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

A. <u>Consideration of Maintenance Agenda – Pending List</u>

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Recommendation:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Refer to the agenda item for further information and discussion.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risk Transfer Logic

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

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

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

Implications of Paragraph 36.d. Exception

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

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

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

SSAP No. 62 proposed new disclosures:

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

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

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

State directed payments - are based on the utilization and delivery of services and are further detailed in in 42 Code of Federal Regulations (CFR) § 438.6(c). These payments are also tied to quality goals.

Separate Payment Terms – are a mechanism used by states to send supplemental funding to providers through managed care organizations (MCO) for state directed payments that were separate from the per member per month payments. A 2024 final rule for Medicaid MCO contracts, prohibits the use of separate payment terms on or after July 9, 2027 per CMS-2439-F regulation. It requires that all state directed payments be included in actuarially sound capitation rates. It requires SDP separate payment terms (SPTs) must be moved into the base capitation rates paid to plans.

State directed payments are not pass throughs - 42 CFR 438.6(a) defines a pass-through payment as an amount required by the state to be added to contracted payment rates and considered in the actuarially sound capitation rate, that is not tied to a specific service or benefit, and not a permitted 438.6(c) payment methodology (i.e., SDP). CMS treats 438.6(c) SDPs as distinct from 438.6(d) pass-throughs: SDPs are service-specific and tied to utilization.

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

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

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

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

<u>*Recommendation:*</u>

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

***SSAP No. 47—Uninsured Plans**:*

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

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

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

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

Premium Income Recognition

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

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

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

Summary:

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

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

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

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

Recommendation:

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

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

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

Summary:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

C. **Any Other Matters**

a. Errors / Noncompliance in Statutory Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

d. Update on the Commitments and Contingencies Disclosures – (Wil)

NAIC staff have continued to meet regularly with industry representatives on clarifications relating to commitments and contingencies in the SSAPs and annual statement instructions. Proposed edits for exposure consideration are expected at the 2026 Fall National Meeting.

e. Review of U.S. GAAP Exposures (Jason/Robin – Attachment M)

The attachment details the items currently exposed by the FASB. Comments are not recommended at this time – NAIC staff recommend review of the final issued ASU under the SAP Maintenance Process as detailed in *Appendix F—Policy Statements.*

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

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

The next meeting of the AAWG is scheduled for Sept 16-17, 2026. An update will be provided at the 2026 Fall National Meeting.

Comment Deadline:

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

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

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

Issue: SSAP No. 21 – ICOLI

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

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

With the reporting as an "other-than-invested" asset, the amounts captured under SSAP No. 21, paragraph 9 are reported outside of the balance sheet investment categories and are reported on line 25 of the asset page as an "aggregate write-in." The description of the aggregate write-in varies by company but is often detailed as Insurance Company Owned Life Insurance (abbreviated often as ICOLI) or "Company Owned Life Insurance (abbreviated often as COLI). By reporting as an "other-than-invested" asset, the amount is excluded fully from RBC for life entities. This occurs for all amounts reported, even if the company has identified an amount that is held within an investment vehicle. For P/C and health entities, there is an existing 5% RBC charge for all amounts reported as "other-than-invested assets." This charge falls into the R3 component, which is the smallest component of the covariance calculation, so it carries considerably less weight than other asset types.

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

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

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

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

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

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

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

Existing Authoritative Literature:

SSAP No. 21—Other Admitted Assets

The Amount That Could Be Realized on Life Insurance Where the Reporting Entity is Owner and Beneficiary or Has Otherwise Obtained Rights to Control the Policy

9. The provisions in this paragraph are for life insurance policies, which are in compliance with Internal Revenue Code (IRC) §7702[FN1], in which the reporting entity is the owner and beneficiary[FN2]. For these owned products, the amount that could be realized on life insurance policies where the reporting entity is the owner and beneficiary or has otherwise obtained the rights to control the policy, is similar to a cash deposit that is realizable on demand. As such, the amount that could be realized on a life insurance policy as of the date to which premiums have been paid shall be reported as an admitted asset. In determining the amount that could be realized, reporting entities shall consider the cash surrender value as well as other contractual terms which limit or provide for additional realizable amounts. If any of these contractual terms which limit or provide for additional realizable amounts allow the owner to pay variable premium (reducing or increasing the premium based on the increase or decrease of a variable investment vehicle of the policy), the life insurance policies must always remain compliant with IRC §7702 to be an admitted asset under this paragraph. Amounts recoverable by the reporting entity at the discretion of the issuing company shall not be included. Amounts realizable beyond one year from the surrender date shall be discounted. For group policies or a group of individual life policies, reporting entities shall assume surrender on a policy-by-policy or certificate-by-certificate basis, unless contractual terms only allow for surrender of all policies or certificates as a group, in which case the amount that could be realized shall be determined on a group basis. Disclosure is required of the amount of the cash surrender value that is within an investment vehicle by investment category (e.g., bonds, common stock, joint ventures, derivatives, etc.)

[FN1] In order to be in compliance with IRC §7702:

1. The contract must be considered "life insurance" under applicable state insurance law. This is a contractual definition that includes:
    - The contract must be filed and approved as life insurance.
    - It must be regulated as life insurance under applicable laws and regulations (such as variable life insurance regulation and non-forfeiture laws).
    - There must be an insurable interest in the continued life of the insured (federal and state law also require the consent of the insured to the coverage).
    - There must be a significant transfer of mortality risk between the policyholder and the insurance company.
2. The contract must meet one of two actuarial tests of the policy's cash value relation to its death benefit to assure that, prior to death/maturity, the policy cash value does not exceed the net single premium required to fund the death benefit.

[FN2] These life insurance products shall be acquired with the primary consideration of the costs related to employee benefit obligations or the loss of a key person.

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 Statutory Accounting Principles (E) Working Group previously considered this topic in agenda item 2018-18. Prior to the adopted revisions of 2018-18, the term "life insurance" used for company-owned policies was not limited to the IRC provisions. With the discussion of 2018-18, NAIC was made aware that products were being structured to be captured in scope with very limited death benefits as a way for companies to invest in alternative assets without RBC charges. The revisions adopted in 2018-18 included the following:

- Required policies in scope to be considered life insurance under IRC §7702. This provision requires actuary tests to verify the cash value does not exceed the net single premium required to fund the death benefit.

- Required that the life insurance policies are acquired with the primary consideration of the costs related to employee benefit obligations of the loss of a key person.

- Required disclosure of the amount of the CSV that is within an investment vehicle by investment category.

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

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

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

Staff Review Completed by: Julie Gann, April 2026.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/08-12-26 Summer National Meeting/Meeting/A - 26-08 - SSAP No. 21 - ICOLI.docx

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

Issue: SSAP No. 86 - RSATs

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

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

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

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

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

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

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

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

2. **New guidance that restricts cash components used in RSATs to high-quality securities reported as U.S. Government investments, municipals, or corporate bonds on Schedule D-1-1: Issuer Credit Obligations with an overall NAIC 1 or NAIC 2 designation**. (This provision will allow NAIC investments with an 1A through 1G or 2A through 2C designation to be used as cash components.) This change will require an RSAT to be backed by a high-quality ICO bond and eliminate the possibility to use lower-quality bonds, an asset-backed security (ABS) or other invested assets as cash components supporting the replication. The guidance will also specify that if the cash component is downgraded below an NAIC 2 or has experienced an other-than-temporary impairment, then the cash component is no longer permitted in the transaction. In such instances, companies shall designate a new, qualifying cash component. Whenever there is a change in a cash component, the reporting entity would need to file a material change with the SVO for assessment on whether the RSAT arrangement with the revised cash component still qualifies as effective, whether the maturity of the cash component exceeds the maturity of the derivative, and to confirm the prior NAIC designation or obtain a revised NAIC designation for the RSAT transaction.

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

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

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

Existing Authoritative Literature:

SSAP No. 86—Derivatives
(The guidance shown below includes the tracked changes proposed to be adopted as part of the IMR project.)

Derivatives Used in Replication (Synthetic Asset) Transactions

57. Replication (Synthetic Asset) <u>(RSAT)</u> transaction means a derivative transaction entered into in conjunction with other investments in order to reproduce the investment characteristics of otherwise permissible investments. A derivative transaction entered into by an insurer as a hedging or income generation transaction shall not be considered a <u>RSAT</u> ~~replication (synthetic asset)~~ transaction.

58. Any premium paid or received shall be carried as an asset or liability on the balance sheet (Derivative line on the Assets (or) Liabilities pages). Premiums paid or received on the <u>RSAT</u> ~~replication (synthetic asset)~~ derivative ~~should~~ <u>shall</u> be amortized into investment income or expense until the exercise, termination or maturity date of the derivative.

59. If the <u>RSAT</u>~~replication (synthetic asset)~~ transaction would be carried at amortized cost and the cash instrument used is carried at amortized cost, then the derivative used ~~should~~ <u>shall</u> be carried at amortized cost. The derivative may be valued at fair value when both the replication (synthetic asset) and the cash instrument are valued at amortized cost. This is consistent with the alternative valuation methods available for hedges. If the <u>RSAT</u>~~replication (synthetic asset)~~ transaction would be carried at fair value and/or the cash instrument used is carried at fair value, then the derivative used ~~should~~ <u>shall</u> be carried at fair value.

	(a)	(b)	(c)	(d)
	If the Replication (Synthetic Asset) is Valued at:	And Cash Instrument(s) Used is (are) Valued at:	The Derivative is Valued at:	Alternative Derivative Value Basis:
1.	Amortized Cost	Amortized Cost	Amortized Cost	Fair value
2.	Fair value	Fair value	Fair value	N/A
3.	Amortized Cost	Fair value	Fair value	N/A
4.	Fair value	Amortized Cost	Fair value	N/A

60. When the derivative component is held at fair value, the change in fair value shall be recognized as an unrealized gain or loss throughout the life of the transaction and included in the AVR.

~~60.~~61. In the case of ~~No.~~example 3 in the chart ~~above~~, the fair values for the cash instrument and derivative, when added together, shall not exceed the replication (synthetic asset) statement value. If this ~~does~~ occurs, the excess shall reduce the fair value of the derivative and shall be recorded as an unrealized loss ~~gain~~. ~~separate from the Asset Valuation Reserve (AVR)~~.

62. If the ~~replication (synthetic asset)~~RSAT transaction involves a periodic settlement with the exchange of interest related cash flows (default free assets), then the cash flows on the derivative component ~~should~~shall be accrued as investment income. If the ~~replication (synthetic asset) transaction~~RSAT involves a periodic settlement with the exchange of total return or change in index cash flows, then the cash flows ~~should~~ shall be segregated between interest income and settlement of other fair value ~~(equity)~~ changes. The interest income portion ~~should~~ shall be accrued as investment income and settlement of any other fair value changes shall be recognized as gains or losses in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

~~61.~~63. Any realized gains or loss recognized at maturity, termination or reset of the derivative component of the RSAT shall be allocated to IMR or AVR in accordance with SSAP No. 7[FN]. Realized gains and losses associated with the cash component of the RSAT shall be credited or charged to the IMR or AVR in accordance with the provisions stated within the statement for the specific asset used as the cash component.

New FN: For qualifying RSAT derivatives (held at amortized cost), upon termination, the gain or loss shall be allocated to IMR or AVR based on interest and non-interest factors. For simplicity, this IMR and AVR allocation shall be based on the designation category change guidance, applied to the RSAT designation received by the SVO.

~~64. If the derivative is carried at fair value, the periodic change in the fair value should be recorded as an unrealized gain or loss adjustment to surplus until the transaction is terminated. If the replication (synthetic asset) transaction involves the exchange of total return or change in index cash flows, then the cash flows should be segregated between interest income and fair value (equity) changes. The fair value (equity) change should be recognized as a deferred asset/liability until the termination of the contract. Gains or losses on the derivative at termination or sale should be recognized as realized.~~

Guidance for Replication (Synthetic Asset) Transactions from the P&P Manual

Approved RSATs

Safe Harbor – Defined RSATs

30. Any transaction that meets either of the following conditions:

- Any transaction structured according to the following defined transaction types shall be presumed to be an Approved RSAT and should be submitted to the SVO pursuant to this paragraph. Transactions that are structured to contain elements of risk other than those normally associated with the Defined RSAT descriptions below, and transactions involving assets that would not normally qualify for an NAIC Designation, are not eligible for safe harbor treatment and must be submitted to the SVO pursuant to the paragraph titled "Transactions Subject to RSAT Approval Review" below. If the SVO receives a transaction that does not qualify for an NAIC Designation but would otherwise qualify as an Approved RSAT, the SVO will bring the transaction to the attention of the VOS/TF and await instructions on how to proceed with it.
    - *Bond with Interest Rate Swap* – In this RSAT, the insurer enters into a swap agreement to exchange a floating interest rate for a fixed interest rate, or vice versa.
    - *Bond with Credit Default Risk Swap* – In this RSAT, the insurer enters into a credit default swap to exchange the credit default risk of a bond for that of another bond.
    - *Bond with Total Return Swap* – In this RSAT, the insurer enters into a total return swap to exchange the return of one Basket or Index of bonds for the return of another Basket or Index of bonds.
    - *Bond with Foreign Currency Swap* – In this RSAT, the insurer enters into a currency swap to exchange the right to receive principal and/or interest in the currency of one country for that of another. A foreign currency swap can be structured on a fixed or floating rate bond. The swap can involve any currency.
    - *Bond with Equity Option* – In this RSAT, the insurer holds a bond and enters into a call option to purchase common stock or a call on an equity index
    - *Convertible Bond with Sale of Equity Option* – In this RSAT, the insurer holds a convertible bond and enters into an agreement to sell the equity conversion rights connected with the bond to another party.
    - *Bond with Index Amortizing Interest Rate Swap* – In this RSAT, the insurer enters into an agreement to exchange fixed interest rate payments for floating interest rate payments or vice versa. The notional amount of the swap, and therefore the size of the interest rate swap, amortizes by reference to an index, usually also tied to interest rates.
    - *Bond with Interest Rate Swap and Swaption Agreement* – In this RSAT, the insurer enters into two agreements. The first agreement is to exchange a fixed interest rate for a floating interest rate or vice versa. In the second agreement, the insurer enters into a swaption agreement by which it allows itself the option of transferring its obligations under the swap agreement.
    - *Bond with Interest Rate Swap and Interest Rate Cap/Floor* – In this RSAT, the insurer

enters into two agreements. The first agreement is to exchange a fixed interest rate for a floating interest rate or vice versa. In the second agreement, the insurer limits its exposure above or below a certain interest rate level by entering into a cap or floor agreement.

Transactions Subject to RSAT Approval Review

31. Transactions that are not structured according to one of the transaction types defined above must be submitted to the SVO for a determination of whether or not the transaction is an Approved RSAT. This determination shall be made through a review of the submitted documents that describe the characteristics of the derivative and cash components of the transaction. The description submitted shall include the following:

- An identification of the cash flows in the transaction; both from the insurer to other parties and from other parties to the insurer.
- An identification of the resulting synthetic
- A demonstration of how the cash flows serve to produce the synthetic asset.

32. The documentation should demonstrate that the combined cash flows will achieve the economic performance sought to be produced by the insurer and, therefore, qualify the transaction as an Approved RSAT. If the SVO receives a transaction that does not qualify for an NAIC Designation but would otherwise qualify as an Approved RSAT, the SVO will bring the transaction to the attention of the VOS/TF and await instructions on how to proceed with it.

- **Basket** – A composite of specific financial instruments that are determined by agreement between two parties to be used as a statistical benchmark.
- **Cash Component** – The instrument, or portfolio of instruments, owned by the insurance company that is identified by the insurer as the cash instrument component of the RSAT. In an RSAT, the credit quality of the Cash Component may differ from the credit quality of the reference securities.
- **Change in Investment Profile** – An RSAT where the investment risk denoted by NAIC Designation and/or credit risk of the NAIC CRP rating, of the Cash Component is different from the investment risk of the replicated (synthetic) asset. Examples of transactions that constitute a change in credit profile may include:
    - *A Bond with Credit Default Risk Swap* – Where the risk of loss of principal results from the potential of default by an obligor different from the Cash Component obligor. This RSAT can also be structured to use the same obligor for the Cash Component and the replicated (synthetic) asset, but where the replicated (synthetic) asset is in a different position in the capital structure of the obligor. For example, the swap may result in a change from senior creditor's status to one of a subordinated debt holder.
    - *A Bond with Total Return Swap* – Where the obligors in the Cash Component portfolio are different from those in the derivative instrument component. Examples of transactions that do not, on their own, constitute a change in credit profile include:
        - A Bond with Interest Rate Swap.
        - A Bond with Foreign Currency Swap.

