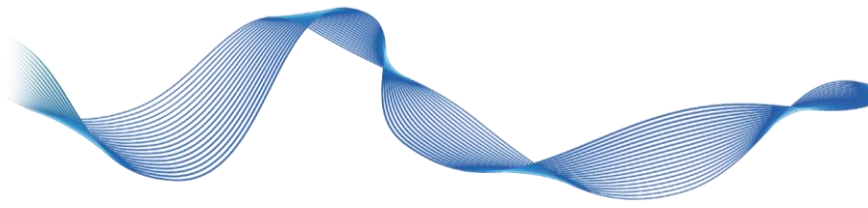




2026 FALL NATIONAL MEETING
DALLAS, TX



Draft date: 10/13/26

*2026 Fall National Meeting
Dallas, Texas*

INVESTED ASSETS (E) TASK FORCE

Monday, November 16, 2026

2:00 – 3:00 p.m.

Convention Center—Grapevine CD—Level 3

ROLL CALL

NAIC Member

Doug Ommen, Chair
Scott A. White, Vice Chair
Peter M. Fuimaono
Ricardo Lara
Joshua Hershman
Michael Yaworsky
Dean L. Cameron
Vicki Schmidt
Angela L. Nelson
Eric Dunning
Susan Ochs
Kaitlin Asrow
Jon Godfread
Judith L. French
Glen Mulready
TK Keen
Michael Humphreys
Elizabeth Kelleher Dwyer
Michael Wise
Carter Lawrence
Amanda Crawford
Patty Kuderer
Nathan Houdek

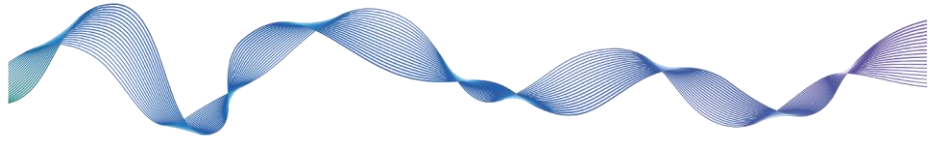
Representative

Carrie Mears
Doug Stolte
Elizabeth Perri
Laura Clements
Ken Cotrone
Anoush Brangaccio
Eric Fletcher
Tish Becker
Danielle Smith
Tadd Wegner
Susan Ochs
Avani Shah/Bob Kasinow
Colton Schulz
Cameron Piatt
Ryan Rowe
Paul Throckmorton
Diana L. Sherman
Liz Ammerman
Ryan Basnett
Trey Hancock
Amy Garcia
Steve Drutz
Amy Malm

State/Territory

Iowa
Virginia
American Samoa
California
Connecticut
Florida
Idaho
Kansas
Missouri
Nebraska
New Jersey
New York
North Dakota
Ohio
Oklahoma
Oregon
Pennsylvania
Rhode Island
South Carolina
Tennessee
Texas
Washington
Wisconsin

NAIC Committee Support: Jim Pinegar/Jennifer Vento/Michele Wong



AGENDA

1. Consider Adoption of its Sept. 1 and Summer National Meeting Minutes—*Carrie Mears (IA)* Attachments One and One-A
Attachment Two
2. Receive a Report from the Investment Analysis (E) Working Group—*Carrie Mears (IA)* Attachment Three
3. Consider Adoption of the Reports of its Working Groups—*Carrie Mears (IA)*
 - A. Investment Designation Analysis (E) Working Group—*Ken Cotrone (CT)* Attachment Four
 - B. Credit Rating Provider (E) Working Group—*Jake Garn (UT)* Attachment Five
4. Consider Adoption of the Credit Rating Provider (E) Working Group's Credit Rating Provider (CRP) Due Diligence Framework—*Carrie Mears (IA)* Attachment Six
5. Hear a Presentation KBRA on Emerging Investment Structures (e.g., Fund Finance) and Evolving Market Trends, Including the Increasing Complexity, Risk, and Interconnectedness of Certain Structured Investments—Bill Cox (KBRA), Ryon Aguirre (KBRA), and Tom Speller (KBRA)
6. Discuss Any Other Matters Brought Before the Task Force—*Carrie Mears (IA)*
7. Adjournment

Draft: 9/3/26

Invested Assets (E) Task Force
E-Vote
Sept. 1, 2026

The Invested Assets (E) Task Force conducted an e-vote that concluded Sept. 1, 2026. The following Task Force members participated: Doug Ommen, Chair, represented by Carrie Mears (IA); Scott A. White, Vice Chair, and Doug Stolte (VA); Ricardo Lara represented by Laura Clements (CA); Joshua Hershman represented by Ken Cotrone (CT); Michael Yaworsky represented by Anoush Brangaccio (FL); Vicki Schmidt represented by Tish Becker (KS); Angela L. Nelson represented by Danielle Smith (MO); Jon Godfread represented by Colton Schulz (ND); Eric Dunning represented by Tadd Wegner (NE); Kaitlin Asrow represented Bob Kasinow (NY); Judith L. French represented by Cameron Piatt (OH); Glen Mulready represented by Ryan Rowe (OK); TK Keen represented by Paul Throckmorton (OR); Michael Humphreys represented by Diana L. Sherman (PA); Michael Wise represented by Ryan Basnett (SC); Carter Lawrence represented by Trey Hancock (TN); Amanda Crawford represented by Amy Garcia (TX); Patty Kuderer represented by Steve Drutz (WA); and Nathan Houdek represented by Amy Malm (WI).

