments were submitted to the Blanks (E) Working Group on proposal 2026-10BWG and that, with the re-exposure, the Statutory Accounting Principles (E) Working Group will need to either defer or provide updated direction to the Blanks (E) Working Group for its May 28 meeting. Marcotte provided a summary of the proposed edits from both interested parties and NAIC committee support.

Hans Avery (ACLI), representing interested parties, stated that interested parties agree with the exposure and its overall intent. He stated that the remaining question is simply how best to implement these clarifications so that it is clear to all parties what should be reported and so that everyone arrives at the same outcome.

Clark stated that, over time, questions have arisen about the instructions for determining the basis for reporting funds-withheld assets on the liability side. He stated that the existing instructions were somewhat confusing, so the goal was to clarify the guidance going forward in a simplified way. He stated that there is more nuance to the topic than initially expected, but he does not anticipate that resolving those issues will require significant time or effort. Clark stated that, to his knowledge, there is no urgent need to finalize this for 2026 reporting, and the Working Group can continue working through the remaining points.

Walker made a motion, seconded by Taylor, to expose modified guidance to SSAP No. 61. The exposure includes modifying the effective date and deferring the corresponding blanks proposal currently exposed with a Dec. 31 effective date. The motion passed unanimously.

C. <u>Agenda Item 2025-27</u>

Clark directed the Working Group to agenda item *2025-27: SSAP No. 1/FWH Code.* Jake Stultz (NAIC) stated that this agenda item was last exposed at the Spring National Meeting and concerns comments received regarding the restricted asset note (Note 5L) updates adopted in 2025. As part of those changes, some of the language needed to be incorporated into *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*, and while doing that, the Working Group also discussed the possibility of updating or adding new codes for the restricted asset reporting within the investment schedules. Stultz stated that the prior exposure included the SSAP No. 1 change, a recommendation to the Blanks (E) Working Group to add the additional investment schedule codes, and a question to regulators about how the investment code column is being used, whether it provides value, and whether Note 5L meets the need for restricted asset disclosures.

Stultz stated that interested parties agreed with removing the codes from the investment schedules, consistent with their earlier comments that the codes could be eliminated. He stated that the Maryland Insurance Administration submitted written comments stating that the restricted asset codes in the investment schedules have value because they serve as pointers during examinations. While the disclosure is imperfect, an asset may fall under multiple codes, but only one can be selected; therefore, it still provides a useful starting point.

 

Stultz stated that NAIC committee support recommend adopting the update to SSAP No. 1 to add the categories and align the Note 5L disclosure with SSAP No. 1, so everything is consistent. He stated that the remaining issue is how to handle the investment-code column, and that NAIC committee support recommend deferring action on that piece. He stated that NAIC committee support recommend the adoption of the SSAP No. 1 revisions now and recommends that the Blanks (E) Working Group postpone making changes regarding the investment codes to allow more time to determine the best path forward. He stated that the SSAP No. 1 change would apply in 2026, would not create any issues for 2026 reporting, and would allow everything to be ready for 2027 reporting.

Tipton stated that interested parties support removing the restricted code column from the investment schedules. He stated that they believe both the data in the new Schedule S, Part 8, which reflects assets supporting modified coinsurance (modco) and funds-withheld reinsurance agreements, and the revised Note 5L for restricted assets, provide the necessary information. He stated that interested parties have worked with NAIC committee support on these two revisions and support the information they believe will be valuable to NAIC committee support and regulators.

Clark stated that, given that at least one regulator is using the code disclosure, the Working Group needs additional discussion before moving forward with deleting that reporting column. He stated that he continues to have concerns about both the usefulness and the accuracy of the disclosure. He stated that, if you have a single Committee on Uniform Security Identification Procedures (CUSIP), for example, a $100 investment where $10 is pledged to the FHLB, $10 is pledged under a derivative-collateral arrangement, and $10 is subject to a modco agreement, you can only select one code. That means you are either indicating that 100% of the balance is subject to that one code, which is what many are doing, or you are selecting “other” if multiple restrictions apply to the same CUSIP. He stated that the alternative would be to break out that single CUSIP into multiple lines on Schedule D or any of the investment schedules, which would significantly increase the size of the schedules and could even create issues with reporting software. As such, discussion is needed on how to make the restricted asset code more useful if it is retained. Clark stated that he agrees with the NAIC committee support recommendation that the Working Group adopt the SSAP No. 1 disclosure, which simply aligns with the note disclosure adopted in 2025, and should continue working on the collateral-code reporting within the investment schedules.

Walker made a motion, seconded by Bruggeman, to adopt the revisions to SSAP No. 1 (Attachment One-A6). This adoption action was recommended to occur regardless of the decision to retain the investment asset code category within the investment schedule, so that the disclosure in SSAP No. 1 will match the already adopted reporting components detailed in Note 5. The motion also included retaining the restricted asset code column in the investment schedules and deferring action on the blanks proposal revisions to the collateral codes pending further Working Group discussion. The motion passed unanimously.

D. <u>Agenda Item 2024-15</u>

Clark directed the Working Group to agenda item *2024-15: Asset Liability Management Derivatives.* Gann stated that during the Spring National Meeting, the Working Group exposed proposed new statutory accounting guidance and an issue paper to incorporate new concepts for interest-rate-hedging derivatives used for asset-liability management. She stated that the proposed guidance was initially developed with the ACLI, so the Working Group did not receive many comments during the exposure period regarding revisions. She stated that the primary comment received concerned the transition guidance with a request to make it surplus-neutral.

Gann stated that this is a new standard that creates significant new guidance for derivatives. The initial concept arose when NAIC committee support observed that some companies, upon termination of the derivative arrangement, were taking derivative gains and losses that were economically effective, but not accounting-effective, to the interest maintenance reserve (IMR) (reversing the previously recognized fair value surplus impact) and then amortizing them over time. She stated that under the IMR project, revisions were proposed to explicitly prohibit that treatment under *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* and instead require those derivative structures to qualify under the new guidance and be recognized as a deferred derivative, outside the scope of IMR.

Gann stated that the comments from interested parties resulted in only minor changes to the transition guidance to ensure surplus neutrality. However, NAIC committee support recommend that the Working Group expose this item and the revised transition guidance to give regulators additional time to review the guidance and to consider adoption in alignment with the SSAP No. 7 IMR revisions, which are currently exposed with a 35-day public comment period ending June 22 and will be discussed at the Summer National Meeting.

Tom Karafin (Prudential) stated that Prudential is fully supportive of this latest transition adjustment. Since these are hedges of surplus, they believe that making the adoption surplus-neutral is appropriate and support the proposed (SSAP) in its entirety.

Bruggeman made a motion, seconded by Malm, to expose the draft SSAP and issue paper with revisions to the transition guidance with a 35-day public comment period ending June 22. Discussion of the guidance is planned for the Summer National Meeting in conjunction with the discussion of the edits to SSAP No. 7 and the overall revisions to IMR. Exposure is recommended to allow revisions to coincide with the IMR project and to provide additional time for regulators to assess the proposed derivative concepts and provide confirmation or comments on the transition, reporting, and admission provisions. The motion passed unanimously.

3. Considered Maintenance Agenda—Pending Listing

   A. Agenda Item 2026-04

Clark directed the Working Group to agenda item *2026-04: ASU 2025-10, Accounting for Government Grants Received by Business Entities*. Oden stated that this agenda item addresses *ASU 2025-10, Accounting for Government Grants Received by Business Entities* (Topic 832), which establishes new U.S. GAAP guidance for U.S. government grants received by business entities. He stated that this includes grants related to both assets and income. Oden stated that ASU 2025-10 continues to use the existing U.S. GAAP disclosures for U.S. government grants initially established under *ASU 2021-10, Disclosures by Business Entities about Government Assistance* (Topic 832). He stated that those disclosures originally applied to U.S. government-grant or assistance transactions accounted for by analogy under either the grant-accounting model of *IAS 20, Accounting for Government Grants and Disclosure of Government Assistance,* or the contribution model of *FASB-ASC Topic 958, Not-for-Profit Entities*. He stated that ASU 2025-10 retains those disclosures but incorporates them into the new scope created under this ASU, limiting them to U.S. government grants as defined in Topic 832.

Oden stated that the Working Group previously addressed and rejected ASU 2021-10, determining that neither the grant nor the contribution method of accounting for U.S. government grants or assistance is permitted under statutory accounting principles (SAPs). Instead, U.S. government grants or assistance must be recorded in accordance with the gain-contingency guidance in *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets,* and are subject to the reporting and disclosure requirements of both SSAP No. 5 and *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items*.

Oden stated that the original disclosure requirements during COVID were based on ASU 2021-10 and applied only to U.S. government grants/assistance, which were accounted for by analogy using *IAS 20 Government Grant Revenues*, *ASC 958-605 Not-For-Profit Entities — Revenue Recognition*, or *ASC 450-30 Gain Contingencies*. He stated that under ASU 2025-10, U.S. GAAP has formalized its accounting for U.S. government revenues/assistance by adopting a modified version of the grant-accounting method for U.S. GAAP. For SAP purposes, NAIC committee support recommend rejecting ASU 2025-10 within SSAP No. 24. Oden stated that NAIC committee support also recommend updating SSAP No. 24 to change the terminology from "government assistance" to "government grants," consistent with current U.S. GAAP terminology, even though the guidance itself is not being adopted. Additionally, NAIC committee support recommend adding a sentence to SSAP No. 24 clarifying that U.S. government grants must be recorded in accordance with gain-contingency guidance. He stated that this provides clear direction on where these transactions should be recorded, consistent with prior questions and discussions on this topic.

Malm made a motion, seconded by Bruggeman, to expose revisions to SSAP No. 24 with a 35-day public comment period ending June 22 to reject *ASU 2025-10, Accounting for Government Grants Received by Business Entities*. NAIC committee support also recommend updating SSAP No. 24 to change the term "government assistance" to "government grants," as the term "government assistance" is no longer used within U.S. GAAP, and recommend adding an additional sentence to clarify that U.S. government grants are to be recorded in accordance with gain contingency guidance. The motion passed unanimously.

B. Agenda Item 2026-05

Clark directed the Working Group to agenda item *2026-05: Securities Lending Restricted Asset Reporting*. Gann stated that this agenda item addresses securities-lending restricted asset reporting. She stated that this is intended to be a clarification of what should be reported for securities-lending transactions. Gann stated that, historically, in SSAP No. 1, the annual statement blanks, and various instructions, there has been a reporting line for "collateral held under securities-lending agreements." However, the asset that should be coded as restricted is the asset that was lent under the securities-lending agreement.

She stated that under *SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, if the collateral received cannot be sold or re-pledged, it is off-balance-sheet. If the collateral received can be sold or re-pledged, it is on-balance-sheet, and there is a separate restricted asset reporting line for collateral recognized when there is a liability to return it. Gann stated that when the Working Group expanded the restricted asset disclosure and consolidated everything into one chart, including both collateral held under securities lending and collateral recognized with a liability to return, the Working Group received many questions because securities lending collateral was reported twice. Gann stated that this was not the intent; the first reporting line was meant to capture the asset that was lent, which remains on the books during the securities-lending transaction.

Gann stated that the agenda item includes additional background on the securities-lending reporting process, but the recommended revision to SSAP No. 1 clarifies that the first restricted asset reporting line should refer to assets lent under securities-lending agreements. Gann stated that the agenda item also outlines the corresponding revisions needed to the blanks instructions and the Risk-Based Capital (RBC) instructions. Gann stated that in RBC, both terms appear in different places, and some references mirror the blanks language regarding collateral held, while the RBC formula itself refers to the asset lent, so the revisions are somewhat technical. However, these changes should not materially affect the application and simply clarify terminology to prevent double-reporting of securities lending collateral.

Hynes made a motion, seconded by Sherman, to expose revisions to SSAP No. 1 to clarify that the restricted asset reporting for securities lending transactions shall reflect the asset lent by the reporting entity that is still reflected on the reporting entity's financial statements and not the collateral held, with a 35-day public comment period ending June 22. NAIC committee support also recommend that the Working Group sponsor a blanks proposal to make corresponding revisions to Note 5L and the General Interrogatories. Upon adoption, NAIC committee support recommend that the Working Group send a referral to the Capital Adequacy (E) Task Force to clarify references as appropriate within the RBC instructions. The motion passed unanimously.

C. Agenda Item 2026-06

Clark directed the Working Group to agenda item *2026-06: Fair Value Disclosures*. Gann stated that this agenda item was the result of recent questions regarding fair value disclosures and the financial instrument fair value disclosure reported in Note 20C. She stated that when the fair value standard was issued in 2009, the Working Group essentially adopted the U.S. GAAP disclosures verbatim. At that time, the Working Group was unsure how those disclosures, such as level 3 fair values, would work in practice, as those topics were largely new at the time. Gann stated that the financial instrument disclosure for fair value excluded items held under the equity method. She stated that NAIC committee support received questions about this because items captured in *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* would not be included in the financial instrument fair value disclosure. She stated that this resurfaced when NAIC committee support were asked whether those items should be included in the new public/private security disclosure, since they were excluded from Note 20C even though their fair value is captured in the investment schedules.

Gann stated that NAIC committee support are proposing a revision to eliminate that exclusion for statutory accounting purposes. She stated that with this change, items captured in SSAP No. 48 and SSAP No. 97 will be included in the Note 20C fair value financial instrument disclosure. Gann stated that NAIC committee support also expect additional revisions to Note 20C. Gann stated that currently, it is a variable reporting line, meaning each insurer can define its own financial instrument groupings. She stated that the Invested Assets (E) Task Force has noted the wide variation in categories used. Gann stated that this makes cross-company comparison difficult. She stated that NAIC committee support are not proposing a change for now, but further revisions may be necessary. Gann stated that because Note 20C uses variable reporting lines, blanks revisions are not required, and companies can simply add the needed reporting categories. Therefore, NAIC committee support recommend this change be effective for year-end 2026.

Gann stated that one additional item included in this agenda item, although no revisions are proposed, is regarding Note 20A. She stated that Note 20A applies only to items measured and reported at fair value. She stated that under U.S. GAAP, fair value is a common measurement method, whereas under statutory accounting, it is not. As a result, Note 20A effectively includes predominantly common stock and derivatives. She stated that NAIC committee support receive many questions on that disclosure because only items measured and reported at fair value are required to be captured, and ultimately, that means that the disclosure excludes most of the investments held by insurance entities. She stated that NAIC committee support receive many questions on what is or is not included and questions whether that disclosure is beneficial for regulators.

Gann stated that this agenda item recommends eliminating the exclusion for investments accounted for under the equity method from the financial instrument fair value disclosure (Note 20C) and invites comments on Note 20A and the current provision that requires disclosure of only items measured and reported at fair value.

In response to an inquiry from Clark, Gann stated that Note 20C applies to all financial instruments, regardless of their measurement method. She stated that it is organized by financial instrument category, and that is where equity-method investments are currently excluded. So, by removing the exclusion, those equity-method investments will now be included in the Note 20C disclosure.

Kasinow made a motion, seconded by Andersen, to expose revisions to *SSAP No. 100—Fair Value* to eliminate the disclosure exclusion for "investments accounted for under the equity method" from the fair value financial instrument disclosure. This disclosure revision is proposed to be effective Dec. 31. The motion also requested that the Working Group sponsor a blanks proposal to include a reference to SSAP No. 48 and SSAP No. 97 investments within the disclosure illustration to provide further clarity that those investments should be included. With the exposure of this agenda item, comments are requested on the other disclosures in SSAP No. 100, particularly the disclosures limited to items measured and reported at fair value, and how those disclosures are utilized by regulators, and if further revisions would provide enhanced benefits to regulators. The exposure period includes a 35-day public comment period ending June 22. The motion passed unanimously.