- **Effective RSAT** – A reported transaction that meets the following conditions:
  - The transaction is determined to be an Approved RSAT.
  - The Replicated (Synthetic) Asset is an otherwise permissible investment.
  - At the time the RSAT is entered into, the insurer's investment in the cash and derivative components have a market value that is not materially different from the market value ascribed to the RSAT.
  - The insurer's maximum potential loss in the Replicated (Synthetic) Asset does not exceed the sum of the book/adjusted carrying value of the Cash Component, and the derivative component.
  - The RSAT consists of a fixed income Cash Component and a derivative component and the term of the derivative component does not exceed the term to maturity of the Cash Component.
  - At no time is there exposure to a derivative transaction without a corresponding Cash Component assigned exclusively to the Replicated (Synthetic) Asset.
- **Identical RSAT** – An RSAT entered into by multiple, yet legally separate and distinct, insurance companies of the same insurance company group through separate derivative contracts, but utilizing the same type of derivative transaction, Cash Component, counterparty, transaction effective date, scheduled termination date and assigned a single CUSIP Identifier.
- **Index** – A composite of financial instruments whose composition is determined by application of objective, pre-defined rules to be used as a statistical benchmark. Financial instruments may be added to or deleted from the index universe.
- **Reference Security** – A financial instrument or instruments whose creditworthiness is referenced in a derivative agreement (typically, a credit default risk swap) and that serves as the instrument by which a credit event is determined or triggered.
- **Replication (Synthetic Asset) Transaction (RSAT)** – A derivative transaction entered into in conjunction with other investments in order to reproduce the investment characteristics of otherwise permissible investments. Notwithstanding the exemption of short-term investments from filing with the SVO, the term RSAT includes long-term transactions (i.e., those with a when-issued maturity of a year or more) and short-term transactions (i.e., those with a when issued maturity of a year or less). Although transactions structured with a futures or forward equity contract may not exactly reproduce a specific asset, these transactions are permitted to the extent such RSATs are permissible investments according to the insurer's state of domicile. A derivative transaction entered into by an insurer as a hedging or income generation transaction shall not be considered to be a replication (synthetic asset) transaction. The insurer shall be responsible for determining that a derivative transaction is considered to be either a hedging, income generation or replication (synthetic asset) transaction prior to filing the transaction with the SVO.
- **RSAT Form –** The Replication (Synthetic Asset) Transaction Form used to report RSATs.

- **RSAT-CCA Form –** The Replication (Synthetic Asset) Transaction – Credit Change Annex Form used to report transactions where the RSAT results in a Change in Credit Profile from that of the Cash Component.
- **RSAT Basket Form –** The Replication (Synthetic Asset) Transaction Form used to Report RSATs using Baskets.
- **RSAT Fixed Income Index Form –** The Replication (Synthetic Asset) Transaction Form used to report RSATs using Indices discussed and defined in this Section.
- **RSAT Index List Application –** The Replication (Synthetic Asset) Transaction Form used to apply for inclusion on the NAIC Approved RSAT Index List.

Instruction to Report Replication (Synthetic Asset) Transactions

33. Instruction – Insurance companies shall report all RSAT transactions, including RSAT transactions of duration less than 365 days, to the SVO and the SVO shall apply the instructions in this section to all reported RSATs including Baskets and Indices.

34. Special Instruction Regarding Identical RSATs – Only one insurance company that is a member of an insurance company group that has engaged in an Identical RSAT is required to file the RSAT with the SVO. All of the rules and procedures specified in this section shall be applicable to that filing.

35. Notwithstanding this special instruction, all of the members of the insurance company group that have entered into an Identical RSAT shall nevertheless fully report their holdings as required by annual statement instructions for Schedule DB, Part C.

36 Any state insurance regulator who questions whether the RSAT entered into by members of an insurance company group meets the definition of an Identical RSAT may require the members of the group to file relevant information with the SVO so that the SVO may verify whether transactions claimed to be identical are identical within the meaning of the definition and/or whether the insurance companies have otherwise appropriately reported the RSAT transaction.

37. The SVO shall have authority to make inquiries of insurance companies and to request insurance companies to file relevant information with it so it may verify whether transactions claimed to be identical are identical within the meaning of the definition and/or whether the insurance companies have otherwise appropriately reported the RSAT transaction.

38. Counterparty Risk-Based Capital – The NAIC Designation assigned to a RSAT does not capture any counterparty risk associated with any derivative component of the RSAT. The credit risk of any particular counterparty is captured in the risk-based capital charge of the counterparty reported in Schedule DB, Part D, Section 1.

Initial Reporting of Replication (Synthetic Asset) Transactions

Informational Requirements – General

39. Each reporting insurance company is required to file the information listed below for every RSAT filing. Additionally, for those RSATs exhibiting a Change in Credit Profile, the reporting insurance company shall be required to file the information listed under the paragraph titled “Additional Instructions for RSATs with a Change in Credit Profile” below.

40. General Filing Instructions:

- RSAT Form.
- If any Cash Component is required to be filed with the SVO and is not on the VOS Process with a current year Designation, the reporting insurance company is required to follow the reporting conventions and file the required documents.
- The reporting insurance company is required to file the prospectus, offering circular, detailed term sheet, trade confirmation, swap agreement, call option agreement, foreign currency agreement or other agreement or document, as appropriate to the transaction, corresponding to each derivative component of the reported Approved RSAT.
- If the derivative component of the Approved RSAT relies on a counterparty that is not on the List of Counterparties Designated by the SVO refer to that section for a description of analytical procedures and informational requirements.

41. Additional Instructions for RSATs with a Change in Credit Profile:

- RSAT-CCA Form.
- If the transaction is one that involves securities, including Reference Securities that require an NAIC Designation, the reporting insurance company is required to follow the reporting conventions and file the required documents for such securities.

Procedures Applied to Initial Reports of Replication (Synthetic Asset) Transactions

42. **Effective RSAT** – The SVO shall verify that the reported RSAT meets those standards of effectiveness set forth in this section. The reporting insurance company shall have responsibility for ensuring that the standards of effectiveness set forth in section titled Effective RSAT have been met.

43. **Credit Assessment** – The SVO shall apply the procedures listed under the paragraph titled “General Procedures” below for every filing. Additionally, for those RSATs exhibiting a Change in Credit Profile, the SVO shall apply the procedures set forth in the paragraph titled “Additional Procedures for RSATs with a Change in Credit Profile” below.

44. General Procedures:

- If the Cash Component is of a type that is required to be filed with the SVO and is not on the VOS Process with a current year designation, the SVO shall apply the methodologies set forth in this Manual.
- If any counterparty involved in the RSAT is not currently listed on the SVO’s List of Counterparties Designated by the SVO, the SVO shall apply the procedures set forth in this Manual.
- The SVO shall review the documents corresponding to each derivative component of the reported Approved RSAT to verify that the relationships and identities of the parties to the agreement(s) are as reported on the RSAT Form.
- If the SVO determines that the documentation provided comports with the reported RSAT, then the analyst shall assign the NAIC Designation of the Cash Component to the RSAT.

45. Additional Procedures for RSATs with a Change in Credit Profile – If the transaction involves securities, including Reference Securities, which are on the VOS Process with a current year designation, the SVO shall assign that Designation associated with the Reference Securities to the RSAT.

- If the transaction involves securities, including Reference Securities that are not on the VOS Process with a current year designation, the SVO shall apply the methodologies in this Manual to the securities. Upon determination of an NAIC Designation for such securities, the SVO shall apply that Designation associated with the Reference Securities to the RSAT.

Subsequent Reporting of Replication (Synthetic Asset) Transactions

Informational Requirements – General

46. Each reporting insurance company is required to file the information listed below for every RSAT filing. Additionally, for those RSATs exhibiting a Change in Credit Profile, the reporting insurance company shall be required to file the information listed under the paragraph titled “Additional Instructions for RSATs with a Change in Credit Profile” below.

47. General Filing Instructions:

- For the Cash Component, file the required documentation.
- There are no additional subsequent reporting requirements if there are no changes in any of the components of the RSAT. Any sale, termination or modification of the component pieces of an Approved RSAT must be reported to the SVO within 30 days. This can be done by submitting to the SVO either a Material Change ATF Form or a Renumbering Request for the affected RSAT. Any such sale, termination or modification that results in the RSAT ceasing to be effective pursuant to the section titled “Effective RSAT” will immediately terminate the replication (synthetic asset) transaction.

48. **Additional Instructions for RSATs with a Change in Credit Profile** – File the required documentation required by this Manual for securities, including Reference Securities, on the VOS Process. If a security is no longer listed on the VOS Process, file the documentation required by this Manual.

Procedures Applied to Subsequent Reports of Replication (Synthetic Asset) Transactions

49. **Credit Assessment** – The SVO shall apply the procedures listed below for every filing. Additionally, for those RSATs exhibiting a Change in Credit Profile, the SVO shall apply the procedures set forth in the paragraph titled “Additional Instructions for RSATs with a Change in Credit Profile” below.

50. General Procedure:

- The SVO shall monitor the NAIC Designation assigned to the Cash Component.
- The SVO shall monitor the NAIC Designation assigned to the counterparties to the derivative component of the RSAT.
- The reporting insurance company must report a change in the documentation relating to any derivative component to the SVO. The SVO shall assess the significance of such change.

51. **Additional Procedures for RSATs with a Change in Credit Profile** – The SVO shall monitor the NAIC Designation assigned to any security, including Reference Securities, involved in the RSAT.

Additional Procedures for RSATs Using Baskets

Initial Reporting

52. **Informational Requirements** – Reporting insurance companies are required to file the information listed below for each replication they enter into using a Basket:

- RSAT Basket Form.
- If any of the component instruments in a Basket are not on the VOS Process with a current year Designation, the reporting insurance company is required to follow the reporting conventions and file the required documents set forth in this Manual.
- If the derivative component of the RSAT relies on a counterparty that is not on the List of Counterparties Designated by the SVO the informational requirements identified above apply.

Procedures Applied to Initial Reports of Baskets

53. **Effectiveness Testing** – The SVO shall verify that the reported RSAT meets those standards of effectiveness set forth in the section titled Effective RSAT. The reporting insurance company shall have responsibility for ensuring that the standards of effectiveness set forth in the section titled Effective RSAT above have been met.

54. **Credit Assessment** – If any component instrument of a Basket is not on the VOS Process with a current year Designation, the SVO shall apply the methodologies in Part Three of this Manual.

55. **Counterparty** – If any counterparty named in the RSAT is not currently listed on the SVO's List of Counterparties Designated by the SVO, the SVO shall the corresponding procedures in this Manual.

Subsequent Reporting

56. **Informational Requirements** – Reporting insurance companies are required to file the information listed below for each replication they enter into using a Basket on an annual basis.

- If there are additions or deletions to the component instruments in a Basket, the SVO should be notified within 30 days. If any new component instrument in a basket is not on the VOS Process, the reporting insurance company is required to follow the reporting conventions and file the required documents for each of those instruments.
- If any of the existing or new component instruments in a Basket are on the VOS Process, but do not have a current year Designation, the reporting insurance company is required to follow the reporting conventions and file the required documents for each of those instruments.

57. Procedures Applied to Subsequent Reports of Baskets:

- The SVO shall monitor the NAIC Designation of those Basket components with NAIC Designations.
- The SVO shall monitor the NAIC Designation assigned to the counterparty to the derivative component of the RSAT.

Additional Procedures for RSATs Using Indices

Initial Reporting

58. **Informational Requirements** – Reporting insurance companies are required to file an RSAT Fixed Income Index Form with the SVO for each replication they enter into using an equity or fixed income Index. An insurance company may only enter into an RSAT using a fixed income Index if the Index is listed on the SVO's RSAT Index List Equity Indices are not required to be on the SVO's RSAT Index List as no credit quality evaluation is performed on equity investments.

59. Procedures Applied to Initial Reports of Indices:

- **Effectiveness Testing** – The SVO shall verify that the reported RSAT meets those standards of effectiveness set forth in the section titled Effective RSAT. The reporting insurance company shall have responsibility for ensuring that the standards of effectiveness set forth in the section titled Effective RSAT have been met.
- **Counterparty** – If any counterparty named in the RSAT Form is not currently listed on the SVO's List of Counterparties Designated by the SVO, the SVO shall apply the corresponding procedures.
- **Verification** – The SVO will verify that any fixed income Index named in the RSAT Form is on the SVO's current RSAT Index List.

Subsequent Reporting

60. Informational Requirements:

- Reporting insurance companies are not required to file any annual information with the SVO for RSATs using an Index as long as the Index, if it is a fixed income Index, remains on the SVO's RSAT Index List. If a fixed Income index is removed from the list, any RSAT utilizing such Index will no longer qualify as an Approved RSAT.
- The SVO shall monitor the NAIC Designation assigned to the counterparty to the derivative component of the RSAT.

Procedures for Compilation of the RSAT Index List

61. **Compilation of List** – The staff is instructed to compile and maintain a list of fixed income indices that meet the standards identified in the RSAT Index List. The RSAT Index List may be used by reporting insurance companies when filing fixed income Index RSATs with the SVO. If the SVO determines that an Index does not meet the eligibility requirements set forth below, the Index will not be included on the list. Publication of an Index on the RSAT Index List does not imply an opinion of the quality of such Index or of the Index vendor.

62. **Eligibility Requirements** – A fixed income Index may be eligible for listing on the RSAT Index List if the Index meets the following requirements:

- **Rule-Based** – The Index is composed and valued based on the application of objective, pre-defined criteria. Additions to or deletions from the list must be made based on the application of such criteria.
- **Information Available** – Rating information about the components is, or can be made available, to the SVO.
- **Components Rated** – All, or substantially all, of the Index components are rated, or have obligors that are rated, by an NAIC CRP or have received a current year NAIC Designation from the SVO. In the event that not all of the Index components are NAIC CRP-rated or have a current year NAIC Designation, the reporting insurance company may either: (a) file the component with the SVO to obtain a Designation; or (b) assign an **NAIC 5*** Designation to the unrated instrument, as long as it is current on principal and interest or an **NAIC 6*** Designation if it is not or if the status is not determinable. Instruments assigned an **NAIC 5*** Designation or **NAIC 6*** Designation, on a combined basis, can represent no more than 5% of the Index's total value.

- **Independent** – The Index is predominantly composed of instruments whose issuers are unaffiliated with the Index vendor.

63. **Initial Reporting** – In order to apply for listing of a fixed income Index on the RSAT Index List, a reporting insurance company should submit the following to the SVO:

- A listing of all Index components.
- The ratings of all NAIC CRP-rated Index components from all NAIC CRPs that have rated the component.
- The actual NAIC Designation for each Index component with an NAIC Designation or an equivalent NAIC Designation for each component rated by an NAIC CRP using the conversion instructions and the rating equivalents, if rated and monitored by one NAIC CRP, the equivalent NAIC Designation; if rated and monitored by two NAIC CRPs, then the lowest rating and if rated and monitored by three or more NAIC CRPs, then the second lowest rating. In the case of a security rated and monitored by three or more NAIC CRPs, the NAIC CRP ratings for a security are ordered according to their NAIC Designation equivalents and the rating that is second lowest will be selected, even if that rating is equal to that of the first lowest.
- A demonstration and certification by the insurance company, as evidenced by an executed certificate by an officer of the insurance company, that the eligibility requirements set forth in the "Eligibility Requirements" paragraph in the "Procedures for Compilation of the RSAT Index List" section above have been met.

64. **Subsequent Reporting** – The reporting insurance company shall annually submit to the SVO the items listed in the "Initial Reporting" paragraph of the "Procedures for Compilation of the RSAT Index List" section above for each fixed income Index it desires to maintain on the RSAT Index List. Any Index on the RSAT Index List for which the required documents are not submitted, or any Index that no longer meets the eligibility requirements set forth in section above, shall be deleted from the RSAT Index List.

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 Statutory Accounting Principles (E) Working Group has proposed revisions as part of the IMR project (agenda item #2023-14: *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*) to the RSAT guidance in *SSAP No. 86—Derivatives* to incorporate limited clarifications mostly related to the allocation of IMR

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

proposed to the Investment Designation (E) Working Group to incorporate comparable edits into the P&P Manual.

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

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

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

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

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

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

Staff Review Completed by: Julie Gann, April 2026.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/08-12-26 Summer National Meeting/Meeting/B - 26-09 - SSAP No. 86 - RSATs.docx

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

Issue: SSAP No. 26 – Embedded ALM Risk

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

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

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

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

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

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

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

Existing Authoritative Literature:

SSAP No. 26—Bonds
(The respective guidance for ABS is in paragraphs 8-9. Paragraph 6 has been included due to the reference to this guidance in the proposed revisions.)