1. Adopted its 2027 Proposed Charges and Those of its Working Groups

The Task Force considered proposed revisions to its 2027 proposed charges and those of its working groups. The proposed revisions included moving consolidated charges from the Investment Analysis (E) Working Group to the Task Force, as the scope of the charges extends beyond the work of the Investment Analysis (E) Working Group and provides a significant benefit to others, specifically the Investment Designation Analysis (E) Working Group. The change also reflects that future fiscal requests regarding technology initiatives would be more appropriately sponsored by the Task Force rather than a Working Group. Minor editorial revisions were also made to provide additional context, improve readability, and ensure consistency throughout the charges.

The Task Force also affirmed unmodified 2027 proposed charges of the Investment Designation Analysis (E) Working Group, which were previously approved by the Working Group during the Summer National Meeting.

The Task Force members voted unanimously to adopt its 2027 proposed charges and those of its working groups (Attachment **One**). Having no further business, the Invested Assets (E) Task Force adjourned.

Draft: 8/28/2025

Adopted by the Executive (EX) Committee and Plenary, Dec. 11, 2025

Adopted by the Financial Condition (E) Committee, Nov. 5, 2025

2026 Charges

INVESTED ASSETS (E) TASK FORCE

The mission of the Invested Assets (E) Task Force is to provide regulatory leadership and expertise to establish and maintain all aspects of the NAIC's analysis of insurer invested assets.

Ongoing Support of NAIC Programs, Products, or Services

1. The **Invested Assets (E) Task Force** will:

- A. Oversee the work of the Credit Rating Provider (E) Working Group, the Investment Analysis (E) Working Group, and the Investment Designation Analysis (E) Working Group.
- B. Provide a forum for education from various parties to regulators on investment products, their performance, and the financial risks for regulatory policy purposes, as well as how regulators may address such risks.
- C. Understand new or evolving investment products that may possess characteristics that pose unique risks to insurers and the industry and coordinate with different NAIC groups of the Financial Condition (E) Committee or other NAIC groups, if necessary, to develop, implement, or advise on investment-related solvency policy changes (e.g., accounting, risk-based capital [RBC], etc.) or procedures within their analysis and examination of insurers subject to such risks.
- ~~C.~~D. Support strategic initiatives to modernize the NAIC's investment regulatory framework, including investment data, technology, analytical capabilities, and related business processes, and coordinate implementation among the Credit Rating Provider (E) Working Group, Investment Analysis (E) Working Group, Investment Designation Analysis (E) Working Group, and other applicable NAIC groups.

2. The **Credit Rating Provider (E) Working Group** will:

- A. Identify potential improvements to the filing exempt (FE) process (i.e., using credit rating provider [CRP] ratings to determine an NAIC designation) through ongoing implementation of the CRP due diligence framework to ensure greater consistency, uniformity, and appropriateness to achieve the NAIC's financial solvency objectives.
- B. Implement policies resulting from the CRP due diligence framework related to NAIC ~~'s staff committee~~ support administration of rating agency ratings used in NAIC processes, including ~~staff committee support~~ discretion over the applicability of their use in its administration of FE.
- C. Coordinate with the Investment Designation Analysis (E) Working Group on issues identified from the maintenance of the CRP due diligence framework.

3. The **Investment Analysis (E) Working Group** will:

- A. Monitor the risks associated with all types of invested assets, including collateral loans, mortgage loans, real estate, and Schedule BA investments.
- B. Analyze the details of new or evolving investment products or new investment characteristics that could pose unique risks to insurers and provide recommendations to the Invested Assets (E) Task Force on investment-related solvency policy changes to be made in conjunction with other NAIC groups of the Financial Condition (E) Committee.

~~C.~~ Analyze insurers and groups that hold new, evolving, or riskier investments (including those with higher levels of illiquidity, valuation uncertainty or complexity) and advise the state of domicile on applicable risks, either directly or through coordination with the Financial Analysis

(E) Working Group or Valuation Analysis (E) Working Group. Where applicable, utilize NAIC [committee support staff](#) from ~~the Securities-~~
C.

INVESTED ASSETS (E) TASK FORCE (*Continued*)

[the Securities](#)

Valuation Office ([SVO](#)), the Structured Securities Group ([SSG](#)), and the Capital Markets Bureau ([CMB](#)) to assist the Working Group with these deliverables.

- D. Oversee a revised portfolio analysis product from NAIC [committee support staff](#), the CMB ~~r~~Research agenda, and analytical investment reports produced by NAIC for the public.

~~INVESTED ASSETS (E) TASK FORCE (*Continued*)~~

~~H. Oversee the NAIC's implementation of revised systems designed to improve the availability of various investment data points from existing NAIC databases while also identifying and providing NAIC staff who support this group with at least one investment software package that facilitates portfolio analysis and portfolio modeling.~~

~~I. Monitor information technology and data resource needs to ensure data can be retrieved efficiently and effectively.~~

~~J.E.~~ Develop best practice examples of supervisory plans that monitor complex investments where the company and the regulator oversee company-designed risk dashboards on their riskier investment areas/or risk mitigation tracking.

4. The **Investment Designation Analysis (E) Working Group** will:

- A. Review and monitor the operations of the NAIC Securities Valuation Office (SVO) and the NAIC Structured Securities Group (SSG) to ensure they continue to reflect regulatory objectives.
- B. Maintain and revise *the Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to provide solutions for investment-related regulatory issues for existing or anticipated investments.
- C. Monitor changes in accounting and reporting requirements resulting from the continuing maintenance of the *Accounting Practices and Procedures Manual* (AP&P Manual), as well as financial statement blanks and instructions, to ensure that the P&P Manual reflects regulatory needs and objectives.
- D. Provide effective direction to the NAIC's mortgage-backed securities modeling firms and consultants.
- E. Identify potential improvements to the credit filing and designation processes, including formats and electronic system enhancements.
- F. Coordinate with the Invested Assets (E) Task Force, Investment Analysis (E) Working Group, and other NAIC working groups and task forces to formulate recommendations and make referrals to other NAIC regulator groups to ascertain that the purpose and objective of guidance in the P&P Manual is reflective in the guidance of other groups and that the expertise of other NAIC regulatory groups and the objectives of their guidance is reflected in the P&P Manual. Implement additional and alternative ways to measure and report investment risk.