D. Agenda Item 2026-07

Clark directed the Working Group to agenda item *2026-07: Referral on AVR Affiliated Common Stock*. Marcotte stated that this agenda item responds to a referral from the Life Risk-Based Capital (E) Working Group, received at the 2025 Summer National Meeting (*see NAIC Proceedings – Summer 2025, Accounting Practices and Procedures (E) Task Force, Attachment One-S*). The referral forwarded comments on RBC proposal 2025-04 regarding long-term assets. The ACLI raised questions about the asset valuation reserve (AVR) equity reporting lines for subsidiary, controlled, and affiliated (SCA) common stock on the AVR schedule in the Life, Accident & Health/Fraternal Annual Statements, and requested clarification of the AVR blanks and instructions.

Marcotte stated that the main issue is that, based on both the line names and the instructions, it has been difficult to distinguish between affiliated SCA common stock, certain other subsidiaries, and SCA common stock "affiliated other." She stated that, over time, the distinctions between these reporting categories have become unclear. Marcotte stated that the referral included helpful research, and NAIC committee support supplemented it by reviewing historical materials from the NAIC Research Library, including the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual), AVR instructions, annual statement schedules, and the *Accounting Practices and Procedures Manual*. Based on this review, NAIC committee support recommend that the "affiliated certain other" category was originally intended to include U.S. life insurance companies reported using an equity method, similar to concepts with current SSAP No. 97, paragraph 8.b.i. and non-insurance companies reported using concepts similar to SSAP No. 97, paragraph 8.b.ii, which is audited U.S. GAAP with limited statutory adjustments.

Marcotte stated that the original guidance in the P&P Manual and AVR instructions was introduced in 1992. Over time, references to specific P&P Manual sections were removed, and the line was revised to reference the P&P Manual as a whole. She stated that, in 2017, responsibility for reviewing SCA common stock moved from the Securities Valuation Office (SVO) to the NAIC Financial Regulatory Services Division, and the guidance was incorporated into SSAP No. 97 as an appendix, and that this issue was never addressed during that transition. She stated that the other two referenced lines relate to investments with underlying characteristics of common stock and continued to use "affiliated certain other" and "affiliated other."

Marcotte stated that NAIC committee support recommend exposing revisions to the annual statement blank and instructions and notifying the Life Risk-Based Capital (E) Working Group of the exposure. She stated that NAIC committee support do not recommend revisions to the SSAPs. She stated that, after exposure, NAIC committee support recommend sponsoring a future blanks proposal to incorporate the instruction changes to the AVR reporting lines and reviewing other AVR reporting lines to ensure accuracy. Marcotte stated that one area needing improvement is the current combined instruction for lines 68 and 69, which covers multiple lines and should be more detailed. She stated that NAIC committee support have additional research available and are willing to share it with the industry if questions arise during the exposure period.

Walker made a motion, seconded by Sherman, to expose revisions to the Life, Accident & Health/Fraternal Annual Statement Blank and Instructions as described in agenda item 2026-07. In addition, the Life Risk-Based Capital (E)

Working Group should be notified of the exposure. No revisions to SSAPs are recommended. After exposure of this agenda item, NAIC committee support recommend the Working Group sponsor a blanks proposal to incorporate instruction changes to the noted AVR reporting lines and review other AVR reporting lines to ensure the instructions are accurate. The exposure period includes a 35-day public comment period ending June 22. The motion passed unanimously.

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

https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2026/08-12-26 summer national meeting/hearing/03 - interim meeting minutes 05-18-26.docx

**Statutory Accounting Principles (E) Working Group**
**Maintenance Agenda Submission Form**
**Form A**

**Issue: Referral on AVR affiliated common stock**

**Check (applicable entity):**

| | P/C | Life | Health |
|---|---|---|---|
| Modification of Existing SSAP | ☐ | ☒ | ☒ |
| New Issue or SSAP | ☐ | ☐ | ☐ |
| Interpretation | ☐ | ☐ | ☐ |

**Description of Issue:**
This agenda item is to respond to a referral from the Life Risk-Based Capital (E) Working Group which was received at the 2025 Summer National Meeting. The referral forwarded comments received on life risk-based capital proposal 2025-04-L Other Long-Term Assets (LR008). Specifically, the American Council of Life Insurers (ACLI) raised questions on the asset valuation reserve (AVR) equity reporting lines for subsidiary, controlled or affiliated (SCA) common stock on the AVR reporting schedule in the Life, Accident & Health/ Fraternal Annual Statement and requested clarifications to the AVR blanks and instructions.

The following four AVR equity schedule lines were highlighted in the referral for clarification:

| Maximum Reserve Factor | 2025 AVR Schedule Line Number and Name |
|---|---|
| .1580 | 15 - Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries (See SVO Purposes & Procedures Manual) |
| | 68 - Investments with the Underlying Characteristics of Common Stock – Affiliated Certain Other (See SVO Purposes & Procedures Manual) |
| .1945 | 16 - Subsidiary, Controlled or Affiliated Common Stocks – Other. |
| | 69 - Investments with the Underlying Characteristics of Common Stock – Affiliated Other – All Other7 |

AVR was first applicable in 1992, and the original instructions and line names included references to specific SCA valuation categories for the SCA common stock lines for “affiliated – certain other. ” However over time specific references to SCA valuations associated with the “affiliated – certain other” were removed from the AVR schedule and instructions which caused the distinction between the line categories for “affiliated certain other” and “affiliated other” to become unclear.

This agenda item provides a recommendation to clarify the reporting for these categories based on an overview of key research points from using the NAIC library resources, to review historical AVR instructions and schedules and the references to the SCA valuation methods previously within in the *Securities Valuation Office (SVO) Purpose & Procedures Manual* (P&P Manual) and the guidance currently in the *Accounting Practices and Procedures Manual*.

As detailed below in the “Key Points in Historical Research” NAIC staff has identified that the historical intent of what is “line 15 - Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries” is most similar to the current methods of SCA valuation in *SSAP No. 97—Investments in Subsidiary Controlled and Affiliated Entities* described below. Note that because of existing “Line 4 - Subsidiary, Controlled or Affiliated Common

Stocks – Life Insurers with an AVR" are excluded from line 15:

1. U.S. insurance companies using the methodology detailed in SSAP No. 97, paragraph 8.b.i. This is an equity method using audited statutory accounting principles valuation. The historical wording referenced in the in the SVO P&P Manual for this line was book equity of common stock issued by a U.S. insurer.

2. Non-insurance companies (foreign and domestic) using the methodology detailed in SSAP No. 97, paragraph 8.bii. This is an equity method using audited generally accepted accounting principles (GAAP) with limited statutory adjustments. The historical wording for this line initially noted non-insurance companies and the value of assets if the held directly by an insurer. The historical intent of this wording is to arrive at either a statutory accounting valuation or a SAP like valuation for the assets.

**Key Points in Historical Research**

1. **1992 - the AVR schedule begins and the equity section has 3 key SCA common stock lines:**
   - **Line 3 - Subsidiary, Controlled or Affiliated Common Stock – Life Insurer with an AVR**
     - Affiliated life with AVR maximum reserve factor of 0.00
     - <u>This line is relevant as it scopes out life insurance SCAs out of other SCA common stock lines. In 2025, line 4 has the same name and the scope of this line is unchanged.</u>
   - **Line 4 - Subsidiary, Controlled or Affiliated Common Stock – Certain Non-Life or Investment Subsidiaries** Part of this line was later scoped out Investment SCAs and the remainder became line 15 SCA Common Stock- Certain Other (lower factor of .20) P&P Manual references were to (see excerpt in authoritative literature):
     - Section 4 (B) (a)(i) (value of assets if held directly by the insurer) is akin to current day SSAP No. 97, 8.b.ii. and
     - Section 4(B) (a) (iii) is book equity value that cannot be applied to non-insurers and is akin to present day SSAP No. 97 8.b.i. It applies to non AVR holding insurers as SCA Life insurers with AVR are on line 3.
   - **Line 5 - Subsidiary, Controlled or Affiliated Common Stock –Other** (higher factor of .25) became line 16 with the same name and the scope which represents common stock in SCAs that are not in other lines. This line has been maintained through 2025.

2. **1994 - Investment subsidiaries are divided out of line 4 into separate lines 4-14 (AVR look-through charges by asset category) and other line numbers shift down.**
   - The remaining part of line 4 becomes **Line 15 Affiliated - Other Section 5(B) (a)(i) or (iii)**. With the move in the P&P Manual from Part Four to Part Five, the SVO P&P Manual reference was updated from Section 4 to 5 but there were no SVO valuation changes.
     - Section 5 (B) (a)(i) (value of assets if held directly by the insurer) is akin to current day SSAP No. 97, 8.b.ii. and
     - Section 5(B) (a) (iii) is book equity value that cannot be applied to non-insurers is akin to present day SSAP No. 97 8.b.i. Therefore it applies to non AVR holding insurers.
   - Prior AVR line 5 is now **Line 16 - Affiliated –Other (c)** AVR schedule footnote (c) Represents "Affiliated Common Stock-Other" Investments not allocated to another line within this section. This footnote was moved to the instructions in 1995.

 

3. **1996 - AVR schedule line names change – SVO Manual references are generic.**
   - Line 15 -AVR Schedule name changed to "**Affiliate - Certain Other (See SVO Purposes & Procedures Manual)"** **<u>This is when the specific reference to the SVO section was removed from the line name.</u>**
   - Line 15 - **ASI only include a generic reference to SVO P&P Manual.**
   - Line 16 - AVR Schedule name changed to **" Affiliated – All Other"**

4. **1997 - AVR schedule contribution changes and SVO Manual moves guidance to Part Eight**
   - AVR schedule updates to add columns for the "Basic Contribution and Reserve Objective," but the Factor for line 15 remains 0.2 for Affiliate - Certain Other
   - SVO moves the guidance from Part Five to Part Eight.
     - Section 3 (a) – admitted asset equivalent for non-insurers (like SSAP No. 97, 8.b.ii.)
     - Section 3 (c)- Book value of Insurer's Common Stock (like SSAP No. 97 8.b.i.)

5. **1998 - Line 15 ASI updated to include specific SVO references again**
   - The ASI for line 15 referenced specific parts of the SVO P&P Manual, Part Eight, section 3 (a) (Admitted asset equivalent) [for non-insurers] and 3 (c) (Book Value of Insurer's Common Stock). (See authoritative literature section).

6. **1999 -** SVO P&P Manual no longer requires insurer book values in Part Eight, Section 3 (c) to be filed with the SVO beginning Jan. 1, 1999.

7. **2001 - SAP codification- SVO P&P Manual adds reference to *SSAP No. 46*—*Investments in Subsidiary, Controlled, and Affiliated Entities*, and ASI have a generic SVO ref.**
   - The 2001 ASI line 15 instructions replaces the specific reference to sections of the SVO P&P Manual and adds a generic reference. **<u>This is when the specific reference to the P&P Manual section was removed from the ASI and replaced with a generic P&P Manual reference.</u>** This generic reference to the P&P Manual continues through 2024.
   - SVO P&P Manual Part Eight was updated to reflect codification and begins referencing SSAP No. 46
   - The special insert (See p.45) to the 2000 publication includes tracked changes for the Jan. 1, 2001, for codification and the fling instructions begins referencing SSAP No. 46. Other sections of Part Eight, Section 3 note updates to the prior line fifteen references
     - Moved Part Eight, Section 3 (c) to Part Eight, Section 3 (b) (ii) A (This is a domestic insurer).
     - Information that matches the SSAP No. 46 valuation methods was added.
       - Part Eight Section 3(b)(i) Market with a discount rate, which is similar to current SSAP No. 97, paragraph 8.a.
       - Part Eight Section 3(b)(ii) equity Methods **<u>(A) and (B) are what was previously referenced for line 15</u>**
         - (A) investment in U.S. insurance SCA entities using SAP equity adjusted for goodwill - similar to SSAP No. 97 paragraph 8.b.i
         - (B) Investments in noninsurance SCA entities – no significant ongoing operations use an adjusted SAP basis that is an early version of what became SSAP No. 97 paragraph 8.b.ii.
         - (C) Investments in noninsurance SCA entities with significant ongoing operations – Use audited GAAP statements this is similar to SSAP No. 97 paragraph 8.b.iii.

 

8. **2003 - Changes for Line numbers and AVR Factors**
    - New row line 3 for FHLB was added to AVR common stock table, <u>so the key lines are now 16 and 17.</u>
    - Instructions are unchanged except for the line numbers.
      AVR factors changes to .13 line 16/ line 59 Affiliated Certain Other and .16 for line 17 / line 60 Affiliated-Other this is due to implementation of Tax Effect Calculation page in RBC (one year delay in AVR changes, the RBC changes were effective 2002).

9. **2005 – SVO P&P Manual Updated to conform with SSAP No. 88**
    - SVO Purposes and Procedures Manual Part Eight was amended to bring it into conformity with new *SSAP No. 88—Subsidiary, Controlled and Affiliated Investments* (effective 2005). This added more sections to be consistent with SSAP No. 88.
        - Market value is essentially the same as current SSAP No. 97, paragraph 8a.
        - (A) US Insurance SCA is essentially the same as current SSAP No. 97, paragraph 8bi
        - (B) Investments in NON insurance SCAs includes the activity and revenue test like current SSAP No. 97, paragraph 8.b.ii.
        - (C) Investments in non-insurance SCA like current SSAP No. 97, paragraph 8.b.iii
        - (D) Investments in Foreign Insurance SCA use audited US GAAP with SAP adjustments for US business like current SSAP No. 97, paragraph 8.b.iv.
        - (E) investments in Foreign Non insurance SCA are allowed to used market, or activity or revenue test
    - No blanks or instruction changes for line 16 and 17

10. **2006 – Additional clarifications to SVP P&P Manual to match SSAP No. 88 better**.
    - 2006 SVO P&P Manual Part Eight guidance added more paragraphs references from SSAP No. 88 about holding companies and elements of the equity method like pick up and not double counting preferred stock etc.

11. **2008 - SVO P&P Manual added references to SSAP No. 97, which replaced SSAP No. 88 and added Tokyo Stock Exchange**
    - SVO P&P Manual Part Eight references updated from SSAP No. 88 to *SSAP No. 97—Investments in Subsidiary Controlled and Affiliated Entities* explicitly reference the activity test in SSAP No. 97, paragraph 8.b.ii.
    - Added Tokyo Stock exchange for the market method (SSAP No. 97, paragraph 8.a.)
    - No blanks changes for lines 16 and 17
    - No instruction changes for lines 16 and 17

12. **2014 – AVR Blank removed line 14 mortgages in the affiliated investment subsidiary section and the key lines are back to lines 15 - Affiliated Certain Other and 16 - Affiliated Othe**r. No other changes to the instructions or reporting line instructions.

13. **2017 – SCA valuation moved from SVO P&P Manual to SSAP No. 97 and FRS**
    - The instructions for valuation of SCA investments were deleted from SVO P&P Manual. The deletion of the valuation instructions for SCA investments was accompanied by a decision of the Valuation of Securities (E) Task Force to transfer oversight of this activity to the Statutory Accounting Principles (E) Working Group and the Financial Regulatory Services Division.

- **<u>The AVR instructions were not updated because of this transfer of valuation function.</u>** The AVR Instruction and Blanks continue to reference the SVO P&P Manual
- SSAP No. 97 had an Exhibit A – SCA Reporting Process added for the filing instructions.

**14. 2019 – AVR factors updated for tax changes**

- AVR Factors refreshed to reflect Tax Changes (TCJA) (one year delay in AVR changes, RBC changes in 2018) AVR Equity line 15/line 68 (.1580 ) & line 16/ line 69 (.1945)
- Instructions for lines 15 still reference SVO no changes to lines 15 and 16 instructions

**15. 2025 – Current Status**

- Blank is the same still has SVO reference for line 15 Affiliated -Certain Other (See SVO Purposes and Procedures Manual)
- AVR Factors for SCA related lines (AVR Equity line 15 / line 68 (.1580 ) and for line 16/ line 69 (.1945) remain the same as 2019's
- The prior year (2024) instructions reference the SVO P&P Manual for line 15 has been updated to reference SSAP No. 97, this must have been an editorial change as it is not tracked.
- The prior year (2024) instructions reference to SVO P&P Manual for line 68 has been updated to reference SSAP No. 48, this must have been an editorial change as it is not tracked.