> 6. Determining whether a security represents a creditor relationship should consider its substance, rather than solely the legal form of the instrument. The analysis of whether a security represents a creditor relationship should consider all other investments the reporting entity owns in the investee as well as any other contractual arrangements. A security that in substance possesses equity-like characteristics or represents an ownership interest in the issuer does not represent a creditor relationship. While not intended to be all-inclusive, paragraphs 6.a.-6.d. discuss specific elements that may introduce equity-like characteristics:
>
> > a. Determining whether a debt instrument represents a creditor relationship in substance when the source of cash flows for repayment is derived from underlying equity interests inherently requires significant judgment and analysis. Unlike a debt

instrument collateralized by assets with contractual cash flows, debt instruments collateralized by equity interests are dependent on cash flow distributions that are not contractually required to be made and are not controlled by the issuer of the debt. As a result, there is a rebuttable presumption that a debt instrument collateralized by equity interests does not represent a creditor relationship in substance. Notwithstanding this rebuttable presumption, it is possible for such a debt instrument to represent a creditor relationship if the characteristics of the underlying equity interests lend themselves to the production of predictable cash flows and the underlying equity risks have been sufficiently redistributed through the capital structure of the issuer. Factors to consider in making this determination include but are not limited to:

i. Number and diversification of the underlying equity interests;

ii. Characteristics of the underlying equity interests (vintage, asset-types, etc.);

iii. Liquidity facilities;

iv. Overcollateralization;

v. Waiting period for distributions/paydowns to begin;

vi. Capitalization of interest;

vii. Covenants (e.g., loan-to-value trigger provisions); and

viii. Reliance on ongoing sponsor commitments.

b. While reliance of the debt instrument on sale of underlying equity interests or refinancing at maturity does not preclude the rebuttable presumption from being overcome, it does require that the other characteristics mitigate the inherent reliance on equity valuation risk to support the transformation of underlying equity risk to bond risk. As reliance on sale or refinancing increases, the more compelling the other factors needed to overcome the rebuttable presumption become.

c. Analysis of whether the rebuttable presumption for underlying equity interests is overcome shall be conducted and documented by a reporting entity at the time such an investment is acquired. The level of documentation and analysis required will vary based on the characteristics of the individual debt instrument, as well as the level of third-party and/or non-insurance company market validation to which the issuance has been subjected. For example, a debt instrument collateralized by fewer, less diversified equity interests would require more extensive and persuasive documented analysis than one collateralized by a larger diversified portfolio of equity interests. Likewise, a debt instrument that has been successfully marketed to unrelated and/or non-insurance company investors, may provide enhanced market validation of the structure compared to one held only by related party and/or insurance company investors where capital relief may be the primary motivation for the securitization.

d. In order for a debt instrument to represent a creditor relationship in accordance with paragraph 6, it must have pre-determined principal and interest payments (whether fixed interest or variable interest) with contractual amounts that do not vary based on the appreciation or depreciation (i.e., performance) of any underlying collateral value or other non-debt variable. For example, an issued security that has varying principal and interest payments based on the appreciation of referenced equity, real estate or other non-debt variable is precluded from bond treatment. This exclusion is not intended to restrict variables that are commonly related to debt instruments such as, but not limited to, plain-vanilla[1] inflation or benchmark interest rate adjustments (such as with U.S. TIPs or SOFR-linked coupons, respectively), scheduled interest rate step-ups, or credit-quality related interest rate adjustments. This exclusion is also not intended to encompass nominal interest rate adjustments[2]. For clarification purposes, all returns from a debt instrument in excess of principal are required to be considered as interest. Therefore, investments with "stated" interest and then "additional returns" to which the holder of the debt instrument is entitled are collectively considered as interest and shall be assessed together in determining whether the investment has variable principal or interest due to underlying referenced non-debt variables. Examples of securities excluded from the bond definition under this guidance:

i. Structured Notes, which are securities that otherwise meet the definition of a bond, but for which the contractual amount of the instrument to be paid at maturity (or the original investment) is at risk for other than the failure of the borrower to pay the principal amount due, are excluded from the bond definition. These investments, although in the form of a debt instrument, incorporate the risk of an underlying variable in the terms of the agreement, and the issuer obligation to return the full principal is contingent on the performance of the underlying variable. These investments are addressed in SSAP No. 86. Mortgage-referenced securities issued by a government sponsored enterprise are explicit inclusions in scope of SSAP No. 43. Foreign-denominated bonds subject to variation as a result of foreign currency fluctuations are not structured notes.

ii. Principal-protected securities, as defined in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* are excluded from the bond definition as they have a performance component whose payments originate from, or are determined by, non-fixed income securities. These investments shall follow the guidance for non-bond securities in SSAP No. 21.

7. An issuer credit obligation is a bond, for which the general creditworthiness of an operating entity

[1] Inflation or benchmark interest rate adjustment mechanisms are considered plain-vanilla if based on widely recognized measures of inflation or interest rate benchmarks and excludes those that involve either leverage (such as a multiplier) or an inverse adjustment relationship.

[2] Nominal interest rate adjustments are those that are too small to be taken into consideration when assessing the investment's substance as a bond. Nominal adjustments are not typically influential factors in an investors' evaluation of investment return and are often included to incentivize certain behavior of the issuer. An example would include sustainability-linked bonds where failure to achieve performance metrics could cause interest rate adjustments. In general, interest rate adjustments that adjust the total return from interest by more than 10% (e.g., >0.4% for a 4% yielding bond), would not be considered nominal. Further, any such adjustments that cause an investment to meet the definition of a structured note would not be considered nominal.

or entities through direct or indirect recourse, is the primary[3] source of repayment. Operating entity or entities includes holding companies with operating entity subsidiaries where the holding company has the ability to access the operating subsidiaries' cash flows through its ownership rights. An operating entity may be any sort of business entity, not-for-profit organization, governmental unit, or other provider of goods or services, but not a natural person or "ABS Issuer" (as defined in paragraph 8). Examples of issuer credit obligations include, but are not limited to:

a. U.S. Treasury securities, including U.S. Treasury Inflation-Indexed Securities;(INT 01-25)

b. U.S. government agency securities;

c. Municipal securities issued by the municipality or supported by cash flows generated by a municipally-owned asset or entity that provides goods or services (e.g., airport, toll roads, etc.);

d. Corporate bonds issued by operating entities, including Yankee bonds and zero-coupon bonds;

e. Corporate bonds, issued by holding companies that own operating entities;

f. Project finance bonds issued by operating entities;

g. Investments in the form of securities for which repayment is fully supported by an underlying contractual obligation of a single operating entity (e.g., credit tenant loans (CTLs), equipment trust certificates (ETCs), other lease backed securities, funding agreement backed notes (FABNs), etc.). For purposes of applying this principal concept, repayment is fully supported by the underlying operating entity obligation if it provides cash flows for the repayment of all interest and at least 95% of the principal of the security;

h. Bonds issued by real estate investment trusts (REITs) or similar property trusts;

i. Bonds issued by funds representing operating entities as described in paragraph 12;

j. Convertible bonds issued by operating entities, including mandatory convertible bonds as defined in paragraph 21.b.

8. An asset-backed security[4] is a bond issued by an entity (an "ABS Issuer") created for the primary

[3] "Primary" refers to the first in order of repayment source, not to a majority of the sources of repayment. For example, an issuer obligation may have secondary recourse to collateral upon default of the operating entity but would otherwise be expected to be fully repaid with cash flows of the operating entity. This differs from an asset-backed security for which the primary source of repayment is from cash flows of the collateral.

[4] The underlying collateral supporting an asset-backed security shall meet the definition of an asset by the ABS Issuer. Certain forms of collateral, such as rights to future cash flows, may not be recognized as assets by the selling entity but may be recognized as assets when sold to an ABS Issuer. These assets are permitted as the collateral supporting an asset-backed security, although they may not represent an asset that can be liquidated to provide payment toward the issued debt obligations (i.e., if the future cash flows do not materialize). The limited ability to liquidate the underlying collateral supporting an asset-backed security does not impact the structural determination of whether an issued security meets the definition of an asset-backed security but may impact the recoverability of the investment, as well as the consideration of whether there is sufficient credit enhancement.

purpose of raising debt capital backed by financial assets[5] or cash generating non-financial assets owned by the ABS Issuer, for which the primary source of repayment is derived from the cash flows associated with the underlying defined collateral rather than the cash flows of an operating entity[6]. In most instances, the ABS Issuer is not expected to continue functioning beyond the final maturity of the debt initially raised by the ABS Issuer. Also, many ABS Issuers are in the form of a trust or special purpose vehicle ("SPV"), although the presence or lack of a trust or SPV is not a definitive criterion for determining that a security meets the definition of an asset-backed security. The provisions in paragraphs 9-10 detail the two defining characteristics that must be present for a security to meet the definition of an asset-backed security.

9. The assets owned by the ABS Issuer are either financial assets or cash-generating non-financial assets. Cash-generating non-financial assets are defined as assets that are expected to generate a meaningful level of cash flows toward repayment of the bond through use, licensing, leasing, servicing or management fees, or other similar cash flow generation. For the avoidance of doubt, there must be a meaningful level of cash flows to service the debt, other than through the sale or refinancing of the underlying assets held by the ABS Issuer. Reliance on cash flows from the sale or refinancing of cash generating non-financial assets does not preclude a security from being classified as an asset-backed security so long as the conditions in this paragraph are met.

a. *Meaningful Level of Cash Flows*: Determining what constitutes a "meaningful" level of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral pursuant to paragraph 9 is specific to each transaction, determined at origination, and shall consider the following factors:

i. The price volatility in the principal market for the underlying collateral;

ii. The liquidity in the principal market for the underlying collateral;

iii. The diversification characteristics of the underlying collateral (i.e., types of collateral, geographic location(s), source(s) of cash flows within the structure, etc.);

iv. The overcollateralization of the underlying collateral relative to the debt obligation; and

v. The variability of cash flows, from sources other than sale or refinancing, expected to be generated from the underlying collateral.

The factors for price variability and the variability of cash flows are directly related to the "meaningful" requirement. That is, as price volatility or variability of cash flows increase, the required percentage of cash flows generated to service the debt from sources other

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[5] *SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* defines a financial asset as cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right (a) to receive cash or another financial instrument from a second entity or (b) to exchange other financial instruments on potentially favorable terms with the second entity. As a point of clarity, for the purposes of this standard, financial assets do not include assets for which the realization of the benefits conveyed by the above rights depends on the completion of a performance obligation (e.g., leases, mortgage servicing rights, royalty rights, etc.). These assets represent non-financial assets, or a means through which non-financial assets produce cash flows, until the performance obligation has been satisfied.

[6] Dedicated cash flows from an operating entity can form the underlying defined collateral in an asset-backed security. This dynamic, perhaps noted in a whole-business securitization, still reflects an asset-backed security and is not an issuer credit obligation.

than the sale or refinancing of the underlying collateral must also increase. The factors for liquidity, diversification and overcollateralization are inversely related to the "meaningful" concept. That is, as liquidity, diversification or overcollateralization increase, the required percentage of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral may decrease.

b. As a practical expedient to determining whether a cash generating non-financial asset is expected to produce meaningful cash flows, a reporting entity may consider an asset for which less than 50% of the original principal relies on sale or refinancing to meet the meaningful criteria. In applying this practical expedient, only contractual cash flows of the non-financial assets may be considered. This practical expedient should not be construed to mean that assets cannot meet the meaningful criteria if they rely on sale or refinancing to service greater than 50% of the original principal or if they rely on cash flows that are not contracted at origination. Rather, such instances would require a complete analysis of the considerations described within the meaningful level of cash flows definition in paragraph 9.

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: 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 change and expose revisions to *SSAP No. 26—Bonds* to expand on the requirements that asset-backed securities are required to meet to qualify for bond reporting. NAIC staff has classified this revision as a SAP change as the proposed revisions reflect a change from the original PBBD concepts. However, due to the limited scope and focus of this change, a separate issue paper is not planned.

Proposed Revisions to *SSAP No. 26—Bonds*
(Current footnotes have been removed for brevity as no revisions are proposed to those aspects.)

8. An asset-backed security is a bond issued by an entity (an "ABS Issuer") created for the primary purpose of raising debt capital backed by financial assets or cash generating non-financial assets owned by the ABS Issuer, for which the primary source of repayment is derived from the cash flows associated with the underlying defined collateral rather than the cash flows of an operating entity. In most instances, the ABS Issuer is not expected to continue functioning beyond the final maturity of the debt initially raised by the ABS Issuer. Also, many ABS Issuers are in the form of a trust or special purpose vehicle ("SPV"), although the presence or lack of a trust or SPV is not a definitive criterion for determining that a security meets the definition of an asset-backed security. The provisions in paragraphs 9-10 detail the two defining characteristics that must be present for a security to meet the definition of an asset-backed security.

9. The assets owned by the ABS Issuer are either financial assets or cash-generating non-financial assets. Cash-generating non-financial assets are defined as assets that are expected to generate a meaningful level of cash flows toward repayment of the bond through use, licensing, leasing, servicing or management fees, or other similar cash flow generation. For the avoidance of doubt, there must be a

meaningful level of cash flows to service the debt, other than through the sale or refinancing of the underlying assets held by the ABS Issuer. Reliance on cash flows from the sale or refinancing of cash generating non-financial assets does not preclude a security from being classified as an asset-backed security so long as the conditions in this paragraph are met.

a. *Meaningful Level of Cash Flows*: Determining what constitutes a "meaningful" level of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral pursuant to paragraph 9 is specific to each transaction, determined at origination, and shall consider the following factors:

    i. The price volatility in the principal market for the underlying collateral;

    ii. The liquidity in the principal market for the underlying collateral;

    iii. The diversification characteristics of the underlying collateral (i.e., types of collateral, geographic location(s), source(s) of cash flows within the structure, etc.);

    iv. The overcollateralization of the underlying collateral relative to the debt obligation; and

    v. The variability of cash flows, from sources other than sale or refinancing, expected to be generated from the underlying collateral.

    The factors for price variability and the variability of cash flows are directly related to the "meaningful" requirement. That is, as price volatility or variability of cash flows increase, the required percentage of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral must also increase. The factors for liquidity, diversification and overcollateralization are inversely related to the "meaningful" concept. That is, as liquidity, diversification or overcollateralization increase, the required percentage of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral may decrease.

b. As a practical expedient to determining whether a cash generating non-financial asset is expected to produce meaningful cash flows, a reporting entity may consider an asset for which less than 50% of the original principal relies on sale or refinancing to meet the meaningful criteria. In applying this practical expedient, only contractual cash flows of the non-financial assets may be considered. This practical expedient should not be construed to mean that assets cannot meet the meaningful criteria if they rely on sale or refinancing to service greater than 50% of the original principal or if they rely on cash flows that are not contracted at origination. Rather, such instances would require a complete analysis of the considerations described within the meaningful level of cash flows definition in paragraph 9.

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

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

Staff Review Completed by: Julie Gann, July 2026.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/08-12-26 Summer National Meeting/Meeting/C - 26-10 - SSAP No. 26 - Embedded ALM Risk.docx

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

Issue: Residential Mortgage Loan Definition

Check (applicable entity):

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

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

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

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

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

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

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

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

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

Assuming that adding definitions to SSAP No. 37 is supported by regulators, some initial modifications that NAIC Staff recommend would include:

(1) Establish a threshold for determining when a mixed-use property with both residential and commercial units can be considered either a one-to-four family or multifamily property. (e.g., 60% residential to commercial square footage, 50% of loan value related to residential, or some other appropriate measure.)

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

(3) Clarify that a mortgage loan, including a construction loan, secured by a project involving multiple one-to-four family properties cannot be reported as a single residential loan when the collateral is the project or development as a whole. Each individual one-to-four family property, including condominium dwelling units within the scope of one-to-four family property definition, may qualify for residential

mortgage loan reporting if each property is reported individually and the mortgage is legally separate and divisible from other properties in the project, development, or condominium.

(4) Consider whether there should be loan value limits on individual residential mortgage loans.

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

NAIC staff also request input on whether loan risk factors should be incorporated into Schedule B reporting, whether through new columns, reporting codes, or separate loan reporting. As noted previously, some of the potential risk factors could include lien position such as 1st lien (senior) or 2nd lien (subordinated), and the LTV ratio. NAIC staff request comments on these potential factors, as well as any other risk characteristics that should be considered for reporting purposes. It should also be noted that the RBC factor for residential mortgage loans is quite low compared to other asset classes, and those charges do not vary based on the loan's risk characteristics. As a result, there is no RBC impact for residential mortgage loans with subprime characteristics such as low FICO scores.

As noted in the referral, NAIC staff have also heard concerns from regulators and industry representatives that the high volume of residential mortgage loans has significantly increased the length of Schedule B. Residential mortgage loans as an asset class have grown substantially in recent years and this is likely in response to rising mortgage rates combined with the very low RBC charges as compared to other asset classes, and other recent changes to SAP guidance (for example, revisions to SSAP No. 37 related to residential mortgage loans held in statutory trusts). Considering this, it is not unreasonable to assume that the number of residential mortgage loans reported on Schedule B will only continue to increase.

Schedule B currently requires mortgage loans to be reported individually, with each mortgage loan reported as a separate line item regardless of the number of properties securing the loan. While individual loan reporting is a cornerstone of mortgage loan reporting, NAIC staff is concerned that the growing volume of residential mortgage loans may reduce the analytical value of Schedule B and make it more difficult for regulators to effectively review and assess Schedule B. Ultimately, NAIC staff are seeking input from regulators and industry on whether, and under what circumstances, mortgage loan reporting could be aggregated and how it could be done without sacrificing the information necessary for regulators to evaluate insurer mortgage loan portfolios. As an additional note, some insurers have recently had to report residential mortgage loans in aggregate due to Schedule B reporting line limitations, but this issue should not reoccur as the number of mortgage loan reporting lines has been significantly increased and can be increased further as needed.