NAIC Committee Support: ~~Mark Sagat~~ [Dan Daveline, Jim Pinegar, Michele Wong, and Jennifer Vento](#)

Draft Pending Adoption

Draft: 8/17/26

Invested Assets (E) Task Force
Columbus, Ohio
August 13, 2026

The Invested Assets (E) Task Force met in Columbus, OH, Aug. 13, 2026. The following Task Force members participated: Doug Ommen, Chair, represented by Carrie Mears (IA); Scott A. White, Vice Chair, Doug Stolte, and Greg Chew (VA); Ricardo Lara represented by Laura Clements (CA); Joshua Hershman represented by Ken Cotrone (CT); Michael Yaworsky represented by Anoush Brangaccio (FL); Dean L. Cameron represented by Eric Fletcher (ID); Vicki Schmidt represented by Tish Becker (KS); Eric Dunning represented by Tadd Wegner (NE); Susan Ochs represented by Paul Lupo and David Wolf (NJ); Kaitlin Asrow represented by Avani Shah and Bob Kasinow (NY); Judith L. French represented by Cameron Piatt (OH); Glen Mulready represented by Eli Snowbarger (OK); TK Keen represented by Paul Throckmorton (OR); Elizabeth Kelleher Dwyer represented by Liz Ammerman (RI); Michael Wise represented by Ryan Basnett (SC); Carter Lawrence represented by Trey Hancock (TN); Amanda Crawford represented by Amy Garcia (TX); Patty Kuderer represented by Steve Drutz (WA); and Nathan Houdek represented by Amy Malm (WI). Also participating were: Philip Barlow (DC); Gilbert Mendoza (MD); Fred Andersen (MN); and Jake Garn (UT).

1. Adopted its Spring National Meeting Minutes

Malm made a motion, seconded by Wegner, to adopt the Task Force's March 24 minutes (*see NAIC Proceedings – Spring 2026, Invested Assets (E) Task Force*). The motion passed unanimously.

2. Adopted the Report of the Investment Designation Analysis (E) Working Group

Cotrone said the Investment Designation Analysis (E) Working Group met July 30 in regulator-to-regulator session pursuant to paragraph 6 (consultations with NAIC staff related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings. During this meeting, NAIC committee support presented the technical guidance captured in the Summer National Meeting agenda.

Additionally, Cotrone said the Investment Designation Analysis (E) Working Group met Aug. 13. During this meeting, the Working Group took the following action: 1) adopted its Spring National Meeting minutes; 2) adopted its 2027 proposed charges; 3) adopted amendments to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to update the list of approved credit rating providers (CRPs) and updated guidance permitting the NAIC Securities Valuation Office (SVO) to perform analysis of certain parent-subsidary situations; 4) exposed an amendment to the P&P Manual to update filing exempt (FE) treatment of collateralized loan obligations (CLOs) for a 30-day public comment period ending Sept. 14; 5) directed NAIC committee support to refer a rating agency's request to become a CRP to the Credit Rating Provider (E) Working Group; 6) heard a request from NAIC committee support regarding an entity's request to be added to the NAIC's list of nationally recognized statistical rating organizations (NRSROs) to be used to administer the NAIC's list of qualified U.S. financial institutions; 7) heard a report that the NAIC's ability to implement discretion over NAIC designations assigned through the FE process is operational; 8) moved to permit the SVO to temporarily extend the private rating filing deadline for a period equivalent to the outage period that began on June 17, 2026; and 9) received an update that NAIC's AVS+ system is temporarily offline for system maintenance and should be operational by Aug. 14.

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Drutz made a motion, seconded by Clements, to adopt the report of the Investment Designation Analysis (E) Working Group minutes (Attachment One). The motion passed unanimously.

3. Received the Report of the Credit Rating Provider (E) Working Group

Garn said the Credit Rating Provider (E) Working Group met Aug. 12. During this meeting, the Working Group took the following action: 1) adopted its Spring National Meeting minutes; 2) discussed comments received on the CRP Due Diligence Framework proposal; and 3) directed NAIC committee support to work with PricewaterhouseCoopers (PwC) to prepare a revised version of the framework.

Additionally, Garn said the Credit Rating Provider (E) Working Group met July 30 and June 25 in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities, or individuals), paragraph 6 (consultations with NAIC staff related to NAIC technical guidance), and paragraph 9 (subjects required to be kept confidential) of the NAIC Policy Statement on Open Meetings. During its June 25 meeting, the Working Group discussed questions received regarding the CRP Due Diligence Framework proposal. During its July 30 meeting, NAIC committee support presented the technical guidance captured in the Summer National Meeting agenda.

Kasinow made a motion, seconded by Piatt, to adopt the report of the Investment Designation Analysis (E) Working Group minutes (Attachment Two). The motion passed unanimously.