**Existing Authoritative Literature:**

1. The NAIC library website contains historical publications.
   - Life, Accident and Health/ Fraternal Annual Statement Instructions
   - Life, Accident and Health/ Fraternal Blanks
   - SVO P&P Manual

2. 2025 AVR line names and Life, Accident & Health/ Fraternal Annual Statement instructions (ASI) Lines 15 and 68 include generic references to SSAP No. 97:

| AVR Equity Line | Instructions (Excerpt and emphasis added) |
|---|---|
| Line 4 – Subsidiary, Controlled or Affiliated Common Stocks – Life Insurer with an AVR | Report the book/adjusted carrying value of all common stocks owned in a controlled or affiliated company, or a subsidiary that is a life or fraternal insurance company that holds an AVR, in Columns 1 and 4. **These companies are required to carry their own asset valuation reserve or an equivalent, and therefore the common stocks are not required to be included in the asset valuation reserve of an affiliated company.** |
| Line 15 - Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries | Report the book/adjusted carrying value of all subsidiary, controlled or affiliated company common stocks owned that have been valued **according to the SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities** in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively. |

 

| | |
|---|---|
| Line 16 - Subsidiary, Controlled or Affiliated Common Stocks – Other | Report that portion of the book/adjusted carrying value of all common stocks of all subsidiary, controlled or affiliated companies, **that have not been included on Lines 4 through 15,** in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively |
| Line 68 – Investments with the Underlying Characteristics of Common Stock – Affiliated Certain Other (See SVO Purposes & Procedures Manual) | …Line 68 should show all Schedule BA assets owned where the characteristics of the underlying investments are similar to subsidiary, controlled or affiliated company common stocks owned and these assets should be valued according to the **SSAP No. 48—Joint Ventures, Partnerships or Limited Liability Companies**. Categorize these assets consistent with the directions for Pages 32 and 33, Lines 1 through 4, 15 and 16… |
| Line 69 - Investments with the Underlying Characteristics of Common Stock – Affiliated Other – All Other | …. Categorize these assets consistent with the directions for Pages 32 and 33, Lines 1 through 4, 15 and 16… |

3. **Excerpt from 1992 SVO P&P Manual referenced on valuations of SCA common stock is below, the full 1992 Manual is at this link: 1992 SVO**

| SVO P&P Manual Part 4(B)(a)(i) | SVO P&P Manual Part 4(B)(a)(iii) |
|---|---|
| *…**the value of only such of the assets** of such company as would constitute lawful investments for the insurer if acquired or held directly by the insurer.* | ***book value**, defined as in Section 4 (A)( c)*, provided, however, that the common stock of a non-insurance company may not be valued on the basis of this subsection (iii);*<br><br>** 4(A)(c) states: Association Values for common stocks which are not publicly traded which are issued by insurance companies will be equal to book value, which shall be calculated as follows: by dividing the amount of its capital and surplus as shown in its last annual statement or subsequent report of examination (excluding from surplus, reserves required by statute and any portion of surplus properly allocable to policyholders, rather than stockholders) less the value (par or redemption value, whichever is the greater) of all of its preferred stock, if any, outstanding, by the number of shares of its common stock issued and outstanding.* |

4. **1998 SVO Manual move guidance to Part Eight SVO instructions (bolding added)**

Section 3. Valuation Methods In fulfilling the requirements of Sections 1 and 2 above, insurance companies may use any of the following valuation methods:

(a) **Admitted Asset Equivalent** Pursuant to this method, which may only be used for non-insurance SCA companies, the value of the common stock is limited to the value of those assets of the SCA company that would constitute lawful investments for the insurance company, if acquired or held directly by the insurance company. **This is the sole valuation method that permits submission and use of an unaudited financial statement.**

(c) **Book Value of Insurer's Common Stock** Pursuant to this method, the value of the **common stock of an insurance company** is derived by reference to the insurance company's book value, calculated by dividing the company's NAIC Financial Statement Blank capital and surplus less the value of its preferred stock and surplus notes, by the number of shares of its issued and outstanding common stock. The insurance company is required to submit the NAIC Financial Statement Blank to the SVO. A noninsurance company may not use this valuation method.

5. **2001- Life Fraternal Annual Statement instructions for AVR equity line 15 – has a generic SVO reference.**

Line 15 – Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries Report the book/adjusted carrying value of all subsidiary, controlled or affiliated company common stocks owned that have been valued according to the **Purposes and Procedures Manual of the Securities Valuation Office of the NAIC** in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10 respectively.

6. **SVO P&P Manual Instructions 2008 Part Eight, Section 3 Valuation methods**
**Note (a) (i) describes the market valuation methods and is omitted. Underline was in the P&P Manual.**

(ii) Equity Methods If a SCA investment does not meet the requirements for the market valuation approach in <u>Section 3 (a) (i) of this Part</u>, or if the requirements are met, but a reporting entity elects not to use the market valuation approach, the reporting entity's proportionate share of its investments in SCAs shall be recorded as follows:

(A) Investments in U.S. Insurance SCA Entities
Investments in U.S. insurance SCA entities shall be recorded based on the underlying audited statutory equity (where equity is defined as net of preferred stock and surplus notes of the investee) of the respective entity's financial statements, adjusted for any unamortized goodwill as provided for <u>in SSAP No. 68</u>.

(B) Investments in Non-Insurance SCA Entities Statutory Basis
Investments in non-insurance SCA entities engaged in the activities described in <u>SSAP No. 97, paragraph 8b.ii.</u> shall be adjusted to an audited statutory basis of accounting, if 20% or more of the SCA's revenue is generated from the reporting entities and its affiliates. For purposes of this section, revenue means GAAP revenue reported in the audited GAAP financial statements, excluding realized and unrealized capital gains and losses. Statutory basis of accounting shall be based on the underlying audited U.S. GAAP equity of the respective entity with the adjustments required by <u>paragraph 9 of SSAP No. 97</u>. If the reporting entity also holds an investment in preferred stock and or surplus notes refer to <u>paragraphs 23 through 27 of SSAP No. 97</u>. For guidance on investments in downstream holding companies refer <u>to paragraphs 17-19 of SSAP No. 97</u>.

 

(C) Investments in Non-Insurance SCA Entities GAAP Basis
Investments in non-insurance SCA entities that do not qualify under the preceding subparagraph (B) shall be recorded based on the audited GAAP equity of the investee.

(D) Investments in Foreign Insurance SCA Entities
Investments in foreign insurance SCA entities shall be recorded based on the underlying audited U.S. GAAP equity of the respective entity adjusted to a statutory basis of accounting, for reserves of the foreign insurance SCA with respect to the business it assumes directly and indirectly from an US insurer using the statutory accounting principles promulgated in the NAIC Accounting Practices and Procedures Manual and for any audit adjustments resulting from the annual GAAP audit. Statutory basis of accounting shall be based on the underlying U.S. GAAP equity of the respective entity with the adjustments required by paragraph 9 of SSAP No. 97. GAAP is defined as those pronouncements included in the United States GAAP Hierarchy as described in *AICPA Statement of Auditing Standard No. 69*, The Meaning of Present Fairly in Conformity With GAAP. Foreign SCA entities are defined as those entities incorporated or otherwise legally formed under the laws of a foreign country. Foreign insurance SCA entities are defined as alien insurers formed according to the legal requirements of a foreign country.

(E) Investments in Foreign Non-Insurance SCA Entities
Investments in foreign non-insurance SCA entities shall follow the guidance in this Part Eight, Section 3(a)(ii)(B) or (C) based on the revenue and activity criteria noted above, which requires that accounting be based on the underlying adjusted audited U.S. GAAP equity of the respective entity. Statutory basis of accounting shall be based on the underlying audited U.S. GAAP equity of the respective entity with the adjustments required by paragraph 9 of SSAP No. 97.

(F) Investments in the Preferred Stock of an SCA
Investments in the preferred stock of an SCA shall be accounted for in accordance with the provisions of SSAP No. 32. If in addition to preferred stock the reporting entity also holds an investment in common stock and/or surplus notes refer to paragraphs 23 through 27 of SSAP No. 97 and paragraph 10 of SSAP No. 41.

**7.** ***SSAP No. 48—Joint Ventures, Partnerships or Limited Liability Companies*** **(Bolding added):**

7. Investments in these ventures, except for joint ventures, partnerships and limited liability companies with a minor ownership interest[1], shall be reported using an equity method as defined in *SSAP* ***No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*****, paragraphs 8.b.i. through 8.b.iv.** (The equity method calculation may result with a negative valuation of the investment; therefore, the SSAP No. 97 equity method calculation shall occur regardless of whether the investment is supported by an audit and the reporting entity will nonadmit the investment.) A reporting entity whose shares of losses in a SSAP No. 48 entity exceeds its investment in the SSAP No. 48 entity shall disclose the information required by SSAP No. 97, paragraph 35.a.

Footnote[1] With the identification of whether the reporting entity has a minor ownership interest, reporting entities must also identify whether the investment is a related-party transaction. Pursuant to the concepts reflected in *SSAP No. 25—Affiliates and Other Related Parties*, consideration shall be given to the substance of the transaction and the parties whose action or performance materially impacts the insurance reporting entity holding the security. For example, if the underlying assets within a SSAP No. 48 entity represent assets issued by an affiliate, then the SSAP No. 48 entity shall be considered a related party (affiliate) investment, with the transaction subject to the accounting and reporting provisions of SSAP No. 25. As identified in SSAP No. 25, it is erroneous to conclude that the inclusion of a non-related intermediary, or the presence of non-related assets in a structure predominantly comprised of related party investments, eliminates the requirement to identify and assess the investment transaction as a related party arrangement.

## 8. SSAP No. 97

**Applying the Market Valuation, Audited Statutory Equity and Audited GAAP Equity Methods**

8. The admitted investments in SCA entities shall be valued using either the market valuation approach (as described in paragraph 8.a.), or one of the equity methods (as described in paragraph 8.b.) adjusted as appropriate in accordance with the guidance in *SSAP No. 25—Affiliates and Other Related Parties*, paragraph 18.d.

a. **Market valuation (Omitted for brevity)**

b. If a SCA investment does not meet the requirements for the market valuation approach in paragraph 8.a. or, if the requirements are met but a reporting entity elects not to use that approach, the reporting entity's proportionate share of its investments in SCAs shall be recorded as follows:

i. Investments in U.S. insurance SCA entities shall be recorded based on either 1) the underlying audited statutory equity of the respective entity's financial statements, adjusted for any unamortized goodwill as provided for in *SSAP No. 68—Business Combinations and Goodwill*[2] or 2) the underlying audited statutory equity of the respective entity's financial statements, adjusted for any unamortized goodwill, modified to remove the impact of any permitted or prescribed accounting practices that depart from the NAIC *Accounting Practices and Procedures Manual*. Reporting entities shall record investments in U.S. insurance SCA entities on at least a quarterly basis, and shall base the investment value on the most recent quarterly information available from the SCA. Entities may recognize their investment in U.S. insurance SCA entities based on the unaudited statutory equity in the SCAs year-end annual statement if the annual SCA audited financial statements are not complete as of the filing deadline. The recorded statutory equity shall be adjusted for audit adjustments, if any, as soon as the annual audited financial statements have been completed. Annual consolidated or combined audits are allowed if completed in accordance with the Model Regulation Requiring Annual Audited Financial Reports as adopted by the SCA's domiciliary state;

ii. Investments in both U.S. and foreign noninsurance SCA entities that are engaged in the following transactions or activities:

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[2] If the insurance SCA employs accounting practices that depart from the NAIC accounting practices and procedures, and the reporting insurance entity has not adjusted the valuation of the insurance SCA to be consistent with the NAIC accounting practices and procedures, (i.e., retains the effect of the permitted or prescribed practice in its valuation), disclosure about those accounting practices that affect the insurance SCA's net income and surplus shall be made pursuant to paragraph 37. If the reporting entity has adjusted the investment in the insurance SCA with the resulting valuation being consistent with the accounting principles of the AP&P Manual, the disclosures in paragraph 37 are not required.

(a) Collection of balances as described in *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers*

(b) Sale/lease or rental of EDP Equipment and Software as described in *SSAP No. 16—Electronic Data Processing Equipment and Software*

(c) Sale/lease or rental of furniture, fixtures, equipment or leasehold improvements as described in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*

(d) Loans to employees, agents, brokers, representatives of the reporting entity or SCA as described in *SSAP No. 20—Nonadmitted Assets*

(e) Sale/lease or rental of automobiles, airplanes and other vehicles as described in *SSAP No. 20—Nonadmitted Assets*

(f) Providing insurance services on behalf of the reporting entity including but not limited to accounting, actuarial, auditing, data processing, underwriting, collection of premiums, payment of claims and benefits, policyowner services

(g) Acting as an insurance or administrative agent or an agent for a government instrumentality performing an insurance function (e.g. processing of state workers compensations plans, managing assigned risk plans, Medicaid processing etc.)

(h) Purchase or securitization of acquisition costs

and if 20% or more of the SCA's revenue is generated from the reporting entity and its affiliates, then the underlying equity of the respective entity's audited U.S. Generally Accepted Accounting Principles (GAAP) financial statements shall be adjusted to a limited statutory basis of accounting in accordance with paragraph 9. For purposes of this section, revenue means GAAP revenue reported in the audited U.S. GAAP financial statements excluding realized and unrealized capital gains/losses. Foreign SCA entities are defined as those entities incorporated or otherwise legally formed under the laws of a foreign country. Paragraphs 22-27 provide guidance for investments in holding companies;

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** None

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:**
The Working Group received this referral from the Life Risk-based Capital (E) Working Group at the 2025 Summer National Meeting.

**Convergence with International Financial Reporting Standards (IFRS):** None

**Staff Review Completed by:** Robin Marcotte – NAIC Staff

**Staff Recommendation: NAIC staff recommend that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to the Life, Accident & Health/ Fraternal Annual Statement blank and instructions as described below. In addition, the Life Risk-based Capital (E) Working Group**

 

**should be notified of the exposure. No revisions to statements of statutory accounting principles are recommended. After exposure of this agenda item, NAIC staff recommend that the Working Group sponsor a blanks proposal to incorporate instruction changes to the noted AVR reporting lines, as well as to review other AVR reporting lines to ensure the instructions are accurate.**

**The proposed revisions detailed below include SCAs with statutory accounting impacted valuations (excluding life SCAs that have an AVR) in line 15, receiving a lower RBC charge as the "SCA – Certain Other" category, and all other SCAs captured in line 16.**

1. Line 15 - Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries be updated to include:

   a. Remove the reference to the SVO Purposes & Procedures Manual in the line name in the annual statement.

   b. Add references to SSAP No. 97, paragraph 8.b.i (audited U.S. Insurers SAP equity) and paragraph 8.b.ii (audited GAAP for a non-insurance entity with limited SAP adjustments) to the instructions. This is consistent with specific historical SVO references that the line includes valuations with statutory adjustments. Note that historical information did not include foreign insurance entities.

   c. Note that because of existing AVR Common Stock Line 4 - Affiliated Life insurance with AVR are excluded from line 15 and NAIC staff recommend that this be stated.