CFR Title 12, Chapter XII, Subchapter D, Part 1266, Subpart A, § 1266.1, Definitions:

One-to-four family property means any of the following:

(1) Real property containing:

(i) One-to-four dwelling units; or

(ii) More than four dwelling units if each unit is separated from the other units by dividing walls that extend from ground to roof, including row houses, townhouses or similar types of property;

(2) Manufactured housing if:

(i) Applicable state law defines the purchase or holding of manufactured housing as the purchase or holding of real property; and

(ii) The loan to purchase the manufactured housing is secured by that manufactured housing;

(3) Individual condominium dwelling units or interests in individual cooperative housing dwelling units that are part of a condominium or cooperative building without regard to the number of total dwelling units therein; or

(4) Real property containing one-to-four dwelling units with commercial units combined, provided the property is primarily residential.

Multifamily property means:

(1) *Intentionally Left Blank*

a. Real property that is solely residential and which includes five or more dwelling units; or

b. Real property which includes five or more dwelling units with commercial units combined, provided the property is primarily residential.

(2) Multifamily property as defined in this section includes nursing homes, dormitories and homes for the elderly.

Existing Authoritative Literature:

The following SAP guidance provides some measure of guidance regarding the definition of residential mortgage loans:

SSAP No. 58—Mortgage Guaranty Insurance

3. Mortgage guaranty insurance is provided on residential loans (one-to-four family residences, including condominiums and townhouses). Coverage can range from as little as 5% on pool insurance to as much as 100% of the outstanding loan amount on individual policies. Most policies cover 10% to 30% of the loan amount and are written on first mortgage loans where the loan amount is a high percentage (generally 80% to 95%) of the value of the mortgaged property.

Annual Statement Investment Schedules General Instructions

Residential Mortgage-Backed Securities:

Those securities directly or indirectly secured by liens on one- to four-family residential properties and subject to the guidance in *SSAP No. 43—Asset-Backed Securities*. Includes prime, subprime, Alt-A mortgages, as well as home equity loans and home equity lines of credit.

Model Law 280 – Investments of Insurers Model Act

VVV. "Residential mortgage loan" means a loan primarily secured by a mortgage on real estate improved with a one-to-four family residence.

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 2025-13: Residential Mortgages held in Statutory Trusts is tangentially related to this topic as the agenda item expanded the scope of *SSAP No. 37—Mortgage Loans* to allow residential mortgage loans to be held within Qualifying Statutory Trusts and thus be reported individually on Schedule B (as if held directly).

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

The items requested for comment include:

1. Are there other industry definitions other than 12 CFR § 1266.1 for one-to-four family property and multifamily property which should be considered?
2. The following are possible modifications to the 12 CFR § 1266.1 definitions:
   a. Establish a threshold for determining when a mixed-use property with both residential and commercial units can be considered either a one-to-four family or multifamily property. (e.g., 70% residential to commercial square footage or some other appropriate measure.) Additionally, how should mixed use properties be reported: as a separate category, by allocating and reporting the residential and commercial portions separately, or by reporting the entire mortgage balance as either one-to-four family or multifamily property?
   b. Should one-to-four family properties and multifamily properties both be classified as residential mortgage loans with separate reporting, or should multifamily properties be included as a component of commercial mortgage reporting?
   c. Clarify that a mortgage loan, including a construction loan, secured by a project involving multiple one-to-four family properties cannot be reported as a single residential loan when the collateral is the project or development as a whole. Each individual one-to-four family property, including condominium dwelling units within the scope of one-to-four family property definition, may qualify for residential mortgage loan reporting if each property is reported individually and the mortgage is legally separate and divisible from other properties in the project, development, or condominium.
   d. Consider whether there should be loan value limits on individual residential mortgage loans.
   e. Provide specific guidance on residential mortgage loans secured by ADUs or non-owner occupied one-to-four family properties, residential construction loans, fix and flip loans, lines of credit, home equity loans, and transitional properties.
3. Should residential loan risk factors be incorporated into Schedule B reporting, whether through new columns, reporting codes, or separate loan reporting per those risk factors? Are there any other risk characteristics that should be considered for reporting purposes in addition to those already mentioned previously? (lien position and LTV ratio)

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

Staff Review Completed by:
William Oden, NAIC Staff – July 2026

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/08-12-26 Summer National Meeting/Meeting/D - 26-11 - Residential Mortgage Definition.docx

NAIC 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
Ben Slutsker, Chair of the Life Risk-Based Capital (E) Working Group
Philip Barlow, Vice Chair of the Life Risk-Based Capital (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: Residential Mortgage Loans: Definition, Disclosure and Risk-Based Capital Charges

Date: May 26, 2026

On March 24, 2026, the Invested Assets (E) Task Force heard a presentation from Neuberger Berman about the growing exposure to residential mortgage loans within insurance portfolios, including variants of mortgage loans and potential ways to consider the various risks. Subsequently, and in accordance with its 2026 agenda, the Investment Analysis (E) Working Group reviewed current residential mortgage loan exposure among insurers, noting the following:

(1) Residential mortgage loan exposure has grown consistently and rapidly since 2021, particularly among life insurers, averaging 36.3% annual growth in that time period (37.1% for just Life companies).

(2) Exposure growth as a percentage of invested assets has become material as well, with several insurers having over 10% of their portfolio invested in residential mortgage loans.

(3) Some insurers hold individual high balance* residential mortgage loans, with 129 individual loans with balances over $50 million. These high balance loans constitute approximately 15% of all residential mortgage loans.

(4) Many list the location as “various” or “multiple”, which limits the ability to assess the geographical exposure of the loans or evaluate loans on an individual loan basis.

(5) Current reporting requirements lack granularity to highlight potential key characteristics of residential mortgage loans, including identification of non-first lien loans, whether the residencies are owner occupied or investment properties, or loan-to-value (LTV) metrics, among others.

(6) Despite possessing varying characteristics, residential mortgage loans are assigned a 68-basis points capital charge for Life insurers, without risk sensitivity to underlying factors. Additionally, this factor was established using pre-CM framework commercial mortgage loan factors as an anchor point without any calibration to RML-specific data.

*Subsequent to the Investment Analysis (E) Working Group discussion, it has been determined that some of the large balances may be due to aggregation in reporting, driven by reporting limitations within Schedule B—Mortgage Loans. Currently, Schedule B has a limit of 99,995 rows, thus requiring consolidated reporting in instances where an insurer holds additional individual mortgage loans.

While these observations are illustrative and not intended to identify specific reporting entities, they highlight areas where additional clarity may be beneficial.

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

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

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

Additionally, broader considerations related to concentration risk may warrant attention. Insurers with significant allocations to residential mortgage loans, particularly where such exposures include large or non-traditional assets, may face heightened exposure to credit, liquidity, valuation, and interest rate risks. While these considerations extend beyond accounting classification alone, consistent and transparent reporting is foundational to effective regulatory assessment.

SSAP No. 37—Mortgage Loans establishes the statutory accounting framework for mortgage loans but provides limited explicit guidance distinguishing residential mortgage loans from other mortgage loan types. Industry practice has generally relied on interpretations informed by other NAIC models and guidance, often centering on one to four family residential properties, but these interpretations are not explicitly codified within SSAP No. 37. As a result, variability in classification may exist, particularly for larger multi-unit, development-oriented, or non-traditional residential exposures.

Given these considerations, this referral requests that the Statutory Accounting Principles (E) Working Group consider whether additional clarification or refinement within SSAP No. 37 is warranted to better define residential mortgage loans and improve consistency in application. Potential areas for consideration may include:

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

In coordination with, or following the above considerations, this referral also requests that the Life Risk-Based Capital (E) Working Group:

- Provide input on the potential RBC implications of mortgage loan exposures that, while currently classified as residential, may exhibit characteristics more consistent with commercial or development-type lending.
- Consider whether additional guidance or clarification may be warranted regarding the application of residential RBC factors, including additional reporting items required to differentiate variations in risk, including due to underlying borrower creditworthiness.
- Evaluate whether certain exposures, such as large multi-unit, development-stage, or transitional properties, may warrant alternative RBC treatment or additional risk stratification to better align capital requirements with underlying economic risk.

These considerations are intended to support consistent statutory accounting guidance and RBC application, enhance transparency in financial reporting, and better align classification outcomes with the underlying economic risk of mortgage loan exposures.

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 or the Life Risk-Based Capital (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, Maggie Chang, Kazeem Okosun.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/08-12-26 Summer National Meeting/Meeting/E - INVAWG to SAPWG & LRBC Referral - Final.docx

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

Issue: Retroactive Reinsurance Exception

Check (applicable entity):

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

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

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

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

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

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

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

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

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

Disclosure
SSAP No. 62, paragraph 36 contains the following exceptions to retroactive accounting and related disclosures are listed if applicable.

36a. Structured settlements to pay individual claims (Disclosed in *SSSAP No. 65—Property and Casualty Contracts*, paragraph 19

36.b. Novations – no specific SAP disclosure but disclosed in Schedule F - Part 2 per *Annual Statement Instructions*

36.c. Termination of, or reduction in participation in, reinsurance treaties - disclosed in SSAP No. 62, paragraph 109).

36.d. Intercompany reinsurance agreements with 100% ultimate controlling person (no gain in surplus) to the ceding entity) – no specific disclosure;

36.e. Reinsurance/retrocession agreements that meet the criteria of property/casualty run-off agreements disclosed in SSAP No. 62, paragraphs 114-119.

Existing Authoritative Literature:

SSAP No. 62—Property and Casualty Reinsurance

26. Prospective reinsurance is defined as reinsurance in which a reinsurer agrees to reimburse a ceding entity for losses that may be incurred as a result of future insurable events covered under contracts subject to the reinsurance. Retroactive reinsurance is defined as reinsurance in which a reinsurer agrees to reimburse a ceding entity for liabilities incurred as a result of past insurable events covered under contracts subject to the reinsurance. A reinsurance agreement may include both prospective and retroactive reinsurance provisions.

27. The distinction between prospective and retroactive reinsurance agreements is based on whether the agreement reinsures future or past insured events covered by the underlying insurance policies. For example, in occurrence-based insurance, the insured event is the occurrence of a loss covered by the insurance contract. In claims-made insurance, the insured event is the reporting to the insurer, within the period specified by the policy, of a claim for a loss covered by the insurance agreement. A claims-made reinsurance contract that reinsures claims asserted to the reinsurer in a future period as a result of insured events that occurred prior to entering into the reinsurance agreement is a retroactive agreement. (However, a reinsurance agreement that reinsures claims reported to an insurer that are covered under currently effective claims-made insurance policies is a prospective reinsurance agreement.)

Accounting for Prospective Reinsurance Agreements

30. Amounts paid for prospective reinsurance that meet the conditions for reinsurance accounting shall be reported as a reduction of written and earned premiums by the ceding entity and shall be earned over the remaining contract period in proportion to the amount of reinsurance protection provided or, if applicable, until the reinsurer's maximum liability under the agreement has been exhausted. If the amounts paid are subject to adjustment and can be reasonably estimated, the basis for amortization shall be the estimated ultimate amount to be paid. Reinstatement premium, if any, shall be earned over the period from the reinstatement of the limit to the expiration of the agreement.

31. Changes in amounts of estimated reinsurance recoverables shall be recognized as a reduction of gross losses and loss expenses incurred in the current period statement of income. Reinsurance recoverables on paid losses shall be reported as an asset, reinsurance recoverables on loss and loss adjustment expense payments, in the balance sheet. Reinsurance recoverables on unpaid case-basis and incurred but not reported losses and loss adjustment expenses shall be netted against the liability for gross losses and loss adjustment expenses.

32. Prospective reinsurance agreements that meet the conditions for reinsurance accounting shall only reflect reinsurance credit for the portion of risk which is ceded.

Provisions that would limit the reinsurer's losses (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions) caused by any applicable risk limiting provision(s) shall be reflected adjustments to ceded premiums, commissions or losses. Reporting entities shall only take credit for reinsurance, i.e., record a reinsurance recoverable, for non-proportional reinsurance when and to the extent that incurred losses on the underlying subject business exceed the attachment point of the applicable reinsurance contract(s).

Accounting for Retroactive Reinsurance Agreements

33. Certain reinsurance agreements which transfer both components of insurance risk cover liabilities which occurred prior to the effective date of the agreement. Due to potential abuses involving the creation of surplus to policyholders and the distortion of underwriting results, special accounting treatment for these agreements is warranted.

34. All retroactive reinsurance agreements entered into, renewed or amended on or after January 1, 1994 (including subsequent development of such transactions) shall be accounted for and reported in the following manner:

a. The ceding entity shall record, without recognition of the retroactive reinsurance, loss and loss expense reserves on a gross basis on the balance sheet and in all schedules and exhibits;

b. The assuming entity shall exclude the retroactive reinsurance from loss and loss expense reserves and from all schedules and exhibits;

c. The ceding entity and the assuming entity shall report by write-in item on the balance sheet, the total amount of all retroactive reinsurance, identified as retroactive reinsurance reserve ceded or assumed, recorded as a contra-liability by the ceding entity and as a liability by the assuming entity;

d. The ceding entity shall, by write-in item on the balance sheet, restrict surplus resulting from any retroactive reinsurance as a special surplus fund, designated as special surplus from retroactive reinsurance account;

e. The surplus gain from any retroactive reinsurance shall not be classified as unassigned funds (surplus) until the actual retroactive reinsurance recovered exceeds the consideration paid;

f. The special surplus from retroactive reinsurance account for each respective retroactive reinsurance agreement shall be reduced at the time the ceding entity begins to recover funds from the assuming entity in amounts exceeding the consideration paid by the ceding entity under such agreement, or adjusted as provided in paragraph 34.j.;

g. For each agreement, the reduction in the special surplus from retroactive reinsurance account shall be limited to the lesser of (i) the actual amount recovered in excess of consideration paid or (ii) the initial surplus gain resulting from the respective retroactive reinsurance agreement. Any remaining balance in the special surplus from retroactive reinsurance account derived from any such agreement shall be returned to unassigned funds (surplus) upon elimination of all policy obligations subject to the retroactive reinsurance agreement;

h. The ceding entity shall report the initial gain arising from a retroactive reinsurance transaction (i.e., the difference between the consideration paid to the reinsurer and the total reserves ceded to the reinsurer) as a write-in item on the statement of income, to be identified as Retroactive Reinsurance Gain and included under Other Income;

i. The assuming entity shall report the initial loss arising from a retroactive reinsurance transaction, as defined in the preceding paragraph 34.g., as a write-in item on the statement of income, to be identified as Retroactive Reinsurance Loss and included under Other Income;

j. Any subsequent increase or reduction in the total reserves ceded under a retroactive reinsurance agreement shall be reported in the manner described in the preceding paragraphs 34.h. and 34.i., in order to recognize the gain or loss arising from such increase or reduction in reserves ceded. The Special Surplus from Retroactive Reinsurance Account write-in entry on the balance sheet shall be adjusted, upward or downward, to reflect such increase or reduction in reserves ceded. The Special Surplus from Retroactive Reinsurance Account write-in entry shall be equal to or less than the total ceded reserves under all retroactive reinsurance agreements in-force as of the date of the financial statement. Special surplus arising from a retroactive reinsurance transaction shall be considered to be earned surplus (i.e., transferred to unassigned funds (surplus)) only when cash recoveries from the assuming entity exceed the consideration paid by the ceding entity as respects such retroactive reinsurance transaction; and

k. The consideration paid for a retroactive reinsurance agreement shall be reported as a decrease in ledger assets by the ceding entity and as an increase in ledger assets by the assuming entity.

(For an illustration of ceding entity accounting entries see question 31 in Exhibit A.)

35. Portfolio reinsurance is the transfer of an insurer's entire liability for in force policies or outstanding losses, or both, of a segment of the insurer's business. Loss portfolio transactions are to be accounted for as retroactive reinsurance.

36. The accounting principles for retroactive reinsurance agreements in paragraph 34 shall not apply to the following types of agreements (which shall be accounted for as prospective reinsurance agreements unless otherwise provided in this statement):

a. Structured settlement annuities for individual claims purchased to implement settlements of policy obligations;

b. Novations, (i.e., (i) transactions in which the original direct insurer's obligations are completely extinguished, resulting in no further exposure to loss arising on the business novated or (ii) transactions in which the original assuming entity's obligations are completely extinguished) resulting in no further exposure to loss arising on the business novated, provided that (1) the parties to the transaction are not affiliates (or if affiliates, that the transaction has the prior approval of the domiciliary regulators of the parties)and (2) the accounting for the original reinsurance agreement will not be altered from retroactive to prospective;

c. The termination of, or reduction in participation in, reinsurance treaties entered into in the ordinary course of business;

d. Intercompany reinsurance agreements, and any amendments thereto, among companies 100% owned by a common parent or ultimate controlling person provided there is no gain in surplus as a result of the transaction; or

e. Reinsurance/retrocession agreements that meet the criteria of property/casualty run-off agreements described in paragraphs 102-105.