4. Received the Report of the Investment Analysis (E) Working Group

Mears said the Investment Analysis (E) Working Group met June 29 in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings. During this meeting, the Working Group took the following action: 1) heard a presentation from NAIC committee support regarding investments categorized as Level 3 under *Statement of Statutory Accounting Principles (SSAP) No. 100—Fair Value*, with a particular focus on Note 20C fair value hierarchy disclosures, noting that current Note 20C reporting exhibits significant variability in structure, granularity, and presentation across reporting entities, limiting comparability and regulatory analysis, and that the free-form nature of the disclosure and lack of standardized alignment with statutory investment schedules introduce inconsistencies in data quality and limit regulators' ability to efficiently trace fair value hierarchy disclosures to underlying reported investments; and 2) issued a referral to the Statutory Accounting Principles (E) Working Group seeking evaluation of whether existing disclosure requirements continue to provide the consistency, transparency, and comparability needed to effectively assess fair value measurements, particularly for investments classified within Level 3 of the fair value hierarchy. (see *NAIC Proceedings – Summer 2026, Statutory Accounting Principles (E) Working Group Minutes*.)

Mears said the Investment Analysis (E) Working Group met May 14 in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings. During this meeting, the Working Group took the following action: 1) heard a presentation from NAIC committee support regarding mortgage loans, specifically focusing on the growth of residential mortgage loan portfolios with life companies, noting the rapid growth of residential mortgage loan exposure since 2021, increasing concentration levels among certain insurers, and limitations in current reporting that restrict regulators' ability to evaluate the underlying risk characteristics of these investments, and noted that *SSAP No. 37—Mortgage Loans* provides limited guidance regarding the distinction between traditional residential mortgage loans and certain larger or more complex mortgage loan structures that may exhibit risk characteristics more commonly associated with commercial real estate lending and 2) issued a referral to the Statutory Accounting Principles (E) Working Group and the Life Risk-Based Capital (E) Working Group seeking evaluation of whether existing statutory accounting guidance, reporting requirements, and risk-based capital (RBC) treatment continue to appropriately reflect the

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evolving composition of residential mortgage loan investments held by insurers. (see *NAIC Proceedings – Summer 2026, Statutory Accounting Principles (E) Working Group Minutes*.)

Mears said the Investment Analysis (E) Working Group updated its revolving six-to-nine-month plan, consistent with its commitment to transparency, to identify topics planned for future consideration, including continued discussions regarding Level 3 investments and fund finance. (Attachment Three)

5. Heard a Presentation from the NAIC/AICPA (E) Working Group Regarding Private Credit and Auditing Fair Value Estimations for Certain Investments

Olga Roberts (KPMG and chair of the NAIC/American Institute of Certified Public Accountants [AICPA] [E] Working Group), Dave Osborne (Ernst & Young—EY), Josh Martin (Deloitte), and Jim Garner (Forvis Mazars) presented an overview of audit considerations for insurance companies' investments in private credit. Roberts stated that the presentation was developed by members of the NAIC/AICPA (E) Working Group and was intended to reflect the combined views of the Working Group rather than those of its individual firms. Gartner noted that private credit is increasingly being used by insurance companies to support obligations to policyholders and that, as these portfolios become more complex, auditors must understand not only the labels applied to investments but also the underlying risks, structures, and related measurement and monitoring processes.

Garner noted that regulators, rating agencies, and investors have similarly questioned whether the risks associated with private credit are changing as insurers increase their exposure to the asset class, whether certain structures are becoming more difficult to understand and value, and whether governance is evolving appropriately to oversee increasingly complex portfolios. Garner explained that, from an independent accounting firm's perspective, private credit requires intentional and thoughtful risk-assessment procedures to identify changes in an insurer's portfolio and determine what new financial reporting and governance risks may have emerged. Garner emphasized that private credit is not a single type of investment but rather a broad term applied to a wide variety of investment structures and risks.

Garner explained that the presentation was organized around the audit process because it provides a framework for considering financial reporting, valuation, and transparency risks associated with private credit. Garner noted that if an insurer has significantly increased its private credit exposure, the auditor's risk assessment should demonstrate an understanding of that change and include analysis specific to the insurer's new investment landscape, including the structure of the investments, significant judgments and assumptions, the observability of inputs, and the areas in which material misstatement could occur. Garner stated that the growth of private credit places increasing pressure on auditors to apply existing auditing requirements thoughtfully and with professional skepticism, particularly as investments become more complex, less liquid, more judgmental, and more difficult to independently corroborate.

Garner explained that there is not a single universally accepted definition of private credit. Although the NAIC has adopted a definition, the term may be used differently by various market participants and may encompass direct lending, middle-market lending, structured credit exposures, and other debt-like investment arrangements. Two investments may both be characterized as private credit while having materially different structures, characteristics, and financial reporting risks. Accordingly, Garner emphasized that the label itself may be less informative than understanding the specific structure and risks of each investment.

Garner noted that auditors may, in certain circumstances, perform investment valuation testing under a Public Company Accounting Oversight Board (PCAOB)-compliant model when auditing a U.S. generally accepted accounting principles (GAAP) financial statement issuer that is a U.S. Securities Exchange Commission (SEC)

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registrant, and that such work may potentially be leveraged for a statutory audit. Garner clarified that the presentation was focused specifically on an NAIC statutory-basis audit performed under AICPA standards.

Osborne provided an overview of the applicable generally accepted auditing standards (GAAS), noting that three sections are particularly relevant when considering audits of private credit investments: *Auditing Standards – Clarified (AU-C) Section 315, Understanding the Entity and Its Environment and Assessing the Risk of Material Misstatement*; *AU-C Section 320, Materiality in Planning and Performing an Audit*; and *AU-C Section 540, Auditing Accounting Estimates and Related Disclosures*. Osborne noted that AU-C Section 540 includes requirements and guidance concerning the application of other auditing standards to accounting estimates, the evaluation of misstatements in estimates and related disclosures, and indicators of possible management bias.