2. Line 68 - Investments with the Underlying Characteristics of Common Stock – Affiliated Certain Other (See SVO Purposes & Procedures Manual)

   a. Remove the reference to the SVO Purposes & Procedures Manual in the line name in the annual statement. Add SAP equity to line 15 name.

   b. Include in line 68 investments with more than a minor ownership interest as described in SSAP No. 48 which are valued in accordance with SSAP No. 97, paragraph 8.b.i.; or paragraph 8.b.ii. and explicitly note that this line does not include life entities with AVR which are reported in line 67.

   c. Note that the instructions for lines 65-68 are quite brief, so NAIC staff would recommend further instructions to these lines. With the sponsored blanks proposal for this item, NAIC staff will work with the Blanks team to propose clarifying edits to these lines, as well as the corresponding common stock lines.

   d. The currently exposed blanks proposal number 2025-27BWG affects the AVR schedule and instructions to add a section on collateralized loan obligations (CLO), collateralized bond obligations (CBO) and collateralized debt obligations (CDO). This will require section and line renumbering of the AVR schedule and lines. For ease of review the following is a cross reference of current line numbers and the proposed line numbers in 2025-27BWG.

| Current line number | Line number in 2025-27BWG |
|---|---|
| Line 4 | Section A, Line 4 |
| Line 15 | Section A, Line 15 |
| Line 16 | Section A, Line 16 |
| Line 65 | Section F, Line 1 |

 

| | |
|---|---|
| Line 66 | Section F, Line 2 |
| Line 67 | Section F, Line 3 |
| Line 68 | Section F, Line 4 |
| Line 69 | Section F, Line 5 |

3. Line 69 - Investments with the Underlying Characteristics of Common Stock – Affiliated Other – All Other revisions have been proposed to add instruction for line 69 that parallels the guidance for line 16 - Subsidiary, Controlled or Affiliated Common Stocks – Other.

**Proposed revisions for exposure consideration**
The line numbers that will match the line numbers if proposal 2025-27BWG is adopted are shown in item 2 d above for ease of review to allow for coordination with other ongoing projects.

*Life, Accident & Health/ Fraternal Annual Statement*
Asset Valuation Reserve Equity And Other Invested Asset Component – Basic Contribution, Reserve Objective And Maximum Reserve Calculations

| Current line # | Current line name |
|---|---|
| Line 15 | Affiliated certain other SAP equity ~~(See SVO Purposes & Procedures Manual)~~ |
| Line 68 | Affiliated certain other ~~(See SVO Purposes & Procedures Manual)~~ |

**Life, Accident & Health/ Fraternal Annual Statement Instructions**
**Asset Valuation Reserve Equity And Other Invested Asset Component – Basic Contribution, Reserve Objective And Maximum Reserve Calculations**

Line 15 – Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries

Report the book/adjusted carrying value of all subsidiary, controlled or affiliated company common stocks owned that have been valued according to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities in paragraph 8.b.i and paragraph 8.b.ii in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively. This line does not include common stock of subsidiary, controlled, or affiliated entities holding an AVR. Such entities are disclosed in line 4 - Subsidiary, Controlled or Affiliated Common Stocks – Life Insurer with an AVR.

Line 16 – Subsidiary, Controlled or Affiliated Common Stocks – Other

Report that portion of the book/adjusted carrying value of all common stocks of all subsidiary, controlled or affiliated companies, that have not been included on Lines 4 through 15, in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

Lines 65 through 69 – Other Invested Assets with Underlying Characteristics of Common Stocks Report the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investments are similar to common stock (Lines 1999999 and 2099999) in Columns 1 and 4.

Categorize these assets consistent with the directions for Pages 32 and 33, the corresponding the common stock line have the underlying characteristics of Lines 1 through 4, 15 and 16.

Line 1- Unaffiliated public corresponds to line 65
Line 2 - Unaffiliated private corresponds to line 66
Line 4 – Affiliated Life with AVR corresponds to line 67
Line 15 Affiliated-certain other SAP Equity corresponds to line 68
Line 16 Affiliated all other corresponds to line 69

For Line 65, the reserve factor must be calculated on an individual company basis. It is equal to 15.8% times the beta factor as discussed in the Pages 32 and 33, Line 1 instructions, and must be at least 12.15% but not more than 24.31%. Multiply the amount in Column 4 by the calculated reserve factors in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

For Lines 66 through 69, multiply the amounts in Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

Line 67 should show Schedule BA assets with the underlying characteristics of common stocks for an affiliated life insurance entity carrying AVR.

Line 68 should show all Schedule BA assets owned where the characteristics of the underlying investments are similar to subsidiary, controlled or affiliated company common stocks owned and these assets which hold more than a minor ownership interest per ~~should be valued according to the~~ *SSAP No. 48—Joint Ventures, Partnerships or Limited Liability Companies* which are valued according to the requirements in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* in paragraph 8.b.i and paragraph 8.b.ii. This line does not include assets with the underlying characteristics of common stocks of a life entity holding an AVR as such entities are disclosed in line 67.

Line 69 should show all Schedule BA assets owned where the characteristics of the underlying investments are similar to affiliated common stocks and these are the assets that are not included in lines 67 or 68.

~~Categorize these assets consistent with the directions for Pages 32 and 33, Lines 1 through 4, 15 and 16. For Line 65, the reserve factor must be calculated on an individual company basis. It is equal to 15.8% times the beta factor as discussed in the Pages 32 and 33, Line 1 instructions, and must be at least 12.15% but not more than 24.31%. Multiply the amount in Column 4 by the calculated reserve factors in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively. For Lines 66 through 69, multiply the amounts in Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.~~

**Status:**
On May 18, 2026, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as a SAP clarification, and exposed the above revisions to the Life, Accident & Health/Fraternal Annual Statement blank and instructions as described and illustrated above. In addition, the Life Risk-based Capital (E) Working Group will be notified of the exposure. No revisions to statements of statutory accounting principles are exposed. After exposure of this agenda item, NAIC staff recommend that the Working Group sponsor a blanks proposal to incorporate instruction changes to the noted AVR reporting lines, as well as to review other AVR reporting lines (particularly lines 65-69) to ensure the instructions are clear.



 

**Statutory Accounting Principles (E) Working Group**
**Maintenance Agenda Submission Form**
**Form A**

**Issue: Fair Value Disclosures**

**Check (applicable entity):**

| | P/C | Life | Health |
|---|---|---|---|
| Modification of Existing SSAP | ☒ | ☒ | ☒ |
| New Issue or SSAP | ☐ | ☐ | ☐ |
| Interpretation | ☐ | ☐ | ☐ |

**Description of Issue:** This agenda item has been prepared 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.

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

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

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

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

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

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

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

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

**Existing Authoritative Literature:**
*The entire disclosure section from SSAP No. 100 has been included below. As noted, the focus of this agenda item is the elimination of the exclusion for "investments accounted for under the equity method" from the aggregate disclosure on financial instruments captured in paragraph 57f. This is shaded for ease of reference.*

*The disclosures are organized as follows:*
*Paragraph 49 – Objective*
*Paragraph 50 – Investments Measured and Reported at Fair Value*
*Paragraph 53 – Requirement to Disclosure in Investment Schedules*
*Paragraph 54 – Requirements on the Use of Net Asset Value (NAV)*
*Paragraph 55 – Disclosure on Fair Value of Financial Instruments*
*Paragraph 58 – Not Practicable to Estimate Fair Value*

***SSAP No. 100—Fair Value***

**Disclosures**

49. The objective of the disclosure requirements is to provide information about assets and liabilities measured at fair value in the financial statements as well as fair value amounts disclosed in the notes to financial statements or reporting schedules. To meet these objectives, the reporting entity shall disclose the information in paragraphs 50 through 59.

50. For each class of assets and liabilities measured and reported[1] at fair value or NAV in the statement of financial position after initial recognition. The reporting entity shall determine appropriate classes of assets and liabilities in accordance with the annual statement instructions.

[1] The term "reported" is intended to reflect the measurement basis for which the asset or liability is classified within its underlying SSAP. For example, a bond with an NAIC designation of 2 is considered an amortized cost measurement and is not included within this disclosure even if the amortized cost and fair value measurement are the same. An example of when such a situation may occur includes a bond that is written down as other-then-temporarily impaired as of the date of financial position. The amortized cost of the bond after the recognition

a. The fair value/NAV measurements at the reporting date.

b. The level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3). Investments reported at NAV shall not be captured within the fair value hierarchy, but shall be separately identified.

c. For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in the valuation technique (for example, changing from a market approach to an income approach or the use of an additional valuation technique), the reporting entity shall disclose that change and the reason(s) for making it.

d. For fair value measurements categorized within Level 3 of the fair value hierarchy a reconciliation from the opening balances to the closing balances disclosing separately changes during the period attributable to the following:

  i. Total gains or losses for the period recognized in income or surplus.

  ii. Purchases, sales, issues, and settlements (each type disclosed separately).

  iii. The amounts of any transfers into or out of Level 3 and the reasons for those transfers. Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.

e. A reporting entity shall consistently follow its policy for determining when transfers between levels are recognized. The policy about the timing of recognizing transfers shall be the same for transfers into Level 3 as that for transfers out of Level 3. Examples of policies for when to recognize the transfers are as follows:

  i. The actual date of the event or change in circumstances that caused the transfer.

  ii. The beginning of the reporting period.

  iii. The end of the reporting period.

51. For derivative assets and liabilities, the reporting entity shall present both of the following:

  a. The disclosures required by paragraphs 50.a. and 50.b. on a gross basis.

  b. The reconciliation disclosures required by paragraph 50.c., 50.d. and 50.e. on either a gross or net basis.

52. The quantitative disclosures required in paragraphs 50-51 of this standard shall be presented using a tabular format.

53. The reporting entity shall disclose the fair value hierarchy and the method used to obtain the fair value measurement, or the use of NAV, for all items in which fair value is disclosed within the annual statement

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of the other-than-temporary impairment may agree to fair value, but under SSAP No. 26 this security is considered to still be reported at amortized cost.

investment schedules. This disclosure is satisfied by the completion of the investment schedules in the Annual statement and is not required quarterly.

54. For investments measured using the NAV practical expedient pursuant to paragraph 41, a reporting entity shall disclose information that helps users of its financial statements to understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value per share. A reporting entity shall disclose the following information for instances in which the investment may be sold below NAV, or if there are significant restrictions in the liquidation of an investment held at NAV:

a. The NAV along with a description of the investment/investment strategy of the investee.

b. If the investment that can never be redeemed with the investees, but the reporting entity receives distributions through the liquidation of the underlying assets of the investees, the period of time over which the underlying assets are expected to be liquidated by the investees if the investee has communicated the timing to the reporting entity or announced the timing publicly. If the timing is unknown, the reporting entity shall disclose that fact.

c. The amount of the reporting entity's unfunded commitments related to investments in the class.

d. A general description of the terms and conditions upon which the investor may redeem the investment.

e. The circumstances in which an otherwise redeemable investment in the class (or a portion thereof) might not be redeemable (for example, investments subject to a lockup or gate). Also, for those otherwise redeemable investments that are restricted from redemption as of the reporting entity's measurement date, the reporting entity shall disclose when the restriction from redemption might lapse if the investee has communicated that timing to the reporting entity or announced the timing publicly. If the timing is unknown, the reporting entity shall disclose that fact and how long the restriction has been in effect.

f. Any other significant restriction on the ability to sell investments in the class at the measurement date.

g. If a group of investments would otherwise meet the criteria in paragraph 47 but the individual investments to be sold have not been identified (for example, if a reporting entity decides to sell 20% of its investments in private equity funds but the individual investments to be sold have not been identified), so the investments continue to qualify for the practical expedient in paragraph 41, the reporting entity shall disclose its plans to sell and any remaining actions required to complete the sale(s).

55. The reporting entity is encouraged, but not required, to combine the fair value information disclosed under this standard with the fair value information disclosed under other accounting pronouncements (for example, disclosures about fair value of financial instruments) in the periods in which those disclosures are required, if practicable. The reporting entity also is encouraged, but not required, to disclose information about other similar measurements, if practicable.

**Disclosures about Fair Value of Financial Instruments**

56. A reporting entity shall disclose in the notes to the financial statements, as of each date for which a statement of financial position is presented in the quarterly or annual financial statements, the aggregate fair value or NAV for all financial instruments and the level within the fair value hierarchy in which the fair value measurements in their entirety fall. This disclosure shall be summarized by type of financial instrument, for which

 

it is practicable to estimate fair value, except for certain financial instruments identified in paragraph 57. Fair value disclosed in the notes shall be presented together with the related admitted values in a form that makes it clear whether the fair values and admitted values represent assets or liabilities and to which line items in the Statement of Assets, Liabilities, Surplus and Other Funds they relate. Unless specified otherwise in another SSAP, the disclosures may be made net of encumbrances, if the asset or liability is so reported. A reporting entity shall also disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. If it is not practicable for an entity to estimate the fair value of the financial instrument or a class of financial instruments, and the investment does not qualify for the NAV practical expedient, the aggregate carrying amount for those items shall be reported as "not practicable" with additional disclosure as required in paragraph 50.

57. The disclosures about fair value prescribed in paragraph 56 are not required for the following:

a. Employers' and plans' obligations for pension benefits, other postretirement benefits including health care and life insurance benefits, postemployment benefits, employee stock option and stock purchase plans, and other forms of deferred compensation arrangements, as defined in *SSAP No. 12—Employee Stock Ownership Plans*, *SSAP No. 92—Postretirement Benefits Other Than Pensions*, *SSAP No. 102—Pensions* and *SSAP No. 104—Share-Based Payments*.

b. Substantively extinguished debt subject to the disclosure requirements of *SSAP No. 103—Transfer and Servicing of Financial Assets and Extinguishments of Liabilities*.

c. Insurance contracts, other than financial guarantees and deposit-type contracts.

d. Lease contracts as defined in *SSAP No. 22—Leases.*

e. Warranty obligations and rights.

f. Investments accounted for under the equity method.

g. Equity instruments issued by the entity.

h. Deposit liabilities with no defined or contractual maturities.

58. If it is not practicable for an entity to estimate the fair value of a financial instrument or a class of financial instruments, and the investment does not qualify for the NAV practical expedient, the following shall be disclosed:

a. Information pertinent to estimating the fair value of that financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity; and

b. The reasons why it is not practicable to estimate fair value.

59. In the context of this standard, practicable means that an estimate of fair value can be made without incurring excessive costs. It is a dynamic concept: what is practicable for one entity might not be for another; what is not practicable in one year might be in another. For example, it might not be practicable for an entity to estimate the fair value of a class of financial instruments for which a quoted market price is not available because it has not yet obtained or developed the valuation model necessary to make the estimate, and the cost of obtaining an independent valuation appears excessive considering the materiality of the instruments to the entity. Practicability, that is, cost considerations, also may affect the required precision of the estimate; for example, while in many cases it might seem impracticable to estimate fair value on an individual instrument basis, it may be practicable for a class of financial instruments in a portfolio or on a portfolio basis. In those cases,

the fair value of that class or of the portfolio should be disclosed. Finally, it might be practicable for an entity to estimate the fair value only of a subset of a class of financial instruments; the fair value of that subset should be disclosed.

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):**

The Investment Analysis (E) Working Group (INVAWG) is currently conducting a review of level 3 fair values and reviewing the results of Note 20.