37. Retroactive reinsurance agreements resulting in surplus gain to the ceding entity (with or without risk transfer) entered into between affiliates or between insurers under common control (as those terms are defined in Appendix A-440) shall be reported as follows:

a. The consideration paid by the ceding entity shall be recorded as a deposit and reported as a nonadmitted asset; and

b. No deduction shall be made from loss and loss adjustment expense reserves on the ceding entity's balance sheet, schedules, and exhibits.

Disclosures

109. Commutation of Ceded Reinsurance—Describe commutation of ceded reinsurance during the year reported in the following annual statement classifications, including the name(s) of the reinsurer(s):

a. Losses incurred;

b. Loss adjustment expenses incurred;

c. Premiums earned; and

d. Other.

110. Retroactive Reinsurance—The table illustrated in the NAIC Annual Statement Instructions for Property and Casualty Companies under Retroactive Reinsurance in the Notes to Financial Statements section shall be completed for all retroactive reinsurance agreements that transfer liabilities for losses that have already occurred and that will generate special surplus transactions. The insurer (assuming or ceding) shall assign a unique number to each retroactive reinsurance agreement and shall utilize this number for as long as the agreement exists. Transactions utilizing deposit accounting shall not be reported in this note.

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 2008-24: Exceptions for portfolio reinsurance agreements between affiliates, sought to expand the exception, which was in SSAP No. 62, paragraph 31d at the time. This agenda item was exposed and then withdrawn by the sponsor.

Agenda item 2019-49 is a tangential issue regarding how to report the exception(s) to retroactive reinsurance exception using prospective reinsurance accounting when prior years are impacted on Schedule P. This agenda item, which asks for accounting guidance on how to report this exception in Schedule P was deferred in May 2020. NAIC staff have received a separate regulator question on this topic in 2026 and would be interested in future actuarial and accounting input to resolve this topic.

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

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

SSAP No. 62 proposed new disclosures:

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

Staff Review Completed by: Robin Marcotte – NAIC Staff, July 2026

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/08-12-26 Summer National Meeting/Meeting/F - 26-12 - Retroactive Re exception.docx

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

Issue: Medicaid - Updates

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

> **State directed payments** - are based on the utilization and delivery of services and are further detailed in in 42 Code of Federal Regulations (CFR) § 438.6(c). These payments are also tied to quality goals.
>
> **Separate Payment Terms** – are a mechanism used by states to send supplemental funding to providers through managed care organizations (MCO) for state directed payments that were separate from the per member per month payments. A 2024 final rule for Medicaid MCO contracts, prohibits the use of separate payment terms on or after July 9, 2027 per CMS-2439-F regulation. It requires that all state directed payments be included in actuarially sound capitation rates. It requires SDP separate payment terms (SPTs) must be moved into the base capitation rates paid to plans.
>
> **State directed payments are not pass throughs** - 42 CFR 438.6(a) defines a pass-through payment as an amount required by the state to be added to contracted payment rates and considered in the actuarially sound capitation rate, that is not tied to a specific service or benefit, and not a permitted 438.6(c) payment methodology (i.e., SDP). CMS treats 438.6(c) SDPs as distinct from 438.6(d) pass-throughs: SDPs are service-specific and tied to utilization.
>
> **State directed payments are "at risk"** - As provided for in the 2024 Medicaid and CHIP Managed Care Final Rule, CMS amended 438.8 (Medicaid MLRs) to clarify that SDPs and SDP SPTs are to be included in both the medical loss ratio (MLR) numerator and denominator. The inclusion of SDPs and SDP SPTs in both the MLR numerator and denominator indicates that CMS views these dollars as "at risk" to the MCO despite being embedded in the capitation rate with state direction on where the money flows.

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

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

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

Existing Authoritative Literature:
SSAP No. 47—Uninsured Plans

> 2. For purposes of this statement, uninsured accident and health plans, including HMO administered plans, and uninsured property and casualty plans (collectively referred to as uninsured plans) are defined as plans for which a reporting entity, as an administrator, performs administrative services such as claims processing for a third party that is at risk, and accordingly, the administrator has not issued an insurance policy, regardless of whether an identification card is issued. In the case of uninsured accident and health plans, the administrator may arrange for the provision of medical services through a contracted or employed provider network. The plan (whether insured by another reporting entity or self insured) bears all of the insurance risk, and there is no possibility of loss or liability to the administrator caused by claims incurred related to the plan. The administrator, however, may be subject to credit risk with regard to the risk bearing entity. An uninsured accident and health plan may be either an Administrative Services Only (ASO) plan or an Administrative Services Contract (ASC) plan. Under an ASO plan, claims are paid from a bank account owned and funded directly by the uninsured plan sponsor; or, claims are paid from a bank account owned by the reporting entity, but only after the reporting entity has received funds from the uninsured plan sponsor that are adequate to fully cover the claim payments. Under an ASC plan, the reporting entity pays claims from its own bank accounts, and only subsequently receives reimbursement from the uninsured plan sponsor. No arrangement where the reporting entity receives a capitated payment for providing medical services to a third party shall qualify as an uninsured plan.
>
> 3. Uninsured accident and health plans also include Federal, state or other government department funded programs such as Medicare cost contracts where there is no underwriting risk to the reporting entity. Under Medicare cost contracts, service provided to recipients includes the direct delivery of health care for which the reporting entity is reimbursed based on costs incurred as provided for in regulations governing the administration of such contracts. Other such programs may include some Medicaid contracts for which administration or other non-underwriting services are provided.

4. Partially insured or combination plans exist, under which the reporting entity issues an insurance policy for some of the risks related to the claims (e.g., minimum premium and stop loss coverage), but acts as an administrator for some, or all, of the claims paid by the plan. Such plans shall be treated as two plans: an insured plan (the part for which the reporting entity has issued a policy) and an uninsured plan (the part that meets the definition in paragraph 2 of this statement). The components related to uninsured plans shall be accounted for using the accounting principles established in this statement; the components related to insured plans shall be accounted for as insurance.

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

Premium Income Recognition

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

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

Legal guidance

Legal guidance for the 42 CFR, 438 is available at https://www.ecfr.gov/current/title-42/chapter-IV/subchapter-C/part-438/subpart-A/section-438.6#p-438.6(c)

Performance measure means, for State directed payments, a quantitative measure with a numerator and denominator that is used to monitor performance at a point in time or track performance over time, of service delivery, quality of care, or outcomes as defined in § 438.320 for enrollees.

The fact sheet on Medicaid and Children's Health Insurance Program Managed Care Access, Finance, and Quality Final Rule (CMS-2439-F) is available at https://www.cms.gov/newsroom/fact-sheets/medicaid-and-childrens-health-insurance-program-managed-care-access-finance-and-quality-final-rule

Prohibits the use of separate payment terms and requires that all state directed payments be included in actuarially sound capitation rates.

https://www.govinfo.gov/content/pkg/FR-2024-05-10/pdf/2024-08085.pdf

Health Risk-Based Capital instructions - XR-0015 Other Underwriting Risk

Line (24.2) Medicaid Pass-Through Payments Reported as Premium – The treatment of Medicaid Pass-Through Payments varies from state to state, and in some instances is treated as premium. The Health Risk-Based Capital (E) Working Group, however, determined that the risk associated with these payments is more administrative in nature and similar to uninsured plans. As such, the Working Group determined that the charge should follow that of the uninsured plans (ASC and ASO) and apply a 2% factor charge to those Medicaid Pass-Through Payments reported as premiums. This amount should be equal to the amount reported on page XR013, Column (4), Line (3).

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:
None

Convergence with International Financial Reporting Standards (IFRS): Not applicable

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

SSAP No. 47—Uninsured Plans:

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

4. Partially insured or combination plans exist, under which the reporting entity issues an insurance policy for some of the risks related to the claims (e.g., minimum premium and stop loss coverage), but acts as an administrator for some, or all, of the claims paid by the plan. Such plans shall be treated as two plans: an insured plan (the part for which the reporting entity has issued a policy) and an uninsured plan (the part that meets the definition in paragraph 2 of this statement). The components related to uninsured plans shall be accounted for using the accounting principles established in this statement; the components related to insured plans shall be accounted for as insurance. Medicaid contract payments classified as capitated payments are included in insured plans.

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

Premium Income Recognition

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

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

Staff Review Completed by: Robin Marcotte – NAIC Staff July 2026

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/08-12-26 Summer National Meeting/Meeting/G - 26-13 - Medicaid revision.docx

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

Issue: Updates to INT 18-03 for OBBBA

Check (applicable entity):

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

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

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

AMT credit was set up to be used in 2021 reporting years or prior, so these balances do not exist at this point. This agenda item recommends that the Blanks (E) Working Group be directed to remove these disclosures from Note 9.

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

Existing Authoritative Literature: Existing guidance is in INT 18-03, which is attached to this document, and in SSAP No. 101.

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:
None

Convergence with International Financial Reporting Standards (IFRS): None

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 INT 18-03, as illustrated in Exhibit 1 of

this agenda item to nullify the INT, effective Jan. 1, 2027, and to add language in SSAP No. 101, as illustrated below, to add language for NCTI. These revisions provide updates to guidance that was originally created by the TCJA, and subsequently updated by the OBBBA, or for guidance from the TCJA that included an ending date for the provisions.

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

SSAP No. 101, Disclosures

24. The significant components of income taxes incurred (i.e., current income tax expense) and the changes in DTAs and DTLs shall be disclosed. Those components would include, for example:

a. Current tax expense or benefit;

b. The change in DTAs and DTLs (exclusive of the effects of other components listed below);

c. Investment tax credits;

d. The benefits of operating loss carryforwards;

e. Adjustments of a DTA or DTL for enacted changes in tax laws or rates or a change in the tax status of the reporting entity; and

f. Adjustments to gross deferred tax assets because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset, and the reason for the adjustment and change in judgment.

~~f.~~g. Net CFC Tested Income (NCTI), formerly known as Global Intangible Low-Taxed Income (GILTI) tax from the current-year tax return is treated as a current-year tax item in accordance with paragraph 3. The amount payable shall be recognized as a current-year expense with a liability recognized as a current federal and foreign income tax. Reporting entities shall not recognize deferred tax for basis differences in foreign entities. (As an exception to this general rule, reporting entities are permitted to recognize deferred tax items for basis differences expected to reverse as NCTI in future years if they have recognized deferred tax items for basis differences expected to reverse as NCTI under U.S. GAAP. However, a reporting entity that has recognized deferred tax items for NCTI under U.S. GAAP may follow the statutory accounting general rule (no recognition of deferred tax items). Reporting entities that recognize deferred tax items for NCTI shall explicitly disclose this item in Note 9, beginning with the 2018 year-end statutory financial statements.)

Staff Review Completed by: Jake Stultz – NAIC Staff

EXHIBIT 1

Interpretation of the
Statutory Accounting Principles (E) Working Group

INT 18-03: Additional Elements Under the Tax Cuts and Jobs Act

INT 18-03 Dates Discussed

May 14, 2018; August 4, 2018; August 11, 2026

INT 18-03 References

Current:
SSAP No. 101—Income Taxes

INT 18-03 Issue

1. This interpretation has been issued to provide statutory accounting and reporting guidance for the following items under the federal Tax Cuts and Jobs Act (TCJA) as additional guidance to *SSAP No. 101—Income Taxes*:

   a. Repatriation Transition Tax (RTT)

   b. Alternative Minimum Tax (AMT) Credit

   c. Global Intangible Low-Taxed Income (GILTI)

Issue 1 – Repatriation Transition Tax

2. The Repatriation Transition Tax (RTT) is a one-time transition tax on untaxed foreign earnings of foreign subsidiaries of U.S. companies. Under section 965 of the Internal Revenue Code (IRC), these earnings are deemed to be repatriated. Under the IRC guidance, foreign earnings held in the form of cash and cash equivalents are taxed at a 15.5% rate, and the remaining earnings are taxed at an 8% rate.

   a. The RTT is calculated in the 2017 and, in some cases, the 2018 tax return. It is not a temporary tax item and does not reverse in subsequent years.

   b. The RTT is an amount owed under the revised tax law, and is not impacted by future taxable income.

   c. Although the full amount of the calculated RTT is owed, companies can elect to pay the liability over eight years under a set IRC schedule. If electing to make installment payments, the future RTT payments are due regardless whether a company has future taxable income or losses.

Issue 2 – Alternative Minimum Tax Credit

3. The Alternative Minimum Tax (AMT) credit is, pursuant to the provisions of the TCJA, a tax refund of AMT amounts paid in prior periods. The AMT credit can be recovered through an offset to regular taxes or received as a refund.

a. A reporting entity could realize all of its AMT receivable in the 2018 tax year if it is used to reduce its regular tax obligation. (It could also be used fully in 2019-2021 in this manner.)

b. If the AMT credit carryforward is not used to reduce regular taxes, it can be recovered as a refund (50%) to the extent not so used in tax years 2018 through 2020, with a 100% refund in 2021 to the extent not used to reduce 2021 regular tax liability.

c. If the AMT credit will be received as a refund (and not as an offset to tax liability), it may be subject to U.S. federal administrative sequestration requirements, which could reduce the amount paid by the federal government. (In 2017, the sequestration percentage was 6.6%, but this percentage varies yearly.)

d. U.S. GAAP guidance permits reporting the AMT credit as a current-year recoverable or as a deferred tax asset (DTA).

Issue 3 - Global Intangible Low-Taxed Income Tax - Description

4. The Global Intangible Low-Taxed Income (GILTI) tax is a new tax under the TCJA and is calculated each year on a portion of a controlled foreign corporation's active income.

a. GILTI is included in 2018 and subsequent year tax returns. An amount owed for GILTI in any tax year is not a temporary tax item and does not reverse in subsequent years. GILTI is a current income tax.

b. Assessments of changes in the basis differences in foreign entities could result in calculations of deferred tax items related to GILTI. The issue is whether existing basis differences will result in GILTI when they reverse. Although these deferred items may be theoretically correct, such calculations are expected to be very complex and require aggregate assessments that consider all companies within a consolidated tax group.

c. In January 2018, the *Financial Accounting Standards Board* (FASB) *Staff Q&A Topic 740, No. 5 Accounting for Global Intangible Low Taxed Income* identified that reporting entities may make an election to recognize deferred items under GILTI. (The recognition of the deferred items does not impact current tax recognition for GILTI, but whether basis differences for foreign controlled entities shall result in deferred tax assets or deferred tax liabilities.) The FASB Staff Q&A Topic 740, No. 5 also identified that FASB staff will be monitoring how entities that pay tax on GILTI are accounting for and disclosing these deferred effects over the next few quarters. The FASB staff will provide a subsequent update so the FASB can consider whether accounting and disclosure improvements are needed for U.S. GAAP.

INT 18-03 Discussion

5. The Statutory Accounting Principles (E) Working Group consensuses for accounting and reporting for the noted items are included below.

Issue 1 – Repatriation Transition Tax:

6. The Repatriation Transition Tax (RTT) is a current-year tax item captured in SSAP No. 101, paragraph 3. The amount payable shall be recognized as a current-year expense with a liability recognized as “current federal and foreign income taxes” and not as a deferred tax liability (DTL), regardless if an entity elects to make installment payments of the amount owed or pays the amount in full.

Disclosure

7. Reporting entities that are subject to the RTT shall include the following in a narrative disclosure as part of the income tax disclosures in Note 9:

a. RTT owed under the TCJA.

b. Schedule of payments made and expected future payments to satisfy the RTT liability. This disclosure shall explicitly identify whether the insurance entity has remitted full payment of the RTT, or whether the reporting entity is electing to pay the liability under the permitted installments. If the reporting entity fully remitted the RTT, disclosure of the RTT and the remitted payment is only required in the year-end 2018 financial statements. Reporting entities electing to make installment payments shall include the disclosure beginning in the year-end 2018 financial statements and continuing through the year-end statutory financial statements for the year in which the last installment payment was remitted.

Issue 2 – Alternative Minimum Tax Credit:

8. The Alternative Minimum Tax (AMT) credit qualifies as a current income tax recoverable pursuant to paragraph 9 of SSAP No. 101. Although qualifying as a current-year recoverable, some companies may elect to report the AMT credit as a DTA. Although the AMT refund qualifies as a current income tax recoverable, in order to mirror provisions permitted under U.S. GAAP, reporting entities may elect to report the AMT credit as either a current-year recoverable or as a DTA. If reported as a DTA, it would be subject to the statutory accounting admittance limitations for DTAs. If the AMT credit accounted for as a DTA exceeds statutory admittance provisions, it would be nonadmitted under SSAP No. 101.