Osborne stated that auditors would not necessarily use the same approach to private credit investments as they would for investment balances without private credit exposure. Rather, the audit approach would depend on the auditor's risk assessment, professional judgment, and the complexity of the specific investment or group of investments. Where private credit investments are more complex, illiquid, or judgmental, or where an insurer's private credit portfolio is rapidly growing, the audit would generally involve a deeper risk assessment, more detailed testing, and greater challenge of management's accounting estimates.

Osborne noted that the purpose of an audit of statutory-basis financial statements is to provide users with an auditor's opinion as to whether the financial statements are fairly presented, in all material respects, in accordance with the accounting practices prescribed or permitted by the applicable state insurance regulator, also referred to as statutory accounting practices. He emphasized that a financial statement audit is not the same as a regulatory examination or continuous monitoring. Auditors obtain reasonable assurance that the financial statements, as a whole, are free of material misstatement. Accordingly, an unmodified ("clean") audit opinion does not mean that every individual investment was free of valuation error, that every aspect of the portfolio management process was effective, or that all internal controls over investment valuation were operating effectively. Rather, it means the auditor concluded that the financial statements were fairly stated, in all material respects, under the applicable accounting framework.

Roberts then discussed risk assessment under AU-C Section 315, noting that risk assessment is critical to determining which account balances and disclosures may contain a risk of material misstatement and, consequently, the nature, timing, and extent of audit procedures. Roberts emphasized that an auditor would not automatically conclude that a risk of material misstatement exists for every insurer simply because a particular account, such as bonds, contains private credit investments. Instead, procedures must be performed to determine whether a risk is present at the financial statement or assertion level. The auditor's response is then tailored to the individual insurer's risk profile and may involve valuation specialists.

Roberts stated that effective risk assessment requires the auditor to understand the insurer's specific investment strategy and the risks embedded in its portfolio. This includes understanding fund structures and fund managers, as well as whether private credit structures contain embedded leverage that may increase risk. An audit firm's valuation specialists may be involved in understanding the portfolio valuation approach and discussing expected changes with the audit team and the insurer's valuation experts.

Roberts noted that AU-C Section 315 requires auditors to obtain an understanding of relevant controls but generally does not require controls testing except in limited circumstances, such as when a significant risk is identified. In those circumstances, the auditor evaluates whether the controls have been appropriately designed and implemented, although the standard does not generally require testing the operating effectiveness of those

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controls in a statutory financial statement audit. Roberts explained that a controls-based approach may be used when the auditor is also performing a U.S. GAAP audit for an SEC registrant subject to PCAOB standards.

In evaluating an insurer's internal control environment, Roberts stated that auditors may consider how the insurer monitors and challenges the credit risk of investments after the initial investment, whether management performs valuation internally or relies on third parties, and how management evaluates the relevance and reliability of information provided by third parties. Auditors also consider related-party relationships, including whether underlying borrowers are affiliates or related parties of the insurer or whether an investment structure is formed or managed by a related party. Roberts noted that auditors may also consider an insurer's use of credit rating providers, including the credibility and timeliness of ratings and the potential for subjectivity or latency in rating updates.

Roberts emphasized that risk assessment is not static and that auditors respond to changes in an insurer's operations and portfolio throughout the year, as well as to emerging risks. Accordingly, risk assessment procedures performed in the current environment may address emerging private credit risks that would not necessarily have been considered in prior years.

Roberts noted that risk assessment procedures involve a combination of inquiry, analytical procedures, observation, and inspection, and that simply asking management about its valuation of private credit investments would not be sufficient. Auditors corroborate management's explanations through procedures that may include reviewing investment policies and portfolio composition and, where appropriate, inspecting underlying legal and investment documents to understand the specific terms and complexity of an investment. With assistance from valuation specialists when appropriate, auditors may also evaluate an investment's position within the capital structure, including whether it represents senior secured debt, mezzanine debt, or preferred equity, as well as terms relating to seniority, collateral rights, maturity, and payment-in-kind interest. Auditors may also consider liquidity provisions, including redemption features, gates, or suspensions that could affect an insurer's access to invested funds (liquidity).

Roberts clarified that these procedures would not necessarily be performed for every private credit investment. Rather, the nature and extent of the procedures would be determined by the auditor's professional judgment and risk assessment. Audit procedures over private credit investments are based on detailed corroborative evidence and are designed to challenge management's assumptions and identify both corroborating and contradictory evidence regarding amounts reported in the financial statements.

Osborne then discussed materiality and its role in planning and performing the audit. The auditor establishes materiality for the financial statements as a whole when developing the overall audit strategy. For insurance companies, materiality is typically established with reference to capital and surplus levels, consistent with guidance contained in the NAIC *Financial Condition Examiners Handbook*. Osborne noted, however, that auditors may establish testing thresholds below overall financial statement materiality for particular classes of transactions, account balances, or disclosures when there is a substantial likelihood that a misstatement below overall materiality could influence the judgment of a reasonable user of the financial statements.

Osborne stated that this could be relevant when private credit investments have been identified as a significant risk. In such circumstances, the auditor may perform additional work at a lower threshold or treat particular disclosures as important even when the related account balance is not material to the financial statements as a whole. Materiality is not a "set it and forget it" determination. If information obtained during the audit would have caused the auditor to initially determine a different materiality amount, the auditor must reconsider materiality and whether previously planned or performed procedures remain appropriate.