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:**
None

**Convergence with International Financial Reporting Standards (IFRS):** N/A

***Staff 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. 100—Fair Value Disclosures* to eliminate the disclosure exclusion for "investments accounted for under the equity method" from the fair value financial instrument disclosure. This disclosure revision is proposed to be effective Dec. 31, 2026, as the disclosure illustration can accommodate this change without an annual statement instruction or template change. It is recommended that the Working Group sponsor a blanks proposal to include reference to SSAP No. 48 and SSAP No. 97 investments within the disclosure illustration to provide further clarity that those investments should be included. Additionally, it is recommended that this blanks proposal complete a review of the Annual Statement Instructions to ensure that all references to fair value refer to the determination under SSAP No. 100, and any remaining references to use of the "SVO or NAIC published market value when available" be removed. Values obtained from the SVO reflect a mix of Level 2 and Level 3 fair values, and should not be used if Level 1 fair value information is available.**

**With the exposure of this agenda item, comments are requested on the other disclosures in SSAP No. 100, particularly the disclosures limited to items measured and reported at fair value, and how those disclosures are utilized by regulators, and if further revisions would provide enhanced benefits to regulators.**

**Note: It is anticipated that the Invested Assets (E) Working Group may propose further revisions to Note 20C to ensure consistent reporting across reporting entities. (Currently, with the variable reporting lines, companies are reporting their financial instruments with different reporting captions, making comparisons and assessments difficult to complete.)**

**Proposed Revisions to *SSAP No. 100—Fair Value***

**Disclosures about Fair Value of Financial Instruments**

56. A reporting entity shall disclose in the notes to the financial statements, as of each date for which a statement of financial position is presented in the quarterly or annual financial statements, the aggregate fair value or NAV for all financial instruments and the level within the fair value hierarchy in which the fair value measurements in their entirety fall. This disclosure shall be summarized by type of financial instrument, for which it is practicable to estimate fair value, except for certain financial instruments identified in paragraph 57. Fair value disclosed in the notes shall be presented together with the related admitted values in a form that makes it clear whether the fair values and admitted values represent assets or liabilities and to which line items in the Statement of Assets, Liabilities, Surplus and

Other Funds they relate. Unless specified otherwise in another SSAP, the disclosures may be made net of encumbrances, if the asset or liability is so reported. A reporting entity shall also disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. If it is not practicable for an entity to estimate the fair value of the financial instrument or a class of financial instruments, and the investment does not qualify for the NAV practical expedient, the aggregate carrying amount for those items shall be reported as "not practicable" with additional disclosure as required in paragraph 50.

57. The disclosures about fair value prescribed in paragraph 56 are not required for the following:

a. Employers' and plans' obligations for pension benefits, other postretirement benefits including health care and life insurance benefits, postemployment benefits, employee stock option and stock purchase plans, and other forms of deferred compensation arrangements, as defined in *SSAP No. 12—Employee Stock Ownership Plans*, *SSAP No. 92—Postretirement Benefits Other Than Pensions*, *SSAP No. 102—Pensions* and *SSAP No. 104—Share-Based Payments*.

b. Substantively extinguished debt subject to the disclosure requirements of *SSAP No. 103—Transfer and Servicing of Financial Assets and Extinguishments of Liabilities*.

c. Insurance contracts, other than financial guarantees and deposit-type contracts .

d. Lease contracts as defined in *SSAP No. 22—Leases.*

e. Warranty obligations and rights.

~~f. Investments accounted for under the equity method.~~

~~g.~~f. Equity instruments issued by the entity.

~~h.~~g. Deposit liabilities with no defined or contractual maturities.

**Staff Review Completed by:** Julie Gann, April 2026.

**Status:**
On May 18, 2026, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as a SAP clarification and exposed revisions to *SSAP No. 100—Fair Value* to eliminate the exclusion for investments accounted for under the equity method from the fair value financial instrument disclosure, as illustrated above. With this exposure, comments were requested on the other disclosures in SSAP No. 100, particularly the disclosures limited to items measured and reported at fair value.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/08-12-26 Summer National Meeting/Hearing/05 - 26-06 - SSAP No. 100 - FV Disclosures.docx

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

To: Kevin Clark, Chair of the Statutory Accounting Principles (E) Working Group
Dale Bruggeman, Vice Chair of the Statutory Accounting Principles (E) Working Group

From: Carrie Mears, Chair of the Investment Analysis (E) Working Group
Matt Cheung, Vice Chair of the Investment Analysis (E) Working Group

Re: Note 20C Fair Value Hierarchy Disclosures – Consistency, Granularity, and Usability Enhancements

Date: July 27, 2026

In accordance with its nine-month plan, the Investment Analysis (E) Working Group is reviewing certain assets that, pursuant to *SSAP No. 100—Fair Value*, are categorized within the Level 3 classification of the fair value hierarchy. Level 3 assets, in short, are those for which unobservable inputs are used to measure fair value. When observable inputs do exist, the fair value measurement objective remains the same, that is fair value shall represent an exit price from the perspective of a market participant. Therefore, unobservable inputs, or use of model-based estimates and other non-market observable data, shall reflect the entity's own beliefs about the assumptions market participants would use in pricing the asset or liability. The definition is clear that reporting entities shall not ignore information about market participant assumptions that are reasonably available without undue cost and effort.

While book-adjusted carrying value (BACV) represents the primary measurement basis for assets reported in statutory financial statements, fair value disclosures are required for most investments on an instrument-by-instrument basis, providing regulators with relevant information regarding market valuation. Comparisons between BACV and fair value are also frequently utilized under Statements of Statutory Accounting Principles (SSAPs) in assessing other-than-temporary impairments (OTTI), with realized impairments often resulting in valuation adjustments to then-current fair value.

Level 3 assets are of particular interest to state insurance regulators due to their reliance on significant unobservable inputs, limited market activity, and increased use of model-based valuation techniques. These characteristics can result in reduced transparency into valuation methodologies, including the assumptions, inputs, and approaches used by reporting entities to determine fair value. Additionally, because the underlying valuation inputs are less observable, the assessment of changes in economic value and the identification of potential impairment indicators may require greater judgment and complexity. This may create a risk that impairments are not identified or recognized on a timely basis, potentially resulting in more significant valuation adjustments when impairments are ultimately recognized (as they were perhaps not recognized incrementally over time). In contrast, Level 1 and Level 2 assets generally benefit from more observable market inputs or pricing information, which may facilitate earlier identification of changes in value and timely recognition of impairments. Coupled with the continued growth of Level 3 holdings across certain sectors of the insurance industry, these factors heighten regulatory focus on valuation consistency, comparability, and the ability to assess underlying economic risk, particularly in less liquid or more complex asset classes.

These valuation characteristics underscore the importance of consistent and comparable disclosure of fair value measurements across reporting entities. They are directly relevant to the broader fair value disclosure framework, including Note 20C reporting requirements, which serve as a mechanism for conveying valuation hierarchy classification in aggregate by financial instrument classifications. While these disclosures are intended to enhance transparency regarding fair value measurement and classification, current reporting practice has revealed significant variability in structure, granularity, and usability across reporting entities.

 

In particular, the Working Group notes the following observations:

1. Note 20C is a free-form disclosure that does not require alignment to other investment schedules or standardized reporting structures. As a result, reporting entities are permitted to aggregate investments into different financial instrument classifications, which results in information in significantly different formats, limiting comparability across insurers. Disclosures may range from highly granular, security-by-security listings of issuer credit obligations to broad aggregations at the issuer, investment category, or asset-backed security (ABS) level, reducing consistency in presentation and interpretability. Current reporting observations indicate that some insurers may include several dozen pages of detailed listings, while others provide highly summarized tables, creating significant variation in both volume and format of disclosure. For the 2025 reporting period, certain reporting entities have disclosed in excess of 2,500 individual entries within Note 20C, highlighting the potential for this disclosure to become excessively voluminous and operationally burdensome without enhancing comparability. Thus, in its current form for some reporting entities, Note 20C may be functionally comparable in size and complexity to primary investment schedules, without providing equivalent analytical clarity or standardized drill-down capability across reporting entities.

2. The current structure introduces risks of data quality inconsistency, including typographical variation in security descriptions, inconsistent naming conventions across reporting periods, and limited ability to reliably track changes in classification year-over-year.

3. The absence of a standardized mapping framework to underlying investment schedules limits the ability to efficiently trace Note 20C disclosures to existing statutory reporting lines, including *Schedule BA—Other Long-Term Invested Assets* and *Schedule D—Bonds and Stocks*, and may reduce the usefulness of the disclosure for regulatory analysis.

Taken together, these limitations may reduce the effectiveness of Note 20C as a comparative regulatory tool, particularly in its ability to support consistent cross-entity analysis of fair value hierarchy classifications and underlying investment exposures. The current variability in structure and granularity may also cause additional supervisory and reporting burden, as regulators may be required to perform entity-specific reconciliation efforts to achieve a consistent analytical view across reporting entities. These observations highlight potential concerns related to usability, traceability, and comparability of Note 20C disclosures across the industry.
Accordingly, the Working Group notes that enhancements to structure and standardization may improve regulatory utility and consistency. Consideration could be given to whether more prescriptive linkage to existing statutory investment schedules may improve usability and reduce reporting variability.

Potential areas for consideration include:

- Development of standardized mapping requirements between Note 20C disclosures and existing investment schedules, including clear alignment to Schedule BA, Schedule D, and other relevant investment reporting schedules, as applicable.

- Evaluation of whether disclosures should require categorization that aligns each reported fair value measurement to a specific statutory statement and reporting line. This would allow for traceability from Note 20C to the reporting schedule and unique reporting lines.

These considerations are intended to enhance the practical utility of fair value disclosures for state insurance regulators, improve consistency across reporting entities, and support more effective analytical use of statutory financial reporting without materially increasing reporting burden.

The Investment Analysis (E) Working Group support staff are available to provide additional background, data, or analysis as needed to assist with the Statutory Accounting Principles (E) Working Group's evaluation of this matter.

 

Please contact NAIC staff, Jim Pinegar (jpinegar@naic.org), if you have any questions. Cc: Jim Pinegar, Dimitris Karapiperis, Topher Hughes, Julie Gann, Robin Marcotte, Jake Stultz, Wil Oden, and Jason Farr

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/08-12-26 Summer National Meeting/Hearing/6 - INVAWG to SAPWG (Level 3 Disclosures).docx

 

**Statutory Accounting Principles (E) Working Group**
**Maintenance Agenda Submission Form**
**Form A**

**Issue: Securities Lending Restricted Asset Reporting**

**Check (applicable entity):**

| | P/C | Life | Health |
|---|---|---|---|
| Modification of Existing SSAP | ☒ | ☒ | ☒ |
| New Issue or SSAP | ☐ | ☐ | ☐ |
| Interpretation | ☐ | ☐ | ☐ |

**Description of Issue:** This agenda item has been prepared to clarify restricted asset reporting for securities lending transactions, particularly to clarify what should be reported as a restricted asset, and to address questions for potential double-counting that could occur based on existing guidance.

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

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

To provide an overview of a securities lending transaction:

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

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

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

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

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

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

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

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

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

**Existing Authoritative Literature:**

***SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures*** **Correction of an Error**

23. Reporting entities shall disclose[1] the following information in the financial statements:

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

    b. The total combined (admitted and nonadmitted) book adjusted carrying value (BACV) of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category, and nature of any assets pledged to others as collateral or otherwise

[1] Disclosure of restricted assets shall be included in all annual and quarterly financial statements.

restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.)[2] in the general and separate accounts[3] by the reporting entity in comparison to total assets and total admitted assets. (Pursuant to SSAP No. 4, paragraph 6, all assets pledged as collateral or otherwise restricted shall be reported in this disclosure regardless if the asset is considered an admitted asset.) Reporting entities shall also disclose differences in the amounts reported in this note versus the amounts reported for the same categories in the general interrogatories. This disclosure shall include the following restricted asset categories:

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

ii. Collateral held under security lending agreements;

iii. Assets subject to repurchase agreements;

iv. Assets subject to reverse repurchase agreements;

v. Assets subject to dollar repurchase agreements;

vi. Assets subject to dollar reverse repurchase agreements;

vii. Assets placed under option contracts;

viii. Letter stock or securities restricted as to sale[4] – excluding FHLB stock;

ix. FHLB capital stock;

x. Assets on deposit with states;

xi. Assets on deposit with other regulatory bodies;

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

xiii. Assets pledged as collateral not captured in other categories[5]; and

xiv. Other restricted assets.

c. The BACV and nature of any assets received as collateral or assets that are held under modified coinsurance (modco) or funds withheld reinsurance agreements, reflected as assets within the reporting entity's financial statements, for which there is a recognized liability to return these

[2] The aggregate information captured within this disclosure is intended to reflect the information reported in the Annual Statement Investment Schedules in accordance with the coding of investments that are not under the exclusive control of the reporting entity, including assets loaned to others and the information reported in the General Interrogatories, as well as information on restricted cash, cash equivalents and short-term investments.

[3] Restricted assets in the separate account are not intended to reflect amounts "restricted" only because they are insulated from the general account or because they are attributed to specific policyholders. Separate account assets shall be captured in this disclosure only if they are restricted outside of these characteristics.

[4] The nature, description and amount of the restriction are required in the disclosure.

[5] Items captured in this category shall include assets reported within the financial statements that are pledged to a counterparty that have not been captured in other categories or within paragraph 23.c. Items reported should include, but not be limited to, assets pledged under derivative arrangements.

collateral assets or for the dedicated use of those assets under the modco/funds withheld agreement, in the general and separate accounts in comparison to total assets and admitted assets. The disclosure shall identify whether the modco/FWH assets are related to the reinsurer.

***SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities***

Excerpts from *SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* have been included to detail the securities lending requirements, but there are no references to the reporting of restricted assets for securities lending transactions within this guidance. (There are references for repurchase agreements in SSAP No. 103 but not for securities lending transactions.)

**Securities Lending Transactions**

85. Securities lending transactions are generally initiated by broker-dealers and other financial institutions that need specific securities to cover a short sale or a customer's failure to deliver securities sold. Securities lending transactions typically extend less than one year. Transferees (borrowers) of securities generally are required to provide collateral to the transferor (lender) of securities, commonly cash but sometimes other securities or standby letters of credit, with a value slightly higher than that of the securities borrowed. If the collateral is cash, the transferor typically earns a return by investing that cash at rates higher than the rate paid or rebated to the transferee. If the collateral is other than cash, the transferor typically receives a fee. Securities custodians or other agents commonly carry out securities lending activities on behalf of clients. Because of the protection of collateral (typically valued daily and adjusted frequently for changes in the market price of the securities transferred) and the short terms of the transactions, most securities lending transactions in themselves do not impose significant credit risks on either party. Other risks arise from what the parties to the transaction do with the assets they receive. For example, investments made with cash collateral impose market and credit risks on the transferor.

86. If the criteria conditions in paragraph 8 (sales criteria) are met, securities lending transactions shall be accounted for:

a. By the transferor as a sale of the "loaned" securities for proceeds consisting of the cash collateral[6] and a forward repurchase commitment.

b. By the transferee as a purchase of the "borrowed" securities in exchange for the collateral and a forward resale commitment. During the term of that agreement, the transferor has surrendered control over the securities transferred and the transferee has obtained control over those securities with the ability to sell or transfer them at will. In that case, creditors of the transferor have a claim only to the "collateral" and the forward repurchase commitment.

87. Many securities lending transactions are accompanied by an agreement that entitles and obligates the transferor to repurchase or redeem the transferred financial assets before their maturity under which the transferor maintains effective control over those financial assets (paragraphs 51-52). Those transactions shall be accounted for as secured borrowings, in which cash (or securities that the holder or its agent is permitted by contract or custom to sell or repledge) received as collateral is considered the amount borrowed, the securities loaned are considered pledged as collateral against the cash or securities borrowed and reclassified as set forth

[6] If the "collateral" in a transaction that meets the criteria in paragraph 8 is a financial asset that the holder or its agent is permitted by contract or custom to sell or repledge, that financial asset is proceeds of the sale of the "loaned" securities. To the extent that the "collateral" consists of letters of credit or other financial instruments that the holder or its agent is not permitted by contract or custom to sell or repledge, a securities lending transaction does not satisfy the sale criteria and is accounted for as a loan of securities by the transferor to the transferee.

in paragraph 19.a., and any rebate paid to the transferee of securities is interest on the cash or securities the transferor is considered to have borrowed.