Disclosure

9. Reporting entities with an AMT credit shall include the following narrative disclosure as part of the income tax disclosures in Note 9:

a. Identification of whether the AMT credit was recognized as a current-year recoverable or DTA.

b. The balance of the AMT credit carryforward as of the beginning of the year; the amount of the AMT credit recovered during the year; other current-year adjustments to the AMT credit carryforward; the balance of the AMT credit carryforward at the end of the year; the amount, if any, by which the ending balance has been reduced for sequestration; and the amount, if any, by which the reporting entity has elected to nonadmit. (This disclosure intends to capture any nonadmittance of the AMT credit by the reporting entity prior to application of the DTA admittance limitations reflected in SSAP No. 101.)

(These disclosures shall be made on an accrual basis beginning in the 2018 year-end statutory financial statements and continuing through the year-end statutory reporting period in which the AMT credit is fully utilized/received.)

Issue 3 – Global Intangible Low-Taxed Income Tax:

10. Under statutory accounting, reporting entities shall not recognize deferred GILTI tax for basis differences in foreign entities. GILTI tax from the current-year tax return is treated as a current-year tax item captured in SSAP No. 101, paragraph 3. The amount payable shall be recognized as a current-year expense with a liability recognized as a current federal and foreign income tax.

11. As an exception to this general rule, reporting entities are permitted to recognize deferred tax items for basis differences expected to reverse as GILTI in future years if they have recognized deferred tax items for basis differences expected to reverse as GILTI under U.S. GAAP. However, a reporting entity that has recognized deferred tax items for GILTI under U.S. GAAP may follow the statutory accounting general rule (no recognition of deferred tax items). Reporting entities that recognize deferred tax items for GILTI shall explicitly disclose this item in Note 9, beginning with the 2018 year-end statutory financial statements.

INT 18-03 Status

12. Any accounting change required by INT 18-03 shall, if not otherwise covered by *INT 18-01: Updated Tax Estimates Under the Tax Cuts and Jobs Act*, be recognized as a change in accounting estimate, pursuant to *SSAP No. 3—Accounting Changes and Corrections of Errors.*

13. The consensuses adopted in this interpretation provide information regarding the RTT, AMT credit and GILTI under the federal Tax Cuts and Jobs Act, and the statutory accounting assessment for reporting and disclosure for each of these items.

~~13.~~14. On XXXXXXXXXX, 2026, the Working Group nullified INT 18-03, effective January 1, 2027. Guidance for RTT and AMT credit were allowed to expire, and guidance related to GILTI, now known as Net CFC Tested Income (NCTI), which was made permanent by the One Big Beautiful Bill Act (OBBBA), and was added to SSAP No. 101.

~~14.~~15. No further discussion is planned.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/08-12-26 Summer National Meeting/Meeting/H - 26-14- INT 18-03.docx

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

Issue: SSAP No. 23 – Canadian Translations

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

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

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

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

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

Existing Authoritative Literature:
The entire SSAP No. 23 has been included to allow for a full review.

SSAP No. 23—Foreign Currency Transactions and Translations

2. A foreign currency transaction is a transaction denominated in a currency other than the reporting entity's functional currency. The reporting entity's functional currency is defined as the currency of the primary economic environment in which the reporting entity operates. Foreign currency translation is the translation of financial statements, denominated in the reporting entity's functional currency, into U.S. dollars prior to their incorporation into financial statements through consolidation or the equity method of accounting.

3. For the purposes of this statement, a U.S. domiciled reporting entity's reporting currency shall be defined as the U.S. dollar, regardless of the primary economic environment in which the reporting entity operates. In order to ensure consistency, all elements of statutory financial statements shall be reported in U.S. dollars.

4. Each foreign currency transaction shall be examined and a determination made if the foreign currency transaction was made in support of insurance operations denominated in the same foreign currency. For example, some reporting entities engage in insurance operations in foreign countries with the premiums collected and claims paid in local currency. As in any insurance operation there will at times be uncollected premiums, policy reserves, unpaid claims, and other incomplete transactions that must be recorded in the reporting entity's balance sheet. Premiums, reserves, and claims normally are recorded in U.S. dollars at the rate of exchange that is in effect at the time the policy is written, or when the claim is incurred. Changes in exchange rates, while not affecting the foreign policyholder, do affect the value of the foreign business as it is recorded in U.S. dollars.

5. Foreign currency transactions made in support of insurance operations denominated in the same foreign currency, such as foreign branches, shall be accounted for as follows:

   a. Canadian Insurance Operations—Canadian insurance operations, resulting in less than 10% of the reporting entity's admitted assets, less than 10% of the reporting entity's liabilities and less than 10% of the reporting entity's net premium, can be translated to U.S. dollars by making an adjustment to the net assets of the foreign operation. The adjustment is calculated by summarizing the assets and liabilities in the foreign currency and in U.S. dollars. The net value is converted to U.S. dollars at the current rate of exchange and compared with the net value in U.S. dollars recorded by the reporting entity. Any difference in the net value to current exchange rates is recorded as a separate asset or liability and the change in the foreign exchange adjustment is recorded as an unrealized capital gain or loss. If a reporting entity does not meet the requirements of this paragraph or elects to translate each financial statement line item, the reporting entity shall follow the accounting in paragraph 5.b. of this statement;

   b. All Other Foreign Insurance Operations—All other foreign insurance operations must be translated to U.S. dollars as follows: each financial statement line shall be translated to U.S. dollars by applying the following exchange rates: (i) for assets and liabilities, the exchange rate at the balance sheet date shall be used and (ii) for revenues, expenses, gains, losses and surplus adjustments, the exchange rate at the dates on which those elements are recognized shall be used. Because translation at the exchange rates at the dates the numerous revenues, expenses, gains, losses and surplus adjustments are recognized is generally impractical, an appropriately weighted average exchange rate for the period may be used to translate those elements. Gains or losses due to translating foreign operations to U.S. dollars shall be recorded as unrealized capital gains or losses.

6. All other foreign currency transactions shall be accounted for as follows:

a. Assets and liabilities denominated in foreign currencies shall be accounted for at their U.S. dollar equivalent values using exchange rates at the balance sheet date. Income and expenses recognized during an accounting period shall be recorded at an appropriately weighted average exchange rate;

b. Changes in balance sheet asset and liability values due to fluctuations in foreign currency exchange rates shall be recorded as unrealized capital gains and losses until the asset is sold or exchanged or the liability is settled. Additionally, in situations in which the reporting entity has an investment in a foreign entity (such as an investment in a joint venture under *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* or an investment in subsidiary under *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*), the parent reporting entity shall realize foreign currency translation changes when the parent loses control of the foreign entity, the parent entity derecognizes the entire equity method investment, or the parent entity acquires control in a foreign entity when the parent previously only held a noncontrolling interest (step acquisition). Upon partial sale or acquisition of control of a foreign entity, the parent reporting entity shall realize a pro-rata share of foreign currency translation changes. Upon settlement, or the situations previously described, all previously recorded unrealized capital gains and losses shall be reversed and the foreign exchange profit or loss for the entire holding period shall be recorded as a realized capital gain or loss. When a foreign entity investee is substantially liquidated, the entire unrealized foreign currency translation balance is to be realized;

c. Transactions involving settlement in cash, such as purchases, payment of expenses, sales, and receipt of income, shall be recorded at their U.S. dollar equivalent value based on the foreign currency exchange rate as of the transaction date. Any foreign currency exchange gains or losses on purchases, payment of expenses, sales, maturities or changes in income or expense accruals shall be recorded as a capital gain or loss realized on the purchase, sale or maturity.

7. Nominal information such as par value of investments may be expressed in the foreign currency or U.S. dollar equivalent (description of issue), but where the information is displayed comparatively (column of par values), U.S. dollar equivalent amount shall be used. The U.S. dollar equivalent amount is translated utilizing the exchange rate at the balance sheet date. Ratios and factors shall be based on data that is entirely consistent with respect to currency.

8. A currency in a highly inflationary environment (one that has cumulative inflation of approximately 100% or more over a three year period) is not considered stable enough to serve as a functional currency and the more stable currency of the reporting parent is to be used instead. If a reporting entity's books of record are not maintained in its functional currency, remeasurement into the functional currency is required. That remeasurement is required before translation into the reporting currency. The remeasurement process is intended to produce the same result as if the reporting entity's books of record had been maintained in the functional currency. The remeasurement of and subsequent accounting for transactions denominated in a currency other than the functional currency shall be recognized as a realized gain or loss in the statement of operations.

Relevant Literature

9. This statement adopts, with modification, *ASU 2013-05, Parents Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.* Modifications within this statement reflect the statutory accounting definition of controlling interest, as specified in *SSAP No. 97—Investments in Subsidiary,*

Controlled and Affiliated Entities and *SSAP No. 25—Affiliates and Other Related Parties*, as well as the reporting specified in this statement.

10. This statement rejects *FASB Statement No. 52, Foreign Currency Translation*, *FASB Emerging Issues Task Force No. 87-12, Foreign Debt-for-Equity Swaps, FASB Emerging Issues Task Force No. 87-26, Hedging of Foreign Currency Exposure with a Tandem Currency, FASB Emerging Issues Task Force No. 92-4, Accounting for a Change in Functional Currency When an Economy Ceases to Be Considered Highly Inflationary, FASB Emerging Issues Task Force No. 95-2, Determination of What Constitutes a Firm Commitment for Foreign Currency Transactions Not Involving a Third Party, FASB Emerging Issues Task Force No. 96-15, Accounting for the Effects of Changes in Foreign Currency Exchange Rates on Foreign-Currency-Denominated Available-for-Sale Debt Securities* and *FASB Interpretation No. 37, Accounting for Translation Adjustments upon Sale of Part of an Investment in a Foreign Entity, an interpretation of FASB Statement No. 52*, and *Accounting Research Bulletin No. 43, Restatement and Revision of Accounting Research Bulletins*, Chapter 12.

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: 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 new SAP Concept and expose revisions to *SSAP No. 23—Foreign Currency Transactions and Translations* to remove the Canadian exception for foreign currency translation. With this change, all foreign currency operations will be required to be translated to U.S. dollars within each financial statement reporting line.

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

Proposed Revisions to *SSAP No. 23—Foreign Currency Transactions and Translations*

2. A foreign currency transaction is a transaction denominated in a currency other than the reporting entity’s functional currency. The reporting entity’s functional currency is defined as the currency of the primary economic environment in which the reporting entity operates. Foreign currency translation is the translation of financial statements, denominated in the reporting entity’s functional currency, into U.S. dollars prior to their incorporation into financial statements through consolidation or the equity method of accounting.

3. For the purposes of this statement, a U.S. domiciled reporting entity’s reporting currency shall be defined as the U.S. dollar, regardless of the primary economic environment in which the reporting entity operates. In order to ensure consistency, all elements of statutory financial statements shall be reported in U.S. dollars.

4. Each foreign currency transaction shall be examined and a determination made if the foreign currency transaction was made in support of insurance operations denominated in the same foreign currency. For example, some reporting entities engage in insurance operations in foreign countries with the premiums collected and claims paid in local currency. As in any insurance operation there will at times be uncollected premiums, policy reserves, unpaid claims, and other incomplete transactions that must be recorded in the reporting entity's balance sheet. Premiums, reserves, and claims normally are recorded in U.S. dollars at the rate of exchange that is in effect at the time the policy is written, or when the claim is incurred. Changes in exchange rates, while not affecting the foreign policyholder, do affect the value of the foreign business as it is recorded in U.S. dollars.

5. Foreign currency transactions made in support of insurance operations denominated in the same foreign currency, such as foreign branches, must be translated to U.S. dollars as follows: each financial statement line shall be translated to U.S. dollars by applying the following exchange rates: (i) for assets and liabilities, the exchange rate at the balance sheet date shall be used and (ii) for revenues, expenses, gains, losses and surplus adjustments, the exchange rate at the dates on which those elements are recognized shall be used. Because translation ~~at the~~ using the exchange rates ~~at the~~ in effect on the dates ~~the~~ numerous revenues, expenses, gains, losses and surplus adjustments are recognized is generally impractical, an appropriately weighted average exchange rate for the period may be used to translate those elements. Gains or losses due to translating foreign operations to U.S. dollars shall be recorded as unrealized capital gains or losses. ~~shall be accounted for as follows:~~

Staff Note: The above edits are a copy/paste of paragraph 5.b to bring the guidance into a single paragraph. Limited edits to improve the historical guidance are shaded.

~~a. Canadian Insurance Operations—Canadian insurance operations, resulting in less than 10% of the reporting entity's admitted assets, less than 10% of the reporting entity's liabilities and less than 10% of the reporting entity's net premium, can be translated to U.S. dollars by making an adjustment to the net assets of the foreign operation. The adjustment is calculated by summarizing the assets and liabilities in the foreign currency and in U.S. dollars. The net value is converted to U.S. dollars at the current rate of exchange and compared with the net value in U.S. dollars recorded by the reporting entity. Any difference in the net value to current exchange rates is recorded as a separate asset or liability and the change in the foreign exchange adjustment is recorded as an unrealized capital gain or loss. If a reporting entity does not meet the requirements of this paragraph or elects to translate each financial statement line item, the reporting entity shall follow the accounting in paragraph 5.b. of this statement;~~

~~b. All Other Foreign Insurance Operations—All other foreign insurance operations must be translated to U.S. dollars as follows: each financial statement line shall be translated to U.S. dollars by applying the following exchange rates: (i) for assets and liabilities, the exchange rate at the balance sheet date shall be used and (ii) for revenues, expenses, gains, losses and surplus adjustments, the exchange rate at the dates on which those elements are recognized shall be used. Because translation at the exchange rates at the dates the numerous revenues, expenses, gains, losses and surplus adjustments are recognized is generally impractical, an appropriately weighted average exchange rate for the period may be used to translate those elements. Gains or losses due to translating foreign operations to U.S. dollars shall be recorded as unrealized capital gains or losses.~~

6. ~~All other f~~Foreign currency transactions shall be accounted for as follows:

d. Assets and liabilities denominated in foreign currencies shall be accounted for at their U.S. dollar equivalent values using exchange rates at the balance sheet date. Income and expenses recognized during an accounting period shall be recorded at an appropriately weighted average exchange rate;

e. Changes in balance sheet asset and liability values due to fluctuations in foreign currency exchange rates shall be recorded as unrealized capital gains and losses until the asset is sold or exchanged or the liability is settled. Additionally, in situations in which the reporting entity has an investment in a foreign entity (such as an investment in a joint venture under *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* or an investment in subsidiary under *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*), the parent reporting entity shall realize foreign currency translation changes when the parent loses control of the foreign entity, the parent entity derecognizes the entire equity method investment, or the parent entity acquires control in a foreign entity when the parent previously only held a noncontrolling interest (step acquisition). Upon partial sale or acquisition of control of a foreign entity, the parent reporting entity shall realize a pro-rata share of foreign currency translation changes. Upon settlement, or the situations previously described, all previously recorded unrealized capital gains and losses shall be reversed and the foreign exchange profit or loss for the entire holding period shall be recorded as a realized capital gain or loss. When a foreign entity investee is substantially liquidated, the entire unrealized foreign currency translation balance is to be realized;

f. Transactions involving settlement in cash, such as purchases, payment of expenses, sales, and receipt of income, shall be recorded at their U.S. dollar equivalent value based on the foreign currency exchange rate as of the transaction date. Any foreign currency exchange gains or losses on purchases, payment of expenses, sales, maturities or changes in income or expense accruals shall be recorded as a capital gain or loss realized on the purchase, sale or maturity.

7. Nominal information such as par value of investments may be expressed in the foreign currency or U.S. dollar equivalent (description of issue), but where the information is displayed comparatively (column of par values), U.S. dollar equivalent amount shall be used. The U.S. dollar equivalent amount is translated utilizing the exchange rate at the balance sheet date. Ratios and factors shall be based on data that is entirely consistent with respect to currency.

8. A currency in a highly inflationary environment (one that has cumulative inflation of approximately 100% or more over a three year period) is not considered stable enough to serve as a functional currency and the more stable currency of the reporting parent is to be used instead. If a reporting entity's books of record are not maintained in its functional currency, remeasurement into the functional currency is required. That remeasurement is required before translation into the reporting currency. The remeasurement process is intended to produce the same result as if the reporting entity's books of record had been maintained in the functional currency. The remeasurement of and subsequent accounting for transactions denominated in a currency other than the functional currency shall be recognized as a realized gain or loss in the statement of operations.

Relevant Literature

9. This statement adopts, with modification, *ASU 2013-05, Parents Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.* Modifications within this statement reflect the statutory

accounting definition of controlling interest, as specified in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* and *SSAP No. 25—Affiliates and Other Related Parties*, as well as the reporting specified in this statement.