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Osborne stated that the risks of material misstatement are identified by considering whether a misstatement could reasonably occur and, if it did, whether it would be material. Such risks incorporate inherent and control risk and may be identified at either the financial statement level or the assertion level for significant classes of transactions, account balances, and disclosures. Examples of pervasive financial statement-level risks that could affect private credit investments include inadequate segregation of duties and management override of controls. Osborne noted that auditors should document their understanding of what could go wrong regarding an insurer's private credit investments and ensure that the documented risks align with the results of the risk assessment. Risks may include valuation complexity, weaknesses in management oversight or review, liquidity constraints, rapid portfolio growth, weak governance, and management bias.

Martin further discussed AU-C Section 540 and the auditor's responsibilities regarding accounting estimates. Accounting estimates receive particular attention because they often involve management judgment and can materially affect financial statements and related disclosures. The auditor must understand how an estimate is developed, assess the risks of bias or error, and test whether management's methods, assumptions, and data are reasonable and supported by evidence. Where significant estimation uncertainty exists, the auditor may treat the estimate as a higher-risk area and perform more robust procedures, including evaluating alternative assumptions or outcomes that management should have considered.

Martin explained that for private credit investments, auditors will focus on fair value estimates based on the assessed risk level. Reported fair values may depend on pricing services, broker quotations, valuation models, and management judgment, particularly when active market prices are unavailable. Auditors evaluate whether the valuation method, data, and assumptions reflect those used by market participants, with priority given to observable market inputs where available. Procedures may include comparing management's estimate with reliable third-party pricing or an independently developed point estimate or range, investigating differences, and involving valuation specialists for complex or less-liquid investments. Martin emphasized that management remains responsible for the reported valuation even when it relies on an external pricing source.

Martin stated that auditors may also consider subsequent transactions and patterns in valuation differences to determine whether investment values are materially misstated, whether valuation differences indicate management bias, and whether related financial statement disclosures are appropriate. Based on the fair value analysis, auditors may also challenge management's conclusion regarding whether a decline in fair value below cost constitutes an other-than-temporary impairment (OTTI).

Martin further discussed audit procedures used to evaluate fair value estimates. Auditors may determine whether management relies on external pricing sources, broker quotations, valuation techniques, or internal models when observable market prices are unavailable. They may inspect valuation policies, valuation memoranda, model documentation, and supporting analyses to understand the methods, underlying data, and significant assumptions used by management. Auditors may also evaluate the use of management's experts or service organizations, including the nature of their work and how management reviews and resolves exceptions or disagreements. These procedures help identify estimates that are particularly dependent on judgment, limited market information, or management-selected assumptions and therefore may require more detailed testing or valuation expertise.

Martin stated that auditors vary the nature, timing, and extent of substantive testing in response to identified risks of material misstatement. Where a risk relates specifically to a difficult-to-value private credit investment, audit procedures are tailored to the particular source of risk. For example, if an identified risk relates to an unobservable input used to value a group of investments, the auditor would design procedures to determine

Draft Pending Adoption

whether that particular unobservable input is reasonable rather than simply applying a generic valuation procedure to the investments.

Martin noted that investments recorded at amortized cost may be tested through procedures such as agreeing the recorded cost to supporting documentation and recalculating amortization of discounts or premiums. These amounts generally are not accounting estimates because they can be objectively verified. Accounting estimates may instead arise in the disclosure of fair value required by SSAP No. 100 and in management's assessment of whether a decline in an investment's fair value below cost requires recognition of an OTTI.

Martin stated that auditors generally test fair value accounting estimates using one of two approaches: developing an independent fair value estimate to corroborate management's measurement or testing the process management used to develop its estimate. When developing an independent estimate, the procedures depend on the source, methods, data, assumptions, and availability of observable inputs. The auditor may use a third-party pricing source or involve a fair value specialist and may use management's significant assumptions, develop independent assumptions, or obtain assumptions from a third party. In all cases, the auditor must evaluate the reliability of the assumptions and supporting information.

With respect to OTTI, Martin stated that auditors may verify the population of impaired securities, test selected items to supporting records and fair value evidence, and assess management's conclusions regarding its intent to sell, whether a sale is more likely than not to be required, and whether the full amortized cost is expected to be recovered. Auditors may also challenge the assumptions and evidence supporting management's conclusions, consider indications of bias, and review subsequent sales or losses to determine whether realized losses were recognized in the appropriate period.

Martin emphasized that for private credit investments, audit procedures must be responsive to areas of increased complexity or uncertainty, including illiquidity, sparse transactions, structural complexity, outdated collateral information, and overly optimistic performance assumptions. An auditor developing an independent fair value estimate for a selected private credit investment would need to consider the valuation's inherent illiquidity.

Martin stated that when evaluating the results of audit procedures, the auditor considers whether the nature, timing, and extent of testing were sufficient to address the inherent risk associated with investment valuation. If an auditor develops an independent fair value estimate, it is compared with management's estimate using a reasonable range. Values within the range generally support management's estimate, while values outside the range require additional analysis of market conditions, observability, and other factors that could explain the difference. If additional procedures do not explain the difference between the auditor's point estimate and management's recorded fair value, the auditor may conclude that management's estimate is unreasonable and treat the difference between the recorded estimate and the nearest point in the auditor's reasonable range as a misstatement.

Martin further explained that when testing management's process for developing fair value estimates, auditors evaluate the appropriateness of valuation techniques, the completeness, accuracy, and relevance of underlying data, the availability of alternative assumptions, and indicators of management bias. Based on the available audit evidence, the auditor evaluates whether management has arrived at a reasonable fair value estimate and whether differences between the estimate best supported by audit evidence and the amount recorded in the financial statements indicate potential management bias.