88. The transferor of securities being "loaned" accounts for cash received in the same way whether the transfer is accounted for as a sale or a secured borrowing. The cash received shall be recognized as the transferor's asset – as shall investments made with that cash, even if made by agents or in pools with other securities lenders – along with the obligation to return the cash. If securities that may be sold or repledged are received, the transferor of the securities being "loaned" accounts for those securities in the same way as it would account for cash received.

89. The transferor of securities being "loaned" accounts for collateral received in the same way whether the transfer is accounted for as a sale or a secured borrowing. The collateral received shall be recognized as the transferor's asset – as shall investments made with that collateral, even if made by agents or in pools with other securities lenders – along with the obligation to return the collateral. If securities that may be sold or repledged are received by the transferor or its agent, the transferor of the securities being "loaned" accounts for those securities in the same way as it would account for collateral received. Collateral which may be sold or repledged by the transferor or its agent is reflected on balance sheet, along with the obligation to return the asset[7]. Collateral received which may not be sold or repledged by the transferor or its agent is off balance sheet[8]. For collateral on the balance sheet, the reporting is determined by the administration of the program.

a. Securities lending programs where the collateral received by the reporting entity's unaffiliated agent that can be sold or repledged is reported on the balance sheet. The collateral received and reinvestment of that collateral by the reporting entity's unaffiliated agent shall be reflected as a one-line entry on the balance sheet (Securities Lending Collateral) and a detailed schedule will be required each quarter and at year-end to list the description of the collateral asset. This description shall include the NAIC designation, fair value; book adjusted carrying value and maturity date. A separate liability shall also be established to record the obligation to return the collateral (Collateral from Securities Lending Activities).

b. Securities lending programs where the collateral received by the reporting entity that can be sold or repledged is reported on the balance sheet. If the reporting entity is the administrator of the program, then, the collateral received and any reinvestment of that collateral is reported with the invested assets of the reporting entity based on the type of investment (i.e. bond, common stock, etc.). A separate liability shall also be established to record the obligation to return the collateral (Collateral from Securities Lending Activities).

c. Securities lending programs where the collateral received by the reporting entity's affiliated agent can report using either one-line reporting (paragraph 89.a.) or investment schedule reporting (paragraph 89.b.).

90. Reinvestment of the collateral by the reporting entity or its agent shall follow the same impairment guidance as other similar invested assets reported on the balance sheet. Any fees received by the transferor for loaning the securities shall be recorded as miscellaneous investment income.

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[7] If cash is received by the transferor or its agent and reinvested or repledged it is reported on balance sheet. It is explicitly intended that when the lender bears reinvestment risk, that collateral is on balance sheet.

[8] An example of collateral which is off balance sheet is when securities are received by the transferor or its agent in which the collateral must be held and returned, without the ability to transfer or repledge the collateral. This would involve limited situations in which the transferor or agent is prohibited from reinvesting the collateral.

 

**<u>Annual Statement References: (Key references shaded)</u>**

- Note 5L Instruction & Disclosure Template: "Collateral Held Under Security Lending Agreements" – (This matches SSAP No. 1.)

- General Interrogatories:

    - 25.04: For the reporting entity's securities lending program, report amount of collateral for conforming programs as outlined in the RBC instructions.

    - 25.05: For the reporting entity's securities lending program, report amount of collateral for other programs

**<u>Life RBC References: (Key references shaded)</u>**

Instructions to LR017 – Off-Balance Sheet and Other Items:

<u>Line (1) – *(Note: The following provisions are required for "conforming programs")*</u>

Securities lending programs that have all of the following elements are eligible for a lower off-balance sheet charge:

1. A written plan adopted by the Board of Directors that outlines the extent to which the insurer can engage in securities lending activities and how cash collateral received will be invested.

2. Written operational procedures to monitor and control the risks associated with securities lending. Safeguards to be addressed should, at a minimum, provide assurance of the following:

    a. Documented investment guidelines, including, where applicable, those between lender and investment manager with established procedure for review of compliance.

    b. Investment guidelines for cash collateral that clearly delineate liquidity, diversification, credit quality, and average life/duration requirements.

    c. Approved borrower lists and loan limits to allow for adequate diversification.

    d. Holding excess collateral with margin percentages in line with industry standards, which are currently 102% (or 105% for cross currency loans).

    e. Daily mark-to-market of lent securities and obtaining additional collateral needed to ensure that collateral at all times exceeds the value of the loans to maintain margin of 102% of market.

    f. Not subject to any automatic stay in bankruptcy and may be closed out and terminated immediately upon the bankruptcy of any party.

3. A binding securities lending agreement (standard "Master Lending Agreement" from Securities Industry and Financial Markets Association) is in writing between the insurer, or its agent on behalf of the insurer, and the borrowers.

4. Acceptable collateral is defined as cash, cash equivalents, direct obligations of, or securities that are fully guaranteed as to principal and interest by, the government of the United States or any agency of the United States, or by the Federal National Mortgage Association or the Federal Home Loan Mortgage

 

Corporation and NAIC 1-designated securities. Affiliate-issued collateral would not be deemed acceptable. In all cases the collateral held must be permitted investments in the state of domicile for the respective insurer.

Collateral included in General Interrogatories, Part 1, Line 25.04 of the annual statement should be included on Line (1).

Line (2) – *(Items captured on this line represent "non-conforming programs")*

Collateral from all other securities lending programs should be reported General Interrogatories, Part 1, Line 25.05 and included in Line (2).

LR017:

(1) Loaned to Others - Conforming Securities Lending Program General Interrogatories, Line 25.04

(2) Loaned to Others - Securities Lending Program – Other General Interrogatories Line 25.05

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):**

Agenda Item 2024-24: *Conforming Repurchase Agreements* was developed in response to a January 2024 referral received from the Life RBC (E) Working Group in response to an ACLI request to modify the treatment of repurchase agreements in the Life RBC formula. Agenda Item 2024-24 identified differences in accounting between securities lending and repurchase agreements. In August 2024, the Working Group exposed a memo detailing the accounting, reporting and RBC guidance for repurchase and securities lending transactions with a number of notes and questions identified within. In March 2025, the Working Group directed NAIC staff to develop clarifying revisions to the SSAP No. 103 guidance, as time allows, recognizing that other projects may be of greater importance. This terminology issue regarding the restricted asset was identified as part of that project.

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:**
None

**Convergence with International Financial Reporting Standards (IFRS):** N/A

***Staff 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. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures* to clarify that the restricted asset reporting for securities lending transactions shall reflect the asset lent by the reporting entity that is still reflected on the reporting entity's financial statements and not the collateral held. If collateral has been received that can be sold or pledged, then that collateral shall be reported in the restricted asset disclosure as collateral recognized on the financial statements with an obligation recognized to return. This collateral reporting shall not impact the reporting of the asset lent under the securities lending agreement.**

**With this revision, it is recommended that the Working Group sponsor a blanks proposal to make corresponding revisions to Note 5L as well as the General Interrogatories. It is also recommended that the Working Group send a referral to the Capital Adequacy (E) Task Force to clarify references as appropriate within the RBC instructions.**

**(NAIC staff has included the life RBC instructions to illustrate potential revisions. As shown, the existing reference on form LR017 for "Loaned to Others" is consistent with the proposed edits in this agenda item and does not need revision.)**

**Although it is too late to incorporate blanks template changes for YE 2026, NAIC staff recommend that this item proceed to provide guidance on the reporting of restricted assets and what should be captured in Note 5L, with revisions proposed to be reflected in the blanks for 1Q 2027 reporting. This item is proposed to be captured outside of the comprehensive securities lending / repurchase agreement project to provide needed immediate clarity on the disclosure reporting and address questions on the potential double-counting of securities lending collateral within the disclosure.**

**Proposed Revisions to *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures***

23. Reporting entities shall disclose[9] the following information in the financial statements:

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

b. The total combined (admitted and nonadmitted) book adjusted carrying value (BACV) of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category, and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.)[10] in the general and separate accounts[11] by the reporting entity in comparison to total assets and total admitted assets. (Pursuant to SSAP No. 4, paragraph 6, all assets pledged as collateral or otherwise restricted shall be reported in this disclosure regardless if the asset is considered an admitted asset.) Reporting entities shall also disclose differences in the amounts reported in this note versus the amounts reported for the same categories in the general interrogatories. This disclosure shall include the following restricted asset categories:

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

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

iii. Assets subject to repurchase agreements;

iv. Assets subject to reverse repurchase agreements;

v. Assets subject to dollar repurchase agreements;

[9] Disclosure of restricted assets shall be included in all annual and quarterly financial statements.

[10] The aggregate information captured within this disclosure is intended to reflect the information reported in the Annual Statement Investment Schedules in accordance with the coding of investments that are not under the exclusive control of the reporting entity, including assets loaned to others and the information reported in the General Interrogatories, as well as information on restricted cash, cash equivalents and short-term investments.

[11] Restricted assets in the separate account are not intended to reflect amounts "restricted" only because they are insulated from the general account or because they are attributed to specific policyholders. Separate account assets shall be captured in this disclosure only if they are restricted outside of these characteristics.

vi. Assets subject to dollar reverse repurchase agreements;

vii. Assets placed under option contracts;

viii. Letter stock or securities restricted as to sale[12] – excluding FHLB stock;

ix. FHLB capital stock;

x. Assets on deposit with states;

xi. Assets on deposit with other regulatory bodies;

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

xiii. Assets pledged as collateral not captured in other categories[13]; and

xiv. Other restricted assets.

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

***Proposed Revisions for Blanks Proposal:***

**Annual Statement References:**

- Note 5L Instruction & Disclosure Template: "~~Collateral Held~~Assets Lent Under Security Lending Agreements" – (This matches SSAP No. 1)
- General Interrogatories:
    - 25.04: For the reporting entity's securities lending program, report assets lent ~~amount of collateral for~~under security lending conforming programs as outlined in the RBC instructions.
    - 25.05: For the reporting entity's securities lending program, report assets lent ~~amount of collateral~~ for other (non-conforming) programs

***Proposed Revisions for Capital Adequacy (E) Task Force Referral:***

Instructions to LR017 – Off-Balance Sheet and Other Items:

Line (1)

[12] The nature, description and amount of the restriction are required in the disclosure.

[13] Items captured in this category shall include assets reported within the financial statements that are pledged to a counterparty that have not been captured in other categories or within paragraph 23.c. Items reported should include, but not be limited to, assets pledged under derivative arrangements.

Securities lending programs that have all of the following elements are eligible for a lower off-balance sheet charge:

1. A written plan adopted by the Board of Directors that outlines the extent to which the insurer can engage in securities lending activities and how cash collateral received will be invested.

2. Written operational procedures to monitor and control the risks associated with securities lending. Safeguards to be addressed should, at a minimum, provide assurance of the following:

    a. Documented investment guidelines, including, where applicable, those between lender and investment manager with established procedure for review of compliance.

    b. Investment guidelines for cash collateral that clearly delineate liquidity, diversification, credit quality, and average life/duration requirements.

    c. Approved borrower lists and loan limits to allow for adequate diversification.

    d. Holding excess collateral with margin percentages in line with industry standards, which are currently 102% (or 105% for cross currency loans).

    e. Daily mark-to-market of lent securities and obtaining additional collateral needed to ensure that collateral at all times exceeds the value of the loans to maintain margin of 102% of market.

    f. Not subject to any automatic stay in bankruptcy and may be closed out and terminated immediately upon the bankruptcy of any party.

3. A binding securities lending agreement (standard "Master Lending Agreement" from Securities Industry and Financial Markets Association) is in writing between the insurer, or its agent on behalf of the insurer, and the borrowers.

4. Acceptable collateral is defined as cash, cash equivalents, direct obligations of, or securities that are fully guaranteed as to principal and interest by, the government of the United States or any agency of the United States, or by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation and NAIC 1-designated securities. Affiliate-issued collateral would not be deemed acceptable. In all cases the collateral held must be permitted investments in the state of domicile for the respective insurer.

Assets Lent ~~Collateral~~ under conforming securities lending programs included in General Interrogatories, Part 1, Line 25.04 of the annual statement should be included on Line (1).

Line (2)
~~Collateral~~ Assets Lent Under~~from~~ all other securities lending programs should be reported General Interrogatories, Part 1, Line 25.05 and included in Line (2).

LR017: *(No revisions proposed)*

(1) Loaned to Others - Conforming Securities Lending Program General Interrogatories, Line 25.04

(2) Loaned to Others - Securities Lending Program – Other General Interrogatories Line 25.05

**Staff Review Completed by:** Julie Gann, April 2026.

**Status:**
On May 18, 2026, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as a SAP clarification and exposed revisions to *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures* to change the terminology for security lending restricted assets to "assets lent under securities lending arrangements." Collateral received in response for securities lending arrangement that can be sold or repledged shall be captured as a restricted asset as "collateral received with liability recognized for the return." The exposure also supported sponsoring a blanks proposal for consistent revisions. Upon adoption, a referral will be provided to the Capital Adequacy (E) Task Force to incorporate corresponding RBC instruction revisions.
https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/08-12-26 Summer National Meeting/Hearing/07 - 26-05 - Sec Lending - Restricted Asset.docx

**Statutory Accounting Principles (E) Working Group**
**Maintenance Agenda Submission Form**
**Form A**

**Issue: Valuation of Funds Withheld Liability**

**Check (applicable entity):**

| | P/C | Life | Health |
|---|---|---|---|
| Modification of Existing SSAP | ☐ | ☒ | ☒ |
| New Issue or SSAP | ☐ | ☐ | ☐ |
| Interpretation | ☐ | ☐ | ☐ |

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

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

**Reporting** - **Assets** - The assets withheld from the reinsurer are reported in the investment schedules of the ceding entity at their statutory book adjusted carrying value in accordance with the applicable statements of statutory accounting principles (SSAPs).

**Reporting** - **Liabilities** - The ceding entity records a liability for funds withheld on different lines based on the reinsurer's classification as authorized; or unauthorized /certified under the requirements of Model #785.

- Liability line **24.03 – Funds Held Under Reinsurance Treaties with Unauthorized and Certified Reinsurers**. The instructions for Line 24.03 reference specific columns of Schedule S Reinsurance - Part 4 reinsurance ceded to unauthorized companies - (Column 12 (Funds Withheld) and Column 13 (Other)) and Part 5 reinsurance ceded to certified reinsurers (Column 20 (Funds Withheld) and Column 21 (Other)) that should equal the amount in Line 24.03.

- If the reinsurer is **authorized** the ceding entity records a liability for funds withheld on the liabilities line **24.07 – Funds Held Under Coinsurance**. The instructions for this line indicate to "Report the amount of funds withheld from reinsurers under coinsurance treaties other than amounts reported on Line 24.03." The instructions for Line 24.07 do not reference Schedule S, although Schedule S, Part 3 (reinsurance ceded) also includes Funds Withheld Under Coinsurance for all reinsurer types in column 15 (for Section 1), and column 14 (for Section 2).

The annual statement instructions do not reference an accounting basis for the funds withheld liability except for Schedule S – Part 4, column 12 and Part 5, column 20 which both have the same instructions indicating that securities held on deposit or held in a trust fund should be valued at fair market value:

> **Funds Deposited By and Withheld From Reinsurers (bolding and underline added for emphasis):**
>
> Where permissible to be taken as credit against the loss and reserve liabilities in Column 8, amounts deposited by the reinsurer with or for the reporting insurance company, letters of credit, and trust agreements. **<u>Securities held on deposit or held in a trust fund should be valued at fair market value.</u>**
>
> NAIC-published market values must be used when available. Letters of credit and trust agreements are not to be included in assets or liabilities on Pages 2 or 3 or supporting pages and exhibits.