10. This statement rejects *FASB Statement No. 52, Foreign Currency Translation*, *FASB Emerging Issues Task Force No. 87-12, Foreign Debt-for-Equity Swaps, FASB Emerging Issues Task Force No. 87-26, Hedging of Foreign Currency Exposure with a Tandem Currency, FASB Emerging Issues Task Force No. 92-4, Accounting for a Change in Functional Currency When an Economy Ceases to Be Considered Highly Inflationary, FASB Emerging Issues Task Force No. 95-2, Determination of What Constitutes a Firm Commitment for Foreign Currency Transactions Not Involving a Third Party, FASB Emerging Issues Task Force No. 96-15, Accounting for the Effects of Changes in Foreign Currency Exchange Rates on Foreign-Currency-Denominated Available-for-Sale Debt Securities* and *FASB Interpretation No. 37, Accounting for Translation Adjustments upon Sale of Part of an Investment in a Foreign Entity, an interpretation of FASB Statement No. 52*, and *Accounting Research Bulletin No. 43, Restatement and*

Staff Review Completed by: Julie Gann, July 2026.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/08-12-26 Summer National Meeting/Meeting/I - 26-15 - SSAP No. 23 - Canadian Translations.docx

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

Issue: IMR Impact to Reinsurance Collateral

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 establish clear guidance in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* and Schedule S, Part 4, on how IMR derecognized by the cedent pursuant to a reinsurance transaction should be reflected in determining the amount of reinsurance collateral required from the assuming entity to receive reinsurance credit. The requirement for collateral is only a component for assuming reinsurers that are unauthorized or certified for which full or partial collateral is required under the *Credit for Reinsurance Model Law* (#785) and *Credit for Reinsurance Model Regulation* (#786). It does not apply to reciprocal jurisdiction reinsurers, authorized, accredited or licensed reinsurers where collateral is not required.

Although the existing guidance in SSAP No. 61 requires derecognized net <u>positive</u> IMR to be captured as an increase in the collateral requirement, from what industry communicated during the IMR Ad Hoc Group discussions, this SSAP No. 61 requirement has not been consistently followed. Industry representatives advised that the inclusion of derecognized net positive IMR in the collateral requirement has been driven by the terms of their reinsurance treaties. NAIC staff have highlighted that this is inconsistent with statutory accounting principles, and deviations should have been supported by a permitted or prescribed practice. Through discussions of the IMR Ad Hoc Group, consensus of the group was reached that SSAP No. 61 does appropriately require that any IMR associated with reinsured reserves be included in any collateral requirements under the Credit for Reinsurance Models.

However, there is no current mention of derecognized net negative IMR in the existing SSAP No. 61 for collateral requirements, and the IMR Ad Hoc Group has been discussing if/how derecognized net negative IMR should factor into the collateral requirement for reinsurance credit. If net negative IMR were to be included in the collateral requirement, it would reduce required collateral. As the ad hoc group was not able to arrive at a consensus position between regulators and industry on how this should be treated, this Form A includes two possible options for the Working Group to consider.

One point of note for which the ad hoc group was able to reach consensus was that the consideration of net negative IMR should not consider the admissibility of the IMR for the cedant prior to reinsurance. Rather, the balance should be either fully included or fully excluded from the collateral requirement. This is because the calculation of any surplus-based limitation of negative IMR admissibility would become circular after the reinsurance is in place and unable to be repeated from that point forward.

The question being presented to the Working Group to decide is as follows:

Should the treatment of derecognized net negative IMR reduce required collateral for reinsurance (i.e. be treated symmetrically with positive IMR? If the treatment is symmetrical, then derecognized net positive IMR increases the collateral requirement, and derecognized net negative IMR would decrease the collateral requirement. If the treatment is asymmetrical, derecognized net positive IMR still increases the collateral requirement, but derecognized net negative IMR would not decrease the collateral requirement.

The agenda item includes discussion and illustrations for the two potential options. The arguments for each option are summarized below:

- **Symmetrical Treatment:** Industry advocates for IMR to be treated symmetrically for reinsurance collateral requirements. The rationale for including IMR in the collateral requirement, whether positive or negative, is the view that it represents a valuation adjustment to the ceded reserves. It reflects the partial unlocking of the reserve valuation rate resulting from sales and reinvestments of the supporting fixed income investments. Therefore, the most accurate reflection of the value of the current reserves being ceded is inclusive of the IMR balance. For this reason, any collateral requirements should be inclusive of IMR regardless of direction. Asymmetrical treatment is generally viewed by industry as arbitrary and punitive and may have an unfavorable impact on reinsurance costs for ceding insurers.

- **Asymmetrical Treatment:** The alternative view which is supported by NAIC staff is that net negative IMR derecognized from a reinsurance transaction should not be permitted to influence the collateral required to receive reinsurance credit. In addition to the questions/issues on how this can be perceived to allow IMR to reflect a collateral asset, particularly as IMR (which reflects realized gains and losses) are not transferable assets, this is also recommended to prevent incentivizing reinsurance transactions to derecognize nonadmitted IMR. This is also perceived to be consistent with existing guidance as only IMR liability adjustments are currently captured in SSAP No. 61 and Schedule S.

This agenda item was driven from discussion at the IMR Ad Hoc Group. With differing opinions among staff, regulators and industry reps, it was requested that this issue be presented to the full Working Group.

Discussion and illustration entries are presented to illustrate the impact of these options:

1. <u>Net Positive IMR Increases Collateral Requirements (current SSAP No. 61 guidance)</u>

Positive IMR is generated when a fixed-income asset is sold in a decreasing interest rate environment, in that the fair value of the sold investment is greater than the book/adjusted carrying value (BACV), resulting in a realized gain. When this occurs, although the entity may have received a gain from the sale, they will be reinvesting in a lower-yielding asset resulting in fewer cash flows over the asset's duration. Recognizing that the entity still has long-term obligations for which the asset should be matched, the realized gain is recognized as a liability (positive IMR) and amortized to income over the life of the originally held fixed-income investment.

> Example: Cedent has $20 of positive IMR from the sale of a $100 fixed-income instrument for $120 in a declining interest rate environment. The entity then ceded the $100 reserve under an 80% coinsurance transaction. Assuming everything was equal:
>
> - Remove $80 policy reserves ($100 * 80%)
> - Remove $16 of positive IMR (liability) ($20 * 80%)
> - Remove $96 of assets ($120 * 80%)

Prior to the transaction, the cedent had $96 reported as a total liability – the $80 reserve and the $16 IMR. For reinsurance collateral purposes, an amount of $96 is required to equal the cedent's liability that was established prior to the reinsurance transaction. If the positive IMR was not required to increase the collateral requirement, then the cedent would only have protection of $80 for the $96 in liability they had recognized prior to the reinsurance transaction. With the assumption that the specific assets backing the liability are transferred to the assuming entity, which equals $96 after the reinvestment and reinsurance transaction, and no additional amounts or different types of investments are required, by including the positive IMR in the collateral requirement, the transaction would be surplus neutral to the ceding entity. If the positive IMR was not included in the collateral requirement, then the reinsurer would be permitted to provide less collateral than what would be needed to cover the transferred policy reserves.

2. Net Negative IMR Decreases Collateral Requirements

Negative IMR is generated when a fixed-income asset is sold in an increasing interest rate environment, in that the fair value of the sold investment is lower than the book/adjusted carrying value (BACV), resulting in a realized loss. When this occurs, the reporting entity would be re-investing a lower amount into a higher-yielding asset, generating more cash flow over the asset's duration. (For example, if the asset was on book for $100 (with a fair value of $80) and paying 4% prior to the sale, after the sale/re-investment, the entity would have an asset on book for $80 and paying 6%.) If the loss qualifies for IMR under the guidance, the realized loss is recognized as an asset (negative IMR) and amortized to income over the life of the originally held fixed-income investment. Prior to 2023, this negative IMR asset was nonadmitted. Under the current INT 23-01, if the reporting entity qualifies, this negative IMR asset is admitted.

> Example: Cedent has $20 of admitted negative IMR from the sale of a $100 fixed-income instrument for $80 in a rising interest rate environment. The reporting entity then ceded the $100 reserve under an 80% coinsurance transaction. If everything is always equal:
>
> - Remove $80 policy reserves ($100 * 80%)
> - Remove $16 of negative IMR (asset) ($20 * 80%)
> - Remove $64 of assets ($80 * 80%)

In an example where everything is equal, it may appear that offsetting liabilities and assets of $80 were removed by the cedent in a surplus neutral transaction. However, the assuming entity only received $64 of hard assets that could be used to pay claims. The cedent's policy reserve was still $80, therefore if only $64 of assets were used to collateralize the transaction, the collateral does not provide protection for the full reserve. It should also be noted that non-US reinsurers would not be recognizing the IMR.

Including negative IMR into the calculation results with these questions / issues:

- It may be viewed that the negative IMR is being used as a collateral asset towards the full $80 policy reserve. Under the Model, IMR does not qualify as a collateral asset.
- If negative IMR is permitted, the collateral (hard assets) required is less than the cedent's recognized policy reserve prior to the transaction.

  Note: The ACLI position is that the IMR should be considered an adjustment to the cedent's recognized policy reserve. If this position is supported, then the IMR is not viewed as collateral and the amount of collateral required would equal the policy reserve ($64 in this example).
- If the assuming entity only received the $64 of hard assets, requiring the assuming entity to post collateral of $80 could make the transaction undesirable from a reinsurer perspective. However, there are questions whether reinsurers would accept only $64 in hard assets to assume the $80 policy reserve.
- IMR (either positive or negative) is not a transferable component. As previously noted, IMR does not qualify as an asset or liability under U.S. GAAP or SAP definitions. IMR is strictly a SAP concept that allows deferred recognition of realized gains and losses.

The questions / issues involving negative IMR in the reinsurance collateral calculation become more nuanced if the negative IMR did not qualify for admittance. The elimination of nonadmitted IMR results in a surplus bump to the ceding entity. This is shown as follows:

> Example: Cedent has $20 of <u>nonadmitted</u> negative IMR from the sale of a $100 fixed-income instrument for $80 in a rising interest rate environment. The reporting entity then ceded the $100 reserve under an 80% coinsurance transaction. If everything was always equal:

- Remove $16 of negative IMR (asset) $(20 * 80%)
- Decrease $16 as nonadmitted assets, increasing cedent's surplus.
- Remove $80 policy reserves ($100 * 80%)
- Remove $64 of assets ($80 * 80%)

With this dynamic, the removal of the nonadmitted assets increases the company's surplus. Then, with the reinsurance arrangement the same questions arise as to whether the IMR should be a factor in the collateral of the reinsurance arrangement. If allowing the nonadmitted IMR to be included in the collateral calculation, the ceding entity has a benefit to their financial statements in a manner as though the IMR was always admitted. <u>This may incentivize reinsurance transactions for companies with nonadmitted negative IMR, particularly in situations when the IMR had exceeded admittance thresholds</u>.

Under the ACLI proposal, they do not believe the admittance/nonadmittance status at the ceding entity should impact the consideration of IMR in the collateral calculation. Rather, the calculation of nonadmittance would then be completed after the ceding transaction (and removal of IMR), recognizing that with less negative IMR, it would be more likely that a company would be within admittance parameters. As a very simple example, if a company had exceeded admittance thresholds by $10, and derecognized net negative IMR by $12 because of a reinsurance transaction, then the company would be fully able to admit the remaining net negative IMR after the result of the reinsurance transaction. Under the ACLI proposal, the derecognized nonadmitted IMR of $12 should still be considered as a reduction of the policy reserve. Therefore, if the policy reserves removed were $80, then only $68 would be required as collateral from the assuming entity.

Existing Authoritative Literature:

<u>SSAP No. 61—Life, Deposit-Type and Health Reinsurance</u>
Paragraphs 47 and 50 provides guidance for the collateral requirement for certified and unauthorized reinsurers to receive reinsurance credit. This guidance is specific that the collateral requirement is equal to the reserve credit taken. If the collateral requirement is not met, then the ceding entity must set up a net liability that includes the reserve credits taken, including any IMR liability adjustment as detailed in paragraphs 47a and 50a.

Reinsurance Ceded to a Certified Reinsurer

47. A liability is established by the ceding entity to offset credit taken in various balance sheet accounts for reinsurance ceded to a certified reinsurer in an amount proportionate to any deficiency in the amount of acceptable security that is provided by the certified reinsurer as compared to the amount of security that is required to be provided in accordance with the certified reinsurer's rating. **<u>In determining the amount of this liability, the ceding insurance entity must first determine the net obligations subject to collateral from the certified reinsurer</u>**, which is equal to the following:

    a. **Reserve credits taken including <u>any Interest Maintenance Reserve (IMR) liability adjustment</u>; 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. Amounts contractually due the assuming entity.

Unauthorized Reinsurance

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.

51. 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.

Annual Statement Instructions, Schedule S – Part 4 & Part 5

Schedule S, Part 4: Reinsurance Ceded to Unauthorized Companies and Schedule S, Part 5: Reinsurance Ceded to Certified Reinsurers include reinsurance ceded data used in the development of the liability for reinsurance in unauthorized or certified companies.

- For unauthorized - The liability serves to offset those assets and liability reductions that reflect the result of reinsurance ceded with unauthorized companies.

- For certified – The liability serves to offset those assets and liability reductions that reflect the result of reinsurer ceded with certified reinsurers that is not properly collateralized in accordance with the rating assigned to the certified reinsurer by the commissioner of the reporting company's state of domicile.

These schedules include the following columns:

Part 4 – Column 5 / Part 5 – Column 9: Reserve Credit Taken

This column includes the amount by which aggregate reserve for life contracts, deposit-type contracts, and accident and health companies has been reduced on account of reinsurance with unauthorized (or certified) companies. The amounts by company should be the same as those shown for life reinsurance ceded in Schedule S, Part 3, Section 1, Column 9 and for accident and health reinsurance ceded in Schedule S, Part 3, Section 2, Columns 9 & 10.

Part 4 – Column 6 / Part 5 – Column 10: Paid and Unpaid Recoverable, Including IBNR

This column is to include all paid and unpaid losses recoverable, including IBNR. It shall include the reduction in claim liability on account of reinsurance on incurred but not reported claims (estimated).

Part 4 – Column 7 / Part 5 – Column 11: Paid and Unpaid Recoverable, Including IBNR

This column is include all asset and liability reductions resulting from reinsurance ceded to unauthorized (or certified) reinsurers not included in columns 5 or 6 (or 9 or 10 for certified). Examples of items included in the column include:

- **Unamortized Interest Maintenance Reserve (IMR) liability adjustment**, if any, of the ceding company.
- Commissions and expense allowances due the ceding company.
- Modified coinsurance reserve adjustments due.
- Experience rating refunds due.

Both Schedule S Part 4 & Part 5 have explicit summary instructions that the securities held on deposit or held in a trust account should be valued at fair market value. This is also reiterated in the following instructions:

Column 12 (Part 4) and Column 20 (Part 5): Funds Deposited by and Withheld from Reinsurers

Where permissible to be taken as credit against the loss and reserve liabilities in Column 8 (Total of Columns 5, 6 & 7), 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 Note: Clarification on the fair value reporting requirements has been highlighted for a separate agenda item.

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): Pursuant to the IMR Ad Hoc Group call on July 28, the issue of whether negative IMR should be a factor in determining the extent of reinsurance collateral required was directed to the full Statutory Accounting Principles (E) Working Group. The ad hoc group did not reach a consensus between industry and regulators, as industry supported symmetrical treatment with positive IMR (both impacting the reinsurance collateral) whereas regulators noted concern with this approach, particularly if negative IMR was nonadmitted by the ceding entity. It was noted that if nonadmitted negative IMR could be used to reduce collateral requirements, reporting entities could be incentivized to enter reinsurance transactions for the surplus bump they would receive.

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 proposed revisions to SSAP No. 61 to clarify how IMR derecognized as part of a reinsurance transaction should influence the reinsurance collateral required to receive reinsurance credit. <u>These revisions reiterate the current requirement to increase reinsurance collateral requirements for net positive IMR derecognized from a reinsurance transaction and the staff recommendation to prohibit a decrease in reinsurance collateral requirements from the derecognition of net negative IMR</u>.

With this exposure, regulators are asked to comment on whether different IMR treatment should be considered from what is recommended. Specifically, instead of the asymmetrical approach, whether both positive and negative IMR derecognized from reinsurance transactions should impact the reinsurance collateral treatment (symmetrical treatment). Additionally, with exposure, a referral is recommended to the Reinsurance (E) Task Force to provide notice of this discussion and request comments.

As discussed within, the recommendation for asymmetrical treatment is supported by NAIC staff for the following reasons:

- **Positive IMR: Both the policy reserve and IMR are needed in the collateral requirement to ensure that the collateral equals the established cedent's liability prior to the reinsurance transaction.**

- **Negative IMR: By including negative IMR derecognized from a reinsurance transaction, the collateral required drops below the required policy reserve. IMR is not permitted to reflect a collateral asset, and as negative IMR simply reflects previously recognized realized losses, IMR is not a transferable asset. Further, if negative IMR was nonadmitted, the process to include negative IMR as a reduction of the collateral requirement could incentivize reinsurance transactions to obtain a surplus bump from the elimination of the nonadmitted IMR.**

Proposed Revisions to SSAP No. 61 to paragraphs 47a and 50a for both certified and unauthorized reinsurers and the calculation of the reserve credits: (Remaining subparagraphs excluded for brevity.)