Garner concluded the presentation by emphasizing that auditors and regulators are asking many of the same fundamental questions regarding private credit investments, including whether the underlying economics and

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risks are understood and whether those risks are appropriately addressed. The principal challenge is understanding and monitoring those risks as investment structures become increasingly complex. Garner reiterated that private credit is not a single asset class with a single risk profile, but rather a collection of structures, strategies, and investment arrangements that can differ significantly in their underlying terms and complexity. As a result, broad private credit labels may be less effective at communicating risk than a detailed understanding of an individual investment's characteristics. Garner concluded that prudent oversight at multiple levels will be necessary to ensure that evolving risks are appropriately identified and addressed and that policyholder interests are protected.

During the discussion, Mears inquired whether the fact that many of the private credit investments discussed are not carried at fair value on the statutory financial statements affects the auditor's review, particularly because a misstatement in fair value would not necessarily have a direct impact on surplus unless an other-than-temporary impairment or similar adjustment were involved. Roberts stated that fair value remains relevant because it is disclosed in the financial statements and therefore is subject to audit procedures. The extent of those procedures, however, depends on the auditor's risk assessment.

Mears inquired about the use of reasonable ranges for difficult-to-value assets and whether an insurer could consistently select either the high or low end of an acceptable range when the aggregate effect could be material. Martin explained that the purpose of a reasonable range is to identify the values that are acceptable based on the available evidence. When evaluating whether management's recorded value is misstated, the auditor considers the difference between the recorded value and the nearest end of the reasonable range. Anderson inquired whether an investment supported by relatively reliable valuation assumptions would generally have a narrower range than an investment with significantly more uncertainty and difficulty in determining an exact value. Martin responded that, subject to each audit firm's methodology, a more difficult-to-value investment would generally have a wider acceptable range due to greater uncertainty in its valuation.

Stolte inquired about the level of specialist involvement for a material portfolio of Level 3 investments, notably when regulators view the balance as material. Osborn responded that the need for a valuation specialist depends on the characteristics of the underlying investments and the associated valuation risk. If the investments have readily determinable fair values, the auditor may not need to involve a specialist to the same extent. Conversely, where the investments are difficult to value and their values are difficult to corroborate independently, greater involvement by a valuation specialist may be appropriate to provide additional assurance that the amounts are reasonably stated.

Mears inquired whether materiality is assessed differently for investments carried at book value when fair value is relevant primarily because of financial statement disclosures, or whether such investments are subject to the same level of rigor as investments carried at fair value. Roberts stated that materiality is generally established for the financial statements as a whole rather than separately based on whether an investment is carried at fair value. The extent of audit procedures, however, may vary depending on the risk assessment for the specific portfolio or investment.

Mears inquired whether an auditor would incorporate a regulator's view of materiality if the regulator's assessment differed from the auditor's calculation. Osborn stated that auditors generally consider the NAIC *Financial Condition Examiners Handbook* guidance on materiality, which typically references a percentage of capital and surplus, as well as other operating measures and factors that could influence the audit. Accordingly, when establishing materiality for a specific engagement, the auditor considers the overall circumstances and the measures that are most appropriate for that insurer.

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In response to a question regarding risk assessment procedures for affiliated investments and when auditors involve specialists to challenge management's valuation, Roberts stated that auditors first seek to understand the relationships and management structure associated with the investment as part of understanding the insurer and how it operates. The complexity of related-party relationships and affiliated investments can affect the risk assessment and the extent of audit procedures. There is no automatic requirement to involve a specialist for affiliated investments, as the appropriate response depends on the investment's nature, its structure, and the organization. The auditors' work papers should document their understanding of the relationships and the basis for the audit procedures performed.

In response to a question regarding whether the presenters could provide a broad indication of how frequently valuation specialists are involved in audits, such as whether specialists are involved in a small percentage, approximately half, or most audits, Roberts stated that it was difficult to provide a meaningful percentage because specialist involvement varies significantly based on the circumstances of the individual audit and portfolio.

Kasinow inquired if auditors assess whether investment valuations remain reasonable under potential stress scenarios. Osborn stated that evaluating whether valuations remain reasonable under specified stress scenarios would generally be outside the scope of a financial statement audit. The audit focuses on whether the financial statements are fairly presented and whether the recorded amounts are reasonable under the applicable accounting framework, rather than assessing what could occur under particular hypothetical stress scenarios. Such stress testing could be performed as a separate engagement but would not generally constitute an audit procedure.

6. Received a CMB Update

Michele Wong (NAIC) stated that the NAIC's Capital Markets Bureau (CMB) has noted that as private credit exposure has grown on insurers' balance sheets, the complexity of these structures has also increased. She noted that the use of private letter ratings for certain investments can make it more difficult to assess the risk profile of those investments. Jennifer Vento (NAIC) stated that exposure to nontraditional investments remains of particular interest and was less than half of U.S. insurer's total exposure to private credit as of year-end 2025. The CMB expects to publish a special report regarding such investments. She noted that the report will be available on the CMB's public web page.

Having no further business, the Invested Assets (E) Task Force adjourned.

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: Reporting of Structured Investments and Underlying Collateral and other Reporting Enhancements

Date: October 20, 2026

In accordance with its charges, the Investment Analysis (E) Working Group has been reviewing the statutory reporting of certain investments reported as asset backed securities, with a particular focus on the collateral supporting these investments and the ability of regulators to identify the underlying economic exposures of said investments. The review has identified areas where current reporting may not provide sufficient clarity regarding an investment's underlying collateral or identification of structure through which an insurer obtains exposure.