The Schedule S – Part 4, column 12 heading references funds deposited by and withheld from reinsurers. It is not clear whether this reference contemplates that funds deposited and funds withheld are two separate types of arrangements or one and the same. The instruction does not help provide clarity as it references "Securities held on deposit" but not funds withheld and further adds letters of credit and trust agreements despite there being separate columns for both in Columns 9 and 11 though there are no instructions for either column. The instruction is explicit that securities held on deposit or held in a trust fund are to be valued at fair value, but it is not clear whether funds withheld are intended to be included at fair value.

*SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* and Model #785 both discuss funds withheld from reinsurers and funds deposited by reinsurers. Depending on certain factors in a reinsurance agreement, the funds withheld by the ceding entity are not always adequate to meet the collateral requirements and it is sometimes necessary for the reinsurer to provide extra funds to meet their contractual collateral requirements. Model #785 is not explicit on the valuation of funds withheld; however it is explicit that the adequacy of collateral held in trust are measured using the fair value of the assets in trust.

Presuming the intention is for funds withheld to be covered by "securities held on deposit," then that would indicate that funds withheld for unauthorized and certified reinsurers should be valued at fair value, which would flow to Line 24.03 on the liabilities page. However, multiple parties have indicated that they believe the liability is calculated based on the asset book value, prompting this review.

The instructions for all other types of reinsures reported on Line 24.07 simply says to "Report the amount of funds withheld from reinsurers under coinsurance treaties other than amounts reported on Line 24.03." It would be reasonable to presume that when determining the "amount" of funds withheld, that it would represent the amount of the funds as reported on the asset side of the balance sheet, which would be statutory book value. However, that could result in a different basis of accounting for funds withheld based on reinsurer type, depending on how one interprets the instruction for Schedule S – Part 4 and Part 5.

The Schedule S Parts 4 and 5 collateral columns for funds withheld, letters of credit and funds in trust play an important role in determining if total collateral for unauthorized and certified reinsurers is adequate under Model #785 to allow credit for reinsurance. If the collateral is insufficient, a liability is reported on line 24.02 – Reinsurance in Unauthorized and Certified Reinsurers. To the extent the annual statement instructions are clarified for the valuation of funds withheld it affects amounts used in the calculation of this liability.

Further support for the presumption that funds withheld is intended to be reported at the same basis as the asset side of the balance sheet (statutory book value), is the mismatched accounting that would occur otherwise. If the funds withheld liability were to be reported at fair value while the assets remain at book value, it would result in the counterintuitive result that anytime the fair value of the collateral increases, increasing the liability but leaving the assets unchanged, the ceding company would take a hit to surplus, despite the value of their collateral having increased.

**Existing Authoritative Literature:**

**Life, Accident & Health/Fraternal Annual Statement Instructions:**

**Liabilities**

**Line 24.02 – Reinsurance in Unauthorized and Certified Companies**

Total net amount from Schedule S, Part 4 (Column 8 minus Column 15) plus Schedule S, Part 5 (Column 26 x 1000).

**Line 24.03 – Funds Held Under Reinsurance Treaties with Unauthorized and Certified Reinsurers**

Total amount from Schedule S, Part 4 (Columns 12 and 13) plus Schedule S, Part 5 [(Columns 20 and 21) x 1000), (other than amounts of credit or trust agreements included therein)] to the extent that such funds were included as a part of the total assets on Page 2 of the statement and were not offset by a directly related credit offset on Page 2.

**Line 24.07 – Funds Held Under Coinsurance**

Report the amount of funds withheld from reinsurers under coinsurance treaties other than amounts reported on Line 24.03.

**Schedule S**

**Schedule S, Part 3 Section 1 - Column 15** – Funds Withheld Under Coinsurance

Report the amount of funds withheld on coinsurance contracts.

**Schedule S, Part 3 Section 2 - Column 14** – Funds Withheld Under Coinsurance

Report the amount of funds withheld on coinsurance contracts.

**Schedule S, Part 4 – Reinsurance Ceded to Unauthorized Companies**

Column 12 – Funds Deposited By and Withheld From Reinsurers

Include: Where permissible to be taken as credit against the loss and reserve liabilities in Column 8, amounts deposited by the reinsurer with or for the reporting insurance company, letters of credit, and trust agreements. Securities held on deposit or held in a trust fund should be valued at fair market value.

NAIC-published market values must be used when available. Letters of credit and trust agreements are not to be included in assets or liabilities on Pages 2 or 3 or supporting pages and exhibits.

Column 13 – Other
*(Drafting Note - no instructions are provided for this column)*

**Schedule S, Part 5 – Reinsurance Ceded to Certified Reinsurers**

Column 20 – Funds Deposited by and Withheld from Reinsurers

Include: Where permissible to be taken as credit against the loss and reserve liabilities in Column 14, amounts deposited by the reinsurer with or for the reporting insurance company, letters of credit and trust agreements. Securities held on deposit or held in a trust fund should be valued at fair market value.

NAIC-published market values must be used when available. Letters of credit and trust agreements are not to be included in assets or liabilities on Pages 2 or 3 or supporting pages and exhibits.

Column 21 – Other
Report other acceptable security held by or on behalf of the reporting company.

***SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance***
**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.

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.

24. While the premiums, commissions, expense allowances, reserves, claims, etc. will result in a net amount, the proper way to report them is in their separate classifications on the balance sheet. Each reinsurance agreement must be accounted for separately. Certain assets and liabilities are created by entities when they engage in reinsurance contracts. Reinsurance assets meet the definition of assets as defined by *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted to the extent they conform to the requirements of this statement.

**Accounting for Coinsurance With Funds Withheld Arrangements**

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 withheld by the ceding entity shall be recorded as a separate liability. 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.

**44.** Credit for reinsurance ceded to a certified reinsurer is permitted if security is held by or on behalf of the ceding entity in accordance with the certified reinsurer's rating assigned by the domestic state of the ceding insurance entity, and in accordance with requirements of Appendix A-785 of this manual**. Such deposits are to be held under the control of the ceding entity. Additionally, any securities held under such an arrangement must be investments that the ceding entity is allowed to make under the provision of the investment sections of the insurance statutes of its domiciliary state. Other permissible arrangements include irrevocable trusts or "clean" letters of credit.**

50. If the reinsurer is not authorized, otherwise approved or certified to do business, the reinsurance is considered to be unauthorized. A liability is established to offset credit taken in various balance sheet accounts for reinsurance ceded to unauthorized reinsurers. **Credit for reinsurance with unauthorized companies shall be permitted if the ceding entity holds securities or cash of the assuming entity equal to the reserve credit taken. Such deposits are to be held under the control of the ceding entity. Additionally, any securities held under such an arrangement must be investments that the ceding entity is allowed to make under the provision of the investment sections of the insurance statutes. Other permissible arrangements include irrevocable trusts or "clean" letters of credit. If the assuming entity is not licensed or is not an authorized reinsurer in the domiciliary state of the ceding entity or if the reinsurance does not meet required standards, the ceding entity must set up a net liability equal to the following**:

a. Reserve credits taken including any IMR liability adjustment; plus

b. Claim liability credits taken on paid and unpaid (in course of settlement) claims recoverable; plus

c. Other asset increases or liability reductions resulting from amounts recoverable from the assuming entity including commissions, expense allowances, modified coinsurance reserve adjustments, experience rating refunds, and estimated incurred but not reported claim liabilities; less

d. Deposits by or funds withheld from the reinsurer, as provided for in the reinsurance treaty and in compliance with the security requirements of Appendix A-785, pledged as security for the payment of reinsurance obligations. Such deposits or funds are typically held by the ceding entity or are placed in a trust or custodial account. Amounts placed in trust or custodial accounts are held subject to withdrawal by, and under the control of, the ceding entity; less

e. Amounts of reinsurance recoverables covered by a clean, irrevocable letter of credit issued by a qualified U.S. financial institution as defined in Appendix A-785; less

f. Amounts contractually due the assuming entity.

The net liability defined in paragraph 50 shall never be less than zero for any particular reinsurer. The change in liability for unauthorized reinsurance is a direct charge or credit to surplus.

**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.

68. For each reinsurance agreement with an affiliated captive reinsurer (same definition as paragraph 67), provide the following information in the annual financial statements:

a. Reserve credit taken by the reporting entity for variable annuities;

b. The total amount of collateral supporting any reserve credit taken, if applicable;

c. A description of the nature of the collateral (funds withheld by the reporting entity, assets placed in trust for the benefit of the cedent, letters of credit (LOC), etc.), if applicable as well as a tabular presentation[1] of the value[2] of all assets held by or on behalf of the captive reinsurer that back the variable annuities liabilities (including capital).

**Appendix A-785: Credit for Reinsurance**

19. An asset or a reduction from liability for the reinsurance ceded by a domestic insurer to an assuming insurer not meeting the requirements under "Credit Allowed a Domestic Ceding Insurer" (paragraphs 7-18) shall be allowed in an amount not exceeding the liabilities carried by the ceding insurer. The reduction shall be in the **amount of funds held by or on behalf of the ceding insurer, including funds held in trust for the ceding insurer, under a reinsurance contract with the assuming insurer as security for the payment of obligations thereunder, if the security is held in the United States subject to withdrawal solely by, and under the exclusive control of, the ceding insurer; or, in the case of a trust, held in a qualified U.S. financial institution**, as defined under "Qualified U.S. Financial Institutions" at paragraph 54. This security may be in the form of:

a. Cash;

b. Securities listed by the Securities Valuation Office of the National Association of Insurance Commissioners, including those deemed exempt from filing as defined by the *Purposes and Procedures Manual of the NAIC Securities Valuation Office*, and qualifying as admitted assets;

51. A ceding insurer may take credit for **unencumbered funds withheld by the ceding insurer in the United States subject to withdrawal solely by the ceding insurer and under its exclusive control.**

**A-791 Life and Health Reinsurance Agreements** (Q/ A under paragraph 2g)

Q – **At the time assets are legally segregated under a coinsurance with funds withheld treaty, should they be valued at market value, statutory value, or some combination?**

**A – The assets should be valued at their statutory admitted value.**

**Q – When the assets are legally segregated, how are the funds withheld payables and receivables reported?**

A – The payables and receivables are recorded in the same manner as in a funds withheld treaty where the assets are not legally segregated and will usually mirror the value of the funds withheld account. **However, the funds withheld account, which reflects the statutory admitted value of the assets in the SAP, will fluctuate, and thus may differ from the reserves on the reinsured business.**

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** This issue was previously identified, but was also noted in the IMR Ad Hoc group discussions.

[1] List the major asset classes, such as bonds, unconditional LOC's, conditional LOC's and LOC-like instruments, parental guarantees, etc. Note which assets would not normally meet the definition of an admitted asset under SSAP No. 4.

[2] Indicate the basis of the valuation of the assets (carrying value, fair value, statutory, etc.).

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:**
None

**Convergence with International Financial Reporting Standards (IFRS): Not Applicable**

**Staff Review Completed by:** Robin Marcotte – NAIC Staff

**Recommendation:**
**NAIC staff recommend that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to the instructions for the Life and Health annual statement on schedule S, parts 3, 4 and 5, the liabilities page and SSAP No. 61 to clarify that funds withheld liabilities should be recorded equal to the book adjusted carrying value of the funds withheld assets. In addition, some legacy annual statement instructions for Schedule S parts 4 and 5 regarding the use of SVO fair values is proposed for deletion as a clean-up item. Staff recommends that the Reinsurance (E) Task Force be notified of the exposure, with NAIC staff directed to prepare a Blanks proposal for exposure to allow for year-end 2026 adoption consideration**

1. **SSAP No. 61**

**Accounting for Coinsurance With Funds Withheld Arrangements**

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 withheld by the ceding entity shall be recorded as a separate liability. The liability is based on the book adjusted carrying value of the assets held by the ceding entity to the extent that such funds were included as a part of the total assets and were not offset by a directly related credit on the asset page. 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.** The liability is based on the book adjusted carrying value of the assets held by the ceding entity to the extent that such funds were included as a part of the total assets and were not offset by a directly related credit on the asset page.

2. **Update the life, accident & health/fraternal annual statement instructions for the**

   a. **Liability line 24.03 Funds Held Under Reinsurance Treaties with Unauthorized and Certified Reinsurers to add reference the use of BACV as follows:**

   ~~Total amount from~~ Report the total book adjusted carrying value of the funds withheld assets for unauthorized and certified reinsurers. T~~t~~his should match Schedule S, Part 4 (Columns 12 and 13) plus Schedule S, Part 5 [(Columns 20 and 21) x 1000), (other than amounts of credit or trust agreements included therein)] to the extent that such funds were included as a part of the total assets on Page 2 of the statement and were not offset by a directly related credit offset on Page 2.

   b. **Liabilities line 24.07 – Funds Held Under Coinsurance** to add reference the use of BACV as and add cross checks to the funds withheld columns in Schedule S Part 3 Section 1 and Section 2.

   Report the amount of funds withheld from reinsurers under coinsurance treaties other than amounts reported on Line 24.03.The total amount of the book adjusted carrying of the funds withheld assets (for amounts not related to unauthorized or certified reinsurers) should match Schedule S, Part 3, Section 1 (Column 15) plus Schedule S, Part 3, Section 2 (Column 14) x 1000 (other than amounts of credit or trust agreements included therein) to the extent that such funds were included as a part of the total assets on Page 2 of the statement and were not offset by a directly related credit on Page 2.

3. **Schedule S, Part 3 Section 1 - Column 15** – Funds Withheld Under Coinsurance

   Report the book adjusted carrying value of the amount of funds withheld on coinsurance contracts.

4. **Schedule S, Part 3 Section 2 - Column 14** – Funds Withheld Under Coinsurance

   Report the book adjusted carrying value of the amount of funds withheld on coinsurance contracts.

5. **Schedule S, Part 4 – Reinsurance Ceded to Unauthorized Companies**

   Column 12 – Funds Deposited By and Withheld From Reinsurers

   Include: Where permissible to be taken as credit against the loss and reserve liabilities in Column 8, amounts deposited by the reinsurer with or for the reporting insurance company, letters of credit, and trust agreements. Securities withheld from the reinsurer or held on deposit should be valued at the book adjusted carrying value of the funds held by the ceding entity. Funds ~~or~~ held in a trust fund should be valued at fair ~~market~~ value.

~~NAIC-published market values must be used when available.~~ Letters of credit and trust agreements are not to be included in assets or liabilities on Pages 2 or 3 or supporting pages and exhibits.

**Schedule S, Part 5 – Reinsurance Ceded to Certified Reinsurers**

Column 20 – Funds Deposited by and Withheld from Reinsurers

Include: Where permissible to be taken as credit against the loss and reserve liabilities in Column 14, amounts deposited by the reinsurer with or for the reporting insurance company, letters of credit, and trust agreements. Securities withheld from the reinsurer or held on deposit should be valued at the book adjusted carrying value of the funds held by the ceding entity. Funds ~~or~~ held in a trust fund should be valued at fair ~~market~~ value.

~~NAIC-published market values must be used when available.~~ Letters of credit and trust agreements are not to be included in assets or liabilities on Pages 2 or 3 or supporting pages and exhibits.

**Status:**

On March 23, 2026, the Statutory Accounting Principles (E) Working Group moved this item to the active agenda, classified as a SAP clarification, and exposed revisions *to SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* and the life annual statement instructions for various reporting schedules, as illustrated above, to clarify the reporting of funds withheld under reinsurance contracts. With exposure, the Working Group also sponsored a blanks proposal to incorporate the revisions to the annual statement instructions.

On May 18, 2026, the Statutory Accounting Principles (E) Working Group exposed additional revisions *to SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*, as illustrated below, to clarify the reporting of funds withheld under reinsurance contracts. With exposure, the Working Group also directed NAIC staff to work with industry to refine the exposed language and directed NAIC staff to coordinate on updating the currently exposed blanks proposal 2026-10BWG to change the 2026 effective date and to incorporate additional revisions to the annual statement instructions.

1. Exposed revisions to SSAP No. 61, additional revisions from the prior exposure shown as shaded text.

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 withheld by the ceding entity shall be recorded as a separate liability. The liability is based on the book adjusted carrying value (using applicable statutory accounting principles) of the assets held by the ceding entity to the extent that such funds were included as a part of the total assets and were not offset by a directly related credit on the asset page. The assets held on the ceding entity's balance sheet to support the funds withheld liability are accounted under the appropriate statutory accounting principles for the specific asset(s). 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. The liability is based on the book adjusted carrying value (using applicable statutory accounting principles) of the assets held by the ceding entity to the extent that such funds were included as a part of the total assets and were not offset by a directly related credit on the asset page.

2. **Update the life, accident & health/fraternal annual statement instructions for the**

c. **Liability line 24.03 Funds Held Under Reinsurance Treaties with Unauthorized and Certified Reinsurers to add reference the use of BACV as follows:**

~~Total amount from~~ Report the total book adjusted carrying value (using applicable statutory accounting principles) of the funds withheld assets for unauthorized and certified reinsurers. T~~t~~his should match Schedule S, Part 4 (Columns 12 and 13) plus Schedule S, Part 5 [(Columns 20 and 21) x 1000), (other than amounts of credit or trust agreements included therein)] to the extent that such funds were included as a part of the total assets on Page 2 of the statement and were not offset by a directly related credit offset on Page 2.

d. **Liabilities line 24.07 – Funds Held Under Coinsurance** to add reference the use of BACV as and add cross checks to the funds withheld columns in Schedule S Part 3 Section 1 and Section 2.

Report the amount of funds withheld from reinsurers under coinsurance treaties other than amounts reported on Line 24.03.The total amount of the book adjusted carrying value (using applicable statutory accounting principles) of the funds withheld assets (for amounts not related to unauthorized or certified reinsurers) should match Schedule S, Part 3, Section 1 (Column 15) plus Schedule S, Part 3, Section 2 (Column 14) x 1000 (other than amounts of credit or trust agreements included therein) to the extent that such funds were included as a part of the total assets on Page 2 of the statement and were not offset by a directly related credit on Page 2.

3. **Schedule S, Part 3 Section 1 - Column 15** – Funds Withheld Under Coinsurance

Report the book adjusted carrying value (using applicable statutory accounting principles) of the amount of funds withheld on coinsurance contracts.

4. **Schedule S, Part 3 Section 2 - Column 14** – Funds Withheld Under Coinsurance

Report the book adjusted carrying value (using applicable statutory accounting principles) of the amount of funds withheld on coinsurance contracts.

5. **Schedule S, Part 4 – Reinsurance Ceded to Unauthorized Companies**

Column 12 – Funds Deposited By and Withheld From Reinsurers

Include: Where permissible to be taken as credit against the loss and reserve liabilities in Column 8, amounts deposited by the reinsurer with or for the reporting insurance company, letters of credit, and trust agreements. Securities withheld from the reinsurer or held on deposit should be valued at the book adjusted carrying value (using applicable statutory accounting principles) of the funds held by the ceding entity. Funds ~~or~~ held in a trust fund should be valued at fair ~~market~~ value.

~~NAIC-published market values must be used when available.~~ Letters of credit and trust agreements are not to be included in assets or liabilities on Pages 2 or 3 or supporting pages and exhibits.

**Schedule S, Part 5 – Reinsurance Ceded to Certified Reinsurers**

Column 20 – Funds Deposited by and Withheld from Reinsurers

Include: Where permissible to be taken as credit against the loss and reserve liabilities in Column 14, amounts deposited by the reinsurer with or for the reporting insurance company, letters of credit, and trust agreements. Securities withheld from the reinsurer or held on deposit should be valued at the book adjusted carrying value (using applicable statutory accounting principles) of the funds held by the ceding entity. Funds ~~or~~ held in a trust fund should be valued at fair ~~market~~ value.

~~NAIC-published market values must be used when available.~~ Letters of credit and trust agreements are not to be included in assets or liabilities on Pages 2 or 3 or supporting pages and exhibits.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/08-12-26 Summer National Meeting/Hearing/08 - 26-02 - Valuation of Funds Withheld.docx

**Statutory Accounting Principles (E) Working Group**
**Maintenance Agenda Submission Form**
**Form A**

**Issue: ASU 2025-10, Accounting for Government Grants Received by Business Entities**

**Check (applicable entity):**

| | P/C | Life | Health |
|---|---|---|---|
| Modification of Existing SSAP | ☒ | ☒ | ☒ |
| New Issue or SSAP | ☐ | ☐ | ☐ |
| Interpretation | ☐ | ☐ | ☐ |

**Description of Issue:**
In December 2025, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update* (ASU) *2025-10, Accounting for Government Grants Received by Business Entities* which establishes a new topic to provide accounting for a government grant received by a business entity, including guidance for (1) a grant related to an asset and (2) a grant related to income. Under ASU 2025-10, a grant related to an asset is a government grant, or part of a government grant, which is conditioned on the purchase, construction, or acquisition of an asset (for example, a long-lived asset or inventory). A grant related to income is a government grant, or part of a government grant, other than a grant related to an asset (for example, a grant that reimburses a business entity for operating expenses).

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

NAIC staff's recommendation is that adoption of ASU 2025-10 is not necessary, as the guidance would be rarely utilized by insurance entities and the Working Group has already rejected the grant or contribution accounting models. Outside of the COVID-19 era programs such as the Paycheck Protection Program (PPP), Economic Injury Disaster Loans (EIDL), and Employee Retention Credits (ERC), government grant/assistance revenues are unusual and infrequent occurrences for insurers and existing guidance in SSAP No. 5 and SSAP No. 24 is sufficient to address such transactions.

**Existing Authoritative Literature:**

*SSAP No. 5— Liabilities, Contingencies and Impairments of Assets:*

Gain Contingencies

15. A gain is defined as an increase in surplus which results from peripheral or incidental transactions of a reporting entity and from all other transactions and other events and circumstances affecting the

reporting entity except those that result from revenues or investments by owners. If, on or before the balance sheet date, (a) the transaction or event has been fully completed, and (b) the amount of the gain is determinable, then the transaction or event is considered a gain, and is recognized in the financial statements. The definition of a gain excludes increases in surplus that result from activities that constitute a reporting entity's ongoing major or central operations or activities. Because investment activities are central to an insurer's operations, increases in surplus that result from such investment activities are excluded from the definition of gains. Revenues are inflows or other enhancements of assets of a reporting entity or settlements of its liabilities (or a combination of both) from providing products, rendering services, or other activities that constitute the reporting entity's ongoing major or central operations. Investments by owners include any type of capital infused into the surplus of the reporting entity.

16. A gain contingency is defined as an existing condition, situation, or set of circumstances involving uncertainty as to possible gain (as defined in the preceding paragraph) to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur (e.g., a plaintiff has filed suit for damages associated with an event occurring prior to the balance sheet, but the outcome of the suit is not known as of the balance sheet date). Gain contingencies shall not be recognized in a reporting entity's financial statements. However, if subsequent to the balance sheet date but prior to the issuance of the financial statements, the gain contingency is realized, the gain shall be disclosed in the notes to financial statements and the unissued financial statements should not be adjusted to record the gain. A gain is generally considered realizable when noncash resources or rights are readily convertible to known amounts of cash or claims to cash.

*SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items (grey shading added from emphasis):*

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, disclosure shall additionally include the form in which the assistance 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.

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** Agenda item 2022-04: ASU 2021-10, Government Assistance adopted ASU 2021-10 with modification on August 10, 2022.

Agenda item 2023-06: ASU 2021-10, Government Assistance was reassessed ASU 2021-10 at the recommendation of NAIC staff. On August 13, 2023, ASU 2021-10 was rejected for statutory accounting purposes, but general disclosures were incorporated into SSAP No. 24 for insurance companies which received government assistance.

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:** None.

**Convergence with International Financial Reporting Standards (IFRS): None.**

**Staff Review Completed by:** William Oden – NAIC Staff

 

**Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items* to reject *ASU 2025-10, Accounting for Government Grants Received by Business Entities*. NAIC staff recommend updating SSAP No. 24 to change the term "government assistance" to "government grants" as the term "government assistance" is no longer used within U.S. GAAP and add an additional sentence to clarify that government grants are to be recorded in accordance with gain contingency guidance.**

**Recommended Revisions to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items*:**

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*.

Relevant Literature

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

**Status:**
On May 18, 2026, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as a SAP clarification, and exposed revisions to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items* to reject ASU 2025-10, Accounting for Government Grants Received by Business Entities. This exposure also included updates to SSAP No. 24 to change the term "government assistance" to "government grants" as the term "government assistance" is no longer used within U.S. GAAP and to add an additional sentence to clarify that government grants are to be recorded in accordance with gain contingency guidance.

**Summer National Meeting Recommended Revisions to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items*:**
*Drafting Note: New revisions to the exposure are shown tracked with grey fill.*

Unusual/Infrequent Items

16. The nature, including a general description of the transactions, and financial effects of each unusual or infrequent event or transaction shall be disclosed in the notes to the financial statements. Gains or losses of a similar nature that are not individually material shall be aggregated. This disclosure shall include the line items which have been affected by the event or transaction considered to be unusual and/or infrequent. If the unusual or infrequent item is ~~as~~ the result of government ~~assistance~~grants, the disclosures shall ~~additionally~~ include the form in which the ~~assistance~~ grant has been received (for example, cash or other assets), and information regarding significant terms and conditions of the transaction, with items including, to the extent applicable, the

duration or period of the agreement, and commitments made by the reporting entity, provisions for recapture, or other contingencies. Government grants are to be treated as gain contingencies and shall be recognized and disclosed in accordance with *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets*.

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

Relevant Literature

25. 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*.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/08-12-26 Summer National Meeting/Hearing/09 - 26-04 - ASU 2025-10 Govt Grants.docx

**Attachment 10**

**Statutory Accounting Principles (E) Working Group**
**2026 Summer National Meeting**
**Comment Letters Received**

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June 22, 2026

Mr. Kevin Clark, Chairman
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

RE: Interested Parties Comments on Items Exposed for Comment by the Statutory Accounting Principles Working Group with Comments due June 22

Dear Mr. Clark:

Thank you and the NAIC Statutory Accounting Principles Working Group (the Working Group) for the opportunity to comment on the above-referenced items, which were recently exposed for comment by the Working Group.

**Ref #2023-14: SSAP No. 7, Asset Valuation Reserve and Interest Maintenance Reserve**

On April 22, the Working Group exposed by e-vote a revised SSAP No. 7 to capture accounting guidance within the SSAP instead of the annual statement instructions, pursuant to the December 1, 2023, Working Group direction. The draft SSAP reflects conclusions reached by the IMR Ad Hoc Group, which includes various revisions to historical guidance. In addition to the revised SSAP, the exposure included an issue paper that details the discussions and conclusions of the IMR Ad Hoc Group, proposed revisions to other SSAPs related to IMR, and proposed reporting changes.

Interested parties have requested and received an extension to provide comments for this specific exposure by Thursday, June 25, 2026

**Ref #2024-15: Asset Liability Management Derivatives**

The Working Group exposed the proposed SSAP and issue paper to establish statutory accounting guidance for interest-rate hedging derivatives used for asset-liability management. The only edits reflected from the prior exposure are to revise the transition guidance, to incorporate a surplus-neutral approach, and clarify amortization of the derivative asset or liability. The exposure is intended to provide additional time for regulators to assess the new derivative concepts prior to adoption, particularly on the broad concepts, and transition, reporting and admitted asset classification.

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

**Ref #2026-02: Valuation of Funds Withheld Liability**

The Working Group exposed additional revisions *to SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*, as illustrated in the draft, to clarify the reporting of funds withheld under reinsurance contracts. With exposure, the Working Group also directed NAIC staff to work with industry to refine the exposed language and directed NAIC staff to coordinate on updating the currently exposed blanks proposal 2026-10BWG to change the 2026 effective date and to incorporate additional revisions to the annual statement instructions.

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

**Ref #2026-04: ASU 2025-10, Accounting for Government Grants Received by Business Entities**

The Working Group moved this item to the active listing, categorized as an SAP clarification, and exposed revisions to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items* to reject ASU 2025-10, Accounting for Government Grants Received by Business Entities. This exposure also included updates to SSAP No. 24 to change the term "government assistance" to "government grants" as the term "government assistance" is no longer used within U.S. GAAP and to add an additional sentence to clarify that government grants are to be recorded in accordance with gain contingency guidance.

As noted in the Form A for this item, the amendments in ASU 2025-10 establish the 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. A grant related to an asset is a government grant, or part of a government grant, that 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 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 non-admitted asset based on the nature of the asset and the applicable SSAP.

**Ref #2026-05 – Securities Lending Restricted Asset Reporting**

The Working Group moved this item to the active listing, categorized as a SAP clarification and exposed revisions to *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures* to change the terminology for security lending restricted assets to "assets lent under securities lending arrangements." Collateral received in response for securities lending arrangements that can be sold or repledged shall be captured as a restricted asset as "collateral received with liability recognized for the return." The exposure also supported sponsoring a blanks proposal for consistent revisions. Upon adoption, a referral will be provided to the Capital Adequacy (E) Task Force to incorporate corresponding RBC instruction revisions.

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

**Ref #2026-06: Fair Value Disclosures**

The Working Group moved this item to the active listing, categorized as an SAP clarification and exposed revisions to SSAP No. 100—*Fair Value* to eliminate the exclusion for investments accounted for under the equity method from the fair value financial instrument disclosure, as illustrated in the draft. With this exposure, comments were requested on the other disclosures in SSAP No. 100, particularly the disclosures limited to items measured and reported at fair value.

The proposal contains the following description of the changes that are included in this item:

> To eliminate questions, ensure consistency in reporting, and ensure that regulators have complete disclosures on financial instruments held as investments, including aggregate information on equity investments backed by level 3 fair values, this agenda item proposes

to remove the "investments accounted for under the equity method" disclosure exclusion from the financial instrument fair value disclosure. This will create a U.S. GAAP to SAP disclosure mismatch in guidance requirements, but due to measurement method differences (e.g., investments held at fair value under U.S. GAAP may be held under a different standard under SAP), existing fair value disclosures already do not agree between U.S. GAAP and SAP.

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

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

*Operating Entities/Subsidiaries*

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

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

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

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

*ASC 946 Investment Companies*

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

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

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

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

Included in the responses were the following:

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

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

**Ref #2026-07: Referral on AVR Affiliated Common Stock**

The Working Group moved this item to the active listing, categorized as an SAP clarification, and exposed revisions to the Life, Accident & Health/Fraternal Annual Statement blank and instructions as described and illustrated in the draft. In addition, the Life Risk-based Capital (E) Working Group was notified of the exposure. No revisions to statements of statutory accounting principles are exposed. After exposure of this agenda item, NAIC staff recommended that the Working Group sponsor a blanks proposal to incorporate instruction changes to the noted AVR reporting lines, as well as to review other AVR reporting lines (particularly lines 65-69) to ensure the instructions are clear.

Interested parties have no comment on this item.

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Thank you for considering interested parties' comments. We look forward to working with you and the Working Group on these items. If you have any questions in the interim, please do not hesitate to contact either one of us.

Sincerely,

D. Keith Bell　　　　　Rose Albrizio

cc: Julie Gann, NAIC staff
Robin Marcotte, NAIC staff
Wil Oden, NAIC staff
Jake Stultz, NAIC staff
Interested parties

June 22, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

Re: SAPWG Ref #2026-02 – Valuation of Funds Withheld

Dear Chair Clark,

The American Council of Life Insurers (ACLI) appreciates this opportunity to comment on Statutory Accounting Principles (E) Working Group (SAPWG) Ref #2026-02, Valuation of Funds Withheld.

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

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

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

Sincerely,

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cc: Julie Gann, NAIC