Proposed Revisions to SSAP No. 61:

Reinsurance Ceded to a Certified Reinsurer

47. A liability is established by the ceding entity to offset credit taken in various balance sheet accounts for reinsurance ceded to a certified reinsurer in an amount proportionate to any deficiency in the amount of acceptable security that is provided by the certified reinsurer as compared to the amount of security that is required to be provided in accordance with the certified reinsurer's rating. **<u>In determining the amount of this liability, the ceding insurance entity must first determine the net obligations subject to collateral from the certified reinsurer</u>**, which is equal to the following:

    a. Reserve credits taken<u>, which shall include all net positive Interest Maintenance Reserve (IMR) derecognized as a result of the reinsurance transaction, but shall exclude all net negative IMR</u>

derecognized as a result of the reinsurance transactions[1] ~~including any Interest Maintenance Reserve (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. Amounts contractually due the assuming entity.

Unauthorized Reinsurance

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:

e. Reserve credits taken, which shall include all net positive IMR derecognized as a result of the reinsurance transaction, but shall exclude all net negative IMR derecognized as a result of the reinsurance transactions[2]; ~~including any IMR liability adjustment;~~ plus

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

g. 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

h. 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

[1] The guidance for derecognized net positive and net negative IMR is required in the collateral requirement calculation for all cedents regardless of the reinsurance treaty terms.

[2] The guidance for derecognized net positive and net negative IMR is required in the collateral requirement calculation for all cedents regardless of the reinsurance treaty terms.

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

i. 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

j. Amounts contractually due the assuming entity.

51. 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.

Staff Review Completed by: Julie Gann, NAIC Staff—August 2025

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

On March 23, 2026, the Statutory Accounting Principles (E) Working Group heard public comments on this agenda item and deferred action, pending a response from the Reinsurance (E) Task Force.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/08-12-26 Summer National Meeting/Meeting/J - 25-22 - Reins Collateral.docx

NAIC 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: Monica Macaluso, Chair of the Reinsurance (E) Task Force
John Rehagen, Vice Chair of the Reinsurance (E) Task Force

Re: Response to SAPWG Regarding Derecognized IMR Impact to Reinsurance Collateral (Ref #2025-22)

Date: June 22, 2026

On Dec. 18, 2025, the Statutory Accounting Principles (E) Working Group requested comments on agenda item *2025-22: IMR Impact to Reinsurance Collateral*, which was publicly exposed until Feb. 13, 2026, by the Working Group. Interest Maintenance Reserve (IMR) is a statutory accounting mechanism used by life insurers to defer recognition of realized capital gains and losses from interest rate changes, with recent NAIC guidance allowing limited admittance of net negative IMR balances not to exceed 10% of the current period unadjusted capital and surplus.

The agenda item addresses how negative IMR shall be considered within the *Credit for Reinsurance Model Law* (#785) collateral requirements for Life, Accident and Health reinsurance. In summary, existing provisions in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* require derecognized net positive IMR (realized gains) to be captured as an increase in the reinsurance collateral required for applicable unauthorized or certified reinsurers. <u>However, there is no current mention in SSAP No. 61 for derecognized net negative IMR (realized losses) and whether those derecognized amounts should decrease applicable reinsurance collateral requirements</u>. (IMR is eliminated [derecognized] by the cedent in accordance with reinsurance transactions as the block of business associated with recognized IMR has been eliminated. U.S. assuming entities are required to recognize a corresponding amount of IMR for statutory accounting purposes as part of the reinsurance transaction. IMR is not recognized by offshore assuming entities, as the concept of IMR does not reflect an asset or liability under U.S. GAAP or other accounting regimes.) The Statutory Accounting Principles (E) Working Group, with exposure of the agenda item, directed a referral to the Reinsurance (E) Task Force for input.

The question from the Working Group was whether the treatment of derecognized net negative IMR should reduce collateral requirements in a manner that would be <u>symmetrical</u> to collateral increases caused by derecognized positive IMR, or if the treatment should be <u>asymmetrical</u>, whereas derecognized net negative IMR does not reduce collateral requirements. <u>The exposed agenda item proposes asymmetrical treatment</u>.

At the Task Force's March 2 meeting, the Task Force heard public comments from the American Council of Life Insurers and the American Academy of Actuaries, who have also provided comments to the Working Group in response to agenda item exposure. The comments from these groups advocated for the symmetrical approach.

It is the view of the Task Force that the ultimate decision on the treatment of derecognized net negative IMR rests with Statutory Accounting Principles (E) Working Group as this is a highly technical issue dealing with reserves and is outside the charges of this Task Force. However, given the existing limit of the admittance of net negative (disallowed) IMR to not exceed 10% of the current period unadjusted capital and surplus, it appears that, at this time, the asymmetrical approach is the best approach in this scenario.

Please contact NAIC staff Jake Stultz (jstultz@naic.org) if you have any questions.

Cc: Jake Stultz, Dan Schelp, Julie Gann, Robin Marcotte, Jason Farr and Wil Oden

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: Ben Slutsker, Chair of Life Risk-Based Capital (E) Working Group
Philip Barlow, Vice Chair of Life Risk-Based Capital (E) Working Group

Re: Collateral Loans BA Schedule Reporting

Date: July 16, 2026

Life Risk-Based Capital (E) Working Group met June 18, 2025, and received a referral from Statutory Accounting Principles (E) Working Group (SAPWG) regarding collateral loan schedule BA reporting changes. The referral included the impetus of implementing more granular reporting:

The SAPWG identified that some reporting entities were using collateral loans as a way to access certain types of investment structures while obtaining more favorable RBC than if they held the underlying collateral directly. As such, the ability to incorporate RBC parity for certain collateral loans to what would be incurred if the collateral was held directly was a focus of the project to incorporate more granular reporting lines.

In response to SAPWG's request to reconsider risk-based capital (RBC) and Asset Valuation Reserve (AVR) factors for collateral loans, the Life Risk-Based Capital (E) Working Group deliberated RBC proposal 2025-16-L (Collateral loans) in late 2025 to early 2026. Ultimately, the Working Group adopted a modified proposal to assess RBC charges based on overcollateralization %, for two types of collateral loans only: i) collateral loans backed by Joint Ventures', Limited Partnerships' and Limited Liability Companies' Interests and ii) collateral loans backed by residual tranches, collectively "collateral loans in scope". The proposal will take effect from 2027 RBC filings.

To address regulators' concerns over valuation of collaterals, the adopted methodology requires independent verification of collaterals' fair value, absent of which will lead to full look-through in assessing charges as if the collaterals are owned directly. To further enhance transparency, American Council of Life Insurers (ACLI) further suggest in its comment letter dated April 10, 2026: "*insurers could disclose the valuation range associated with the independent valuation analysis. While regulators already have access to this information as required by SSAP 21, proactive disclosure of a valuation range, rather than a single point estimate, would allow regulators to better assess the reasonableness of the fair value used in the LTV calculation and provide additional context around estimation uncertainty.*"

In order to facilitate effective implementation of adopted proposal 2025-16-L MOD (Collateral loans), the Working Group directs this referral to Statutory Accounting Principles (E) Working Group, requesting additional disclosures in Annual Statement Blanks, Schedule BA Other Long-Term Invested Assets page such that the following information become readily available for collateral loans in scope:

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

c) Range of valuations.

Note that with the adoption of 2024-19BWG MOD, insurers are already required to disclose "Fair Value of Collateral Backing the Collateral Loan" and "Current Overcollateralization Percentage to the Collateral Loan", with effect from 2026 Annual Statement filings.

Finally, proposal 2025-16-L MOD (Collateral loans) also made permanent the interim solution adopted for collateral loans backed by mortgage loans (Proposal 2024-15-L). As such, the Working Group would like to request refresh of SAPWG memo and/or guidance be incorporated into the annual statement instructions to effectuate the look through of collateral loans backed by mortgage loans in the Asset Valuation Reserve's Equity and Other Invested Asset Component table.

Please contact NAIC staff of the Life Risk-Based Capital (E) Working Group with any questions about this referral.

Cc: Julie Gann, Robin Marcotte, Jake Stultz, Wil Oden, Jason Farr, Maggie Chang, Kazeem Okosun

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/08-12-26 Summer National Meeting/Meeting/L - Referral to SAPWG Collateral Loan reporting granularity.docx

2026 Summer National Meeting - Review of U.S. GAAP Exposures for Statutory Accounting:

Pursuant to a 2014 direction from the SAPWG chair, there is a desire for the Statutory Accounting Principles (E) Working Group to be more proactive in considering FASB exposures that may be significant to statutory accounting and reporting. Historically, the SAPWG has commented on limited, key FASB exposures – mostly pertaining to insurance contracts and financial instruments. To ensure consideration of all FASB exposures, staff prepared this memorandum to highlight the current exposures, comment deadlines, and to provide a high-level summary of the exposed item's potential impact to statutory accounting. It is anticipated that this information would assist the Working Group in determining whether a comment letter should be submitted to the FASB on the issues. Regardless of the Working Group's election to submit comments to the FASB on proposed accounting standards, under the NAIC Policy Statement on Statutory Accounting Principles Maintenance Agenda Process, issued US GAAP guidance noted in the hierarchy within Section V of the Preamble to the *Accounting Practices and Procedures Manual* must be considered by the Statutory Accounting Principles (E) Working Group.

FASB Exposures: Exposure Documents and Public Comment Documents (fasb.org)

Exposed FASB Guidance	Comment Deadline & Initial Staff Comments
Derivatives and Hedging (Topic 815): *Targeted Improvements to Accounting for Interest Rate Risk Hedging and Net Investment Hedging*	August 17, 2026

The proposed update is to address three discrete hedge accounting issues that have been identified by stakeholders. Each of the three issues relates to exceptions or limitations in the general hedge accounting model that restrict its application. The Financial Accounting Standards Board (Board) intends to broaden the application of hedge accounting by removing these exceptions and limitations. In response to the 2025 Invitation to Comment, Agenda Consultation (2025 ITC), stakeholders provided feedback indicating that although the Board's efforts to simplify hedge accounting over the last several years have been helpful in aligning financial reporting with the underlying economics of entities' risk management strategies, challenges remain in applying hedge accounting. In particular, stakeholders emphasized three key aspects of hedge accounting guidance that could be improved with limited amendments to better reflect the economics of their risk management activities. Stakeholders also noted that some of these exceptions and limitations can constrain an entity's risk management activities.

Issue 1: Hedging Interest Rate Risk for Held-to-Maturity (HTM) Debt Securities

The amendments in the proposed update would permit an entity to hedge interest rate risk for HTM debt securities in fair value hedges and cash flow hedges. Under current GAAP, entities cannot designate the interest rate risk of HTM debt securities as the hedged risk. The proposed amendments would improve GAAP by enabling entities to more closely align hedge accounting with the economics of their risk management activities. As a result, entities would be able to more consistently reflect their risk management strategies in the financial information provided to investors. The proposed amendments also would more closely align the application of hedge accounting to HTM debt securities with the application of hedge accounting to held-for-investment loans and with guidance in International Financial Reporting Standards (IFRS) Accounting Standards.

Issue 2: Amendments to the Definition of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap Rate

The amendments in the proposed update would amend the definition of the SOFR Overnight Index Swap Rate in current GAAP so that the overnight index swap rate would no longer be the only SOFR-based rate included as a U.S. benchmark interest rate under Topic 815, thereby permitting designation of any tenor of SOFR. The amendments in the proposed update would improve GAAP by more closely aligning hedge accounting with the economics of entities' risk management activities. The proposed amendments also would more closely align SOFR with the other rates included in the benchmark interest rate list that are not constrained to a particular tenor. Furthermore, the proposed amendments would better reflect market developments such as the increased use of Term SOFR. The proposed amendments would benefit entities that apply cash flow hedge accounting to (a) forecasted purchases or sales of fixed rate debt instruments by expanding the eligible rates to be designated and (b) forecasted issuances when entities have not yet determined whether they will issue fixed-rate or floating-rate debt by limiting the occurrence of missed forecasts. In addition, the proposed amendments would benefit entities that apply fair value hedge accounting to fixed-rate debt instruments by reducing the complexity of hedge effectiveness assessments.

Issue 3: Permitting Float-to-Float Cross-Currency Swaps with Different Reset Dates to Be Hedging Instruments in Net Investment Hedges

The amendments in the proposed update would expand the population of eligible net investment hedging instruments by permitting the use of certain float-to-float cross-currency swaps with different reset dates. The proposed amendments would eliminate the requirement that both legs of a float-to-float cross-currency swap have the same repricing intervals and dates and, instead, would require that the repricing intervals and dates occur every six months or more frequently, which is considered sufficient to justify an assumption that the variable payment or receipt is at a market rate. In addition, the proposed amendments would update hedge effectiveness guidance to align the terms of the hypothetical swap with the actual cross-currency interest rate swap as modified by the proposed amendments related to repricing intervals and dates. For those net investment hedges, the amendments in the proposed update would improve the financial reporting of effective hedging relationships and better reflect the economic results of an entity's risk management activities in its financial statements. The proposed amendments also would align GAAP with the market conventions that have developed following the cessation of the London Interbank Offered Rate (LIBOR).

To address stakeholders' concerns and align with the objectives of the Board's recently completed hedging projects, in particular Accounting Standards Update No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, and Accounting Standards Update No. 2025-09, Derivatives and Hedging (Topic 815): Hedge Accounting Improvements, the amendments in the proposed update are intended to better reflect the economics of an entity's risk management activities in its financial statements. The proposed amendments also are intended to enhance the operability of hedge accounting. Application of the hedge accounting guidance is optional. The amendments in the proposed update would apply to any entity that elects to apply hedge accounting in accordance with Topic 815.

Staff Review and Commentary:

Comment deadline is August 17, 2026

NAIC staff recommend that ASU be reviewed under the SAP Maintenance Process as detailed in *Appendix F—Policy Statements.*

Exposed FASB Guidance	Comment Deadline & Initial Staff Comments
Compensation—Retirement Benefits—Defined Benefit Plans—Pension (Subtopic 715-30): *Discount Rate Used to Measure the Benefit Obligation for Certain Market-Return Cash Balance Plans*	August 10, 2026

The proposed update is to clarify the discount rate that should be used to measure the benefit obligation under Subtopic 715-30, Compensation—Retirement Benefits—Defined Benefit Plans—Pension, for certain market-return cash balance plans. Market-return cash balance plans are a type of cash balance plan with a variable interest crediting rate based on an investable market return. In a market-return cash balance plan, the promised benefit to the participant at retirement (or termination) is equal to the principal credits and interest credits, which could be the actual investment returns on the principal credits, subject to certain requirements. Stakeholders noted that (1) there are different interpretations in practice about how the measurement guidance in Subtopic 715-30 should be applied to market-return cash balance plans and (2) the accounting may not reflect the economics of those plans. When an entity uses a discount rate other than the assumed interest crediting rate to measure the benefit obligation for those plans, the benefit obligation often is different from the plans' hypothetical account balances (which are made up of principal credits and future interest credits based on those principal credits).

The amendments in the proposed update would specify the discount rate required to be used to measure the benefit obligation for certain market-return cash balance plans and would apply to all entities that have market-return cash balance plans that meet the specified conditions. They would require that an entity use the assumed interest crediting rate as the discount rate to measure the benefit obligation under Subtopic 715-30 for market-return cash balance plans that meet the following conditions:

1. Pension benefits are communicated to employees in the form of an account balance that comprises principal credits and interest credits based on an investable market return in any of the following forms:

    a. The return on plan assets
    b. The return on a subset of plan assets that approximates the associated cash balance liabilities
    c. The return on a regulated investment company.

2. Participants have the option to elect lump-sum payments.

The amendments would not change how market-return cash balance plans should be accounted for under current guidance in Subtopic 715-30, except for requiring that the assumed interest crediting rate be used as the discount rate when measuring the benefit obligation of qualifying plans. As a result of using the assumed interest crediting rate as the discount rate, the benefit obligation of those plans generally would be equal to their hypothetical account balance. The amendments would (1) better reflect the economics of market-return cash balance plans that meet the conditions listed above (in-scope market-return cash balance plans) and (2) reduce diversity in practice on how the measurement guidance in Subtopic 715-30 should be applied to those plans.

An entity would be required to apply the amendments in the proposed update prospectively at its next pension measurement date as determined under Subtopic 715-30 and early adoption would be permitted. The effective date will be determined after the Board considers stakeholder feedback on the amendments.

<u>Staff Review and Commentary:</u>
Comment deadline is August 10, 2026. NAIC staff recommend that ASU be reviewed under the SAP Maintenance Process as detailed in *Appendix F—Policy Statements.*

Attachment N

(pending)

Life Actuarial (A) Task Force and Statutory Accounting Principles (E) Working Group Coordination Memo