We recognize that the year-end 2025 reporting data that we have been reviewing was the first year under the substantially over-hauled reporting structure resulting from the Principles-Based Bond Definition and believe the recommendations in this referral represent modest refinements intended to further realize the benefits of that project.

The issues and recommendations relate specifically to Schedule D, Part 1, Section 2, Asset-Backed Securities and the objective is to enhance regulators' ability to identify and understand the collateral and structures underlying these investments.

In short, the Working Group's objective is to improve the ability of regulators to identify and understand the universe of these investments. This is particularly important as multi-collateral and feeder fund structures are increasing among insurer holdings. Establishing reporting tools to identify these structures would allow regulators to better understand the population, monitor its growth, and evaluate associated risks consistent with the Working Group's proactive approach to emerging investment issues.

Predominant Collateral Threshold

Statutory reporting requires the use of dedicated reporting lines for certain collateral types (RMBS, CMBS, CLOs/CBOs/CDOs). Other types of ABS are reported based upon broader categories (lease-backed) and investment characteristics (self-liquidating or not). For these reporting lines, a collateral code is required to identify the underlying collateral from a fairly comprehensive list of collateral types. While an "Other" option is available, it was anticipated this option would rarely be used given the comprehensiveness of the available choices.

The Working Group did a review of underlying collateral codes to review the types of collateral commonly seen in insurer portfolios and noted that approximately half of the investments in life insurer portfolios with reported collateral codes utilized the "Other" collateral code.

As a step to improve alignment of reporting to the underlying collateral, the Working Group believes the threshold used to determine the predominant collateral should be specifically stated. Under the current reporting instructions, only one code is to be selected, and for securities that fit within more than one category, the "predominant" collateral code is to be selected. A definition of "predominant" is not included in the Annual Statement Instructions. If taken at its definition, predominant would mean the most common collateral type, which could still be only a minority percentage of the total. Others could be interpreting it to mean collateral

representing more than 50% of the underlying assets. Either interpretation could result in a structure with diverse underlying collateral types being identified as a single collateral type.

The Working Group believes increasing the predominant collateral threshold to 90%, or a similarly high threshold, would provide a more representative basis for assigning a single collateral classification to distinguish between those with truly homogenous collateral versus heterogenous. Under such an approach, an investment would need to have at least 90% of its underlying collateral represented by a singular collateral type to be reported within the corresponding collateral category. Investments that do not meet the 90% threshold would instead be identified as multi-collateral structures (additional detail follows in this referral).

Accordingly, the Investment Analysis (E) Working Group requests that the Statutory Accounting Principles (E) Working Group consider specifying that the threshold for designating investments (for both reporting lines and collateral codes) based on underlying collateral shall represent 90% of the underlying collateral assets.

Multi-Collateral Structures

The Working Group has observed an emerging population of investments supported by multiple types of collateral. These structures may include a combination of financial and nonfinancial assets, or self-liquidating and non-self-liquidating, such as investments backed by a combination of loans, bonds and equity collateral. As these structures become more prevalent, the Working Group believes it is important to establish a means of identifying the population through statutory reporting.

The existing Annual Statement reporting structure provides numerous specific reporting lines for asset-backed securities based on the nature of the underlying collateral and other characteristics of the investment. However, the current reporting structure does not have a designated reporting category for when multiple types of underlying assets support the investment. As a result, a multi-collateral structure may be reported within a line item that identifies only one component of the underlying collateral, or within another available reporting category. This makes it difficult for regulators to readily identify and monitor the population through statutory reporting.

The Working Group believes that establishing a dedicated reporting category for multi-collateral structures would provide regulators with a clear means of identifying these investments, understanding the size and characteristics of the population, and monitoring its development over time.

Accordingly, the Investment Analysis (E) Working Group requests that the Statutory Accounting Principles (E) Working Group consider whether a dedicated Annual Statement reporting category or categories should be established for multi-collateral financial asset-backed securities, including investments supported by collateral that can otherwise fit into multiple line items.

Additional Considerations Regarding Complex Structures

In addition, the Working Group believes other related issues warrant consideration as the reporting framework is evaluated.

First, consideration should be given to whether the existing collateral codes adequately identify corporate credit-backed investments. While private credit or corporate loans could potentially be considered within the existing corporate and industrial obligations collateral category, that category does not specifically identify corporate credit obligations. Conversely, there may be an assumption that corporate credit-backed structures are CLO variants and should therefore be reported within the CLO/CBO/CDO category. There is not currently a clearly specified reporting location for non-CLO/CBO/CDO structures primarily supported by corporate credit, which may result in common investment types like private credit rated feeder notes, being inconsistently reported.

Particularly if reporting continues to be focused upon collateral type rather than the structure, the Working Group believes consideration should be given to establishing a separate structure code that identifies the manner in which an insurer obtains exposure to the underlying collateral, such as through a securitization, feeder fund, or other indirect structure. While the principles-based bond definition required reporting based on the underlying substance of an investment, a structure code would provide information distinct from the collateral type, allowing regulators to understand both the legal nature of the structure as well as what ultimately supports the investment.

Then to ensure alignment with all of these reporting features, guidance may be needed on the degree to which an insurer should look through legal structures for classification purposes; for example, how to distinguish whether to look through a feeder fund structure versus classifying a structure as “equity-backed”.

Conclusion

These considerations are intended to improve the accuracy, consistency, and transparency of statutory reporting for increasingly complex investment structures; provide regulators with a clearer understanding of the underlying collateral supporting insurer investments; and, establish a more reliable foundation for evaluating associated accounting, valuation, and risk management as these investment structures continue to develop.

The Investment Analysis (E) Working Group support staff are available 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, Jason Farr